
**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, 2019

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)

18 Rothschild Boulevard, 1st floor

Tel Aviv 6688121, Israel

(Address of principal executive offices)

Kalia Weintraub, Chief Financial Officer

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

18 Rothschild Boulevard, 1st floor

Tel Aviv 6688121, 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	Trading Symbol	Name of each exchange on which registered
Ordinary Shares, par value NIS 10.00 per share	ELLO	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: 11,479,094¹ 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 ☒

Table of Contents

	<u>Introduction</u>	Page 6
	<u>Forward-Looking Statements</u>	7
	Part I	
<u>Item 1:</u>	<u>Identity of Directors, Senior Management and Advisers</u>	9
<u>Item 2:</u>	<u>Offer Statistics and Expected Timetable</u>	9
<u>Item 3:</u>	<u>Key Information</u>	9
<u>Item 4:</u>	<u>Information on Ellomay</u>	32
<u>Item 4A:</u>	<u>Unresolved Staff Comments</u>	104
<u>Item 5:</u>	<u>Operating and Financial Review and Prospects</u>	104
<u>Item 6:</u>	<u>Directors, Senior Management and Employees</u>	127
<u>Item 7:</u>	<u>Major Shareholders and Related Party Transactions</u>	152
<u>Item 8:</u>	<u>Financial Information</u>	157
<u>Item 9:</u>	<u>The Offer and Listing</u>	159
<u>Item 10:</u>	<u>Additional Information</u>	159
<u>Item 11:</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	178
<u>Item 12:</u>	<u>Description of Securities Other than Equity Securities</u>	180
	Part II	
<u>Item 13:</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	181
<u>Item 14:</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	181
<u>Item 15:</u>	<u>Controls and Procedures</u>	181
<u>Item 16A:</u>	<u>Audit Committee Financial Expert</u>	182
<u>Item 16B:</u>	<u>Code of Ethics</u>	182
<u>Item 16C:</u>	<u>Principal Accountant Fees and Services</u>	182

<u>Item 16D:</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	183
<u>Item 16E:</u>	<u>Purchases of Equity Securities by the Company and Affiliated Purchasers</u>	183
<u>Item 16F:</u>	<u>Change in Registrant's Certifying Accountants</u>	183
<u>Item 16G:</u>	<u>Corporate Governance</u>	183
<u>Item 16H:</u>	<u>Mine Safety Disclosure</u>	184
Part III		
<u>Item 17:</u>	<u>Financial Statements</u>	184
<u>Item 18:</u>	<u>Financial Statements</u>	184
<u>Item 19:</u>	<u>Exhibits</u>	185



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, or EU, 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. Other than as specifically noted, all amounts translated into a different currency were translated based on the exchange rate as of December 31, 2019.

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 Report.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this report on Form 20-F contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. 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. Forward-looking statements reflect our current view about future plans, intentions or expectations. These statements relate to future events or other future financial performance, plans strategies and prospects, 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:

- *risks related to projects that are in the development stage, among other issues due to the inability to obtain or maintain licenses or project finance;*
- *our EPC contractors’ technical, professional and financial ability to construct, install, test and commission a renewable energy facility;*
- *dependency on the availability of financial incentives and government subsidies and on governmental regulations for our operating renewable energy projects 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;*
- *our contractors’ technical, professional and financial ability to deliver on and comply with their operation and maintenance, or O&M, undertakings in connection with the operation of our renewable energy facilities;*
- *the effects of the COVID-19 pandemic on the development, construction and operation of projects, including in connection with actions taken by governments and authorities, delays in construction due to quarantine and other measures, changes in regulation, changes in the price of electricity and in the consumption of electricity;*
- *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 due to 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, 2019 and the consolidated statements of financial position as of December 31, 2019 and December 31, 2018 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, 2016 and the consolidated statements of financial position data as of December 31, 2015, 2016 and 2017 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,					2019 Convenience Translation into US\$(1)
	2019	2018	2017	2016	2015	
	euro					
Revenues	18,988	18,117	13,636	11,632	12,446	21,308
Operating expenses	(6,638)	(6,342)	(2,549)	(2,082)	(2,571)	(7,449)
Depreciation and amortization expenses	(6,416)	(5,816)	(4,518)	(4,411)	(4,428)	(7,200)
Gross profit	5,934	5,959	6,569	5,139	5,447	6,659
Project development costs	(4,213)	(2,878)	*(2,739)	*(2,201)	*(1,044)	(4,728)
General and administrative expenses	(3,827)	(3,600)	*(2,420)	*(2,032)	*(2,328)	(4,295)
Share of profits of equity accounted investee	3,086	2,545	1,531	1,375	2,202	3,463
Other income (expenses), net	(2,100)	884	18	90	18	(2,357)
Capital gain	18,770	-	-	-	-	21,063
Operating profit	17,650	2,910	2,959	2,371	4,295	19,805
Financing income	1,827	2,936	1,333	263	2,061	2,050
Financing income (expenses) in connection with derivatives, net	897	494	(3,156)	636	3,192	1,007
Financing expenses	(10,877)	(5,521)	(7,405)	(3,333)	(3,177)	(12,206)
Financing income (expenses), net	(8,153)	(2,091)	(9,228)	(2,434)	2,076	(9,149)
Profit (loss) before taxes on income	9,497	819	(6,269)	(63)	6,371	10,656
Tax benefit (taxes on income)	287	(215)	(372)	(569)	1,739	322
Profit (loss) for the year	9,784	604	(6,641)	(632)	8,110	10,978
Profit (Loss) attributable to:						
Owners of the Company	12,060	1,057	(6,115)	(209)	8,340	13,533
Non-controlling interests	(2,276)	(453)	(526)	(423)	(230)	(2,555)
Profit (loss) for the year	9,784	604	(6,641)	(632)	8,110	10,978
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	2,103	(787)	(359)	692	1,104	2,360
Effective portion of change in fair value of cash flow hedges	1,076	(1,008)	(1,244)	-	-	1,207
Net change in fair value of cash flow hedges transferred to profit or loss	(1,922)	643	1,382	-	-	(2,157)
Total other comprehensive income (loss)	1,257	(1,152)	(221)	692	1,104	1,410
Total comprehensive income (loss) for the year	11,041	(548)	(6,862)	60	9,214	12,388
Basic earnings (loss) per share	1.09	0.10	(0.57)	(0.02)	0.78	1.24
Diluted earnings (loss) per share	1.09	0.10	(0.57)	(0.02)	0.78	1.24
Weighted average number of shares used for computing basic earnings (loss) per share	11,064,847	10,675,508	10,675,757	10,667,700	10,715,634	11,064,847
Weighted average number of shares used for computing diluted earnings (loss) per share	11,070,436	10,678,857	10,675,757	10,667,700	10,758,370	11,070,436

* 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,					2019 Convenience Translation into US\$(¹)
	2019	2018	2017	2016	2015	
	euro					
EBITDA*	24,066	8,726	7,477	6,782	8,723	27,005

* 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,					2019 Convenience Translation into US\$(¹)
	2019	2018	2017	2016	2015	
	euro					
Profit (loss) for the year	9,784	604	(6,641)	(632)	8,110	10,978
Financing expenses (income), net	8,153	2,091	9,228	2,434	(2,076)	9,149
Taxes on income (tax benefit)	(287)	215	372	569	(1,739)	(322)
Depreciation and amortization	6,416	5,816	4,518	4,411	4,428	7,200
EBITDA	24,066	8,726	7,477	6,782	8,723	27,005

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

	At December 31,					2019 Convenience Translation into US\$(¹)
	2019	2018	2017	2016	2015	
	euro					
Working capital	45,436	35,675	31,286	22,402	21,515	50,986
Total assets	310,172	211,160	198,088	148,464	147,314	348,062
Total liabilities	202,606	134,203	120,588	64,093	60,872	227,356
Total equity	107,566	76,957	77,500	84,371	86,442	120,706
Capital stock	84,422 ⁽²⁾	76,588 ⁽²⁾	76,583 ⁽²⁾	76,592 ⁽³⁾	76,660 ⁽⁴⁾	94,735 ⁽²⁾
Ordinary shares outstanding	11,737,140 ⁽²⁾	10,675,508 ⁽²⁾	10,675,508 ⁽²⁾	10,677,370 ⁽³⁾	10,678,888 ⁽⁴⁾	11,737,140 ⁽²⁾

(1) The euro figures at December 31, 2019, 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, 2019 (euro 1 = US\$1.122). 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 258,046 treasury shares.

(3) Net of 256,184 treasury shares.

(4) Net of 254,666 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

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 other risks that may cause damages, delays and interruptions during 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, including the construction of a 300 MW photovoltaic plant in the municipality of Talaván, Cáceres, Spain, or the Talasol Project, and the development of a 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 obtain or maintain regulatory permits and approvals, the inability to obtain project finance, upon terms economically beneficial or at all, and 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. Projects in the construction stage are exposed to various risks, including delays in the construction, interferences from third parties such as adjacent plot owners, governmental, municipal, environmental and other authorities, malfunctions in construction equipment, shortage in equipment or personnel required for the construction and damage caused by weather conditions and other factors that cannot be controlled by us. All projects in the development stages are subject to additional risks, including potential disagreements and conflicts with partners, dependency on technical consultants and surveys and risks associated with operations in foreign countries, as applicable. 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.

Our business is affected by 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 and Israel, introduced 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 Spanish or Israeli governments elect to revise the existing incentive schemes, this may adversely affect the profitability of our operating photovoltaic plants, or the PV Plants. 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 potentially 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 affect our profitability and potentially 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.

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 Spain and 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 EU laws.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the EU in a national referendum (Brexit) and on January 31, 2020 it stopped being a member of the EU. The referendum and Brexit created significant uncertainty about the future relationship between the United Kingdom and the EU, 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.

The current novel strain of coronavirus (COVID-19) and any other pandemic, epidemic or outbreak of an infectious disease may adversely affect our operations. If a pandemic, epidemic or outbreak of an infectious disease occurs in the Europe, China, Israel or elsewhere, our business may be adversely affected. In December 2019, COVID-19 was identified in Wuhan, China. This virus continues to spread globally and as of the end of March 2020, has spread to over 180 countries, including Spain and Italy, which as of the end of March 2020 had the highest numbers of deaths, and Israel. The spread of COVID-19 has resulted in the World Health Organization declaring the outbreak of COVID-19 as a “pandemic.” Many countries around the world, including Spain, Israel and Italy, have imposed quarantines and restrictions on travel and mass gatherings and curtailed and limited non-essential works in an attempt to slow the spread of the virus.

Although our operations have not thus far been materially adversely affected by the restrictions imposed by local governments and authorities in the countries in which we operate, in the event the restrictions continue our operations, including our projects under construction and development, may be adversely affected. The spread of COVID-19 and its implications may also affect our operations through changes in the prices of oil, resulting in a decrease in the electricity price, reduction in demand for electricity, delays in construction of projects due to curtailment of work, limited availability of components required in order to operate current projects or construct new projects, regulatory changes in countries affected by the virus, including changes in subsidies, collection delays, delays in obtaining permits, limited availability or changes in terms of financing for future projects, limited availability of corporate financing and lower returns on potential future investments. As a result, our business and operating results could be negatively affected. The extent to which COVID-19 impacts our business will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact, among others. For example, at the end of March 2020, the Spanish government issued orders stopping all construction works and other non-essential activities for two weeks, until Easter. We are closely monitoring the situation and evaluating the potential implications on our business operations.

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. In addition, revisions to the governmental subsidies regime in several countries, including Spain and Israel, increased the dependency of renewable energy facilities on market prices or on tariffs determined in a public bid process. 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.

Natural disasters, terrorist attacks, or other catastrophic events could harm our operations. Our worldwide operations could be subject to natural disasters terrorist attacks, public health events and other business disruptions, which could harm our future revenue and financial condition and increase our costs and expenses. Among others, floods, storms, seismic turbulence and earth movements may damage our PV Plants or our WtE Projects. The insurance coverage we have for a portion of such risks may not cover the damage in full because these circumstances are sometimes deemed “acts of god.” In the event that an earthquake, fire, tsunami, typhoon, terrorist attack, or other natural, manmade or technical catastrophe were to damage or destroy any part of our facilities or those of manufacturers on which we rely, destroy or disrupt vital infrastructure systems or interrupt our operations or services for any extended period of time, our business, financial condition and results of operations would be materially and adversely affected.

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.

Our success depends in part on our senior management team and other key employees and our ability to attract, integrate and retain key personnel and qualified individuals. We depend on the expertise of our senior management team and other key employees to help us meet our strategic objectives. The inability to maintain our senior management team and other key employees or to attract highly skilled personnel, may materially adversely affect the implementation of our development business plan and could ultimately adversely impact our business.

Claims in connection with representations and warranties and indemnification mechanisms included Sale and Purchase Agreements we enter may adversely affect our business, results of operations and financial condition. On December 20, 2019, we sold our Italian subsidiaries that held our Italian PV Plants. The Sale and Purchase Agreement includes several customary and specific indemnification undertakings as more fully described under “Item 4.A: History and Development of Ellomay; Recent Development.” Claims relating to representations and warranties and claims for indemnification under Sale and Purchase Agreements may be brought in the future by the purchaser of our Italian PV plants and may adversely affect our results of operations and financial condition. Such a claim was already submitted in connection with a specific indemnity undertaking, as more fully set forth in “Item 4.A: History and Development of Ellomay; Recent Development.”

We do not wholly-own a few of our projects under development. Although we currently control these projects, disagreements with our partners could cause delays in the construction or development of the facilities. We wholly-own all of our operating PV plants and the Netherlands’ WtE facilities, however, we currently own 51% of the Talasol Project and 75% of the Manara PSP (including 6.67% that are held by a trustee in trust for us and other parties as more fully described in “Item 4.B: Business Overview – Pumped Storage Project in the Manara Cliff in Israel”) and may in the future enter into projects that we do not wholly-own or introduce additional partners to the Manara PSP. Although we control both projects, any disagreements with our partners could delay the development or construction of such projects or require management resources and attention. Any delays caused from such disagreements could adversely affect our business plans and results of operations.

We may be subject to disruptions or failures in information technology, telecommunication systems and network infrastructures that could have a material adverse effect on our business and financial condition. Our renewable energy business relies on information technology and on telecommunication services as we remotely monitor and control our assets and interface with regulatory agencies and wholesale power markets. Disruptions or failures in such systems may result due to various causes, including internal malfunctions in our systems or in the systems of third parties such as suppliers, governmental authorities, from employee error, theft or misuse, malfeasance, power disruptions, natural disasters or accidents and may also result from cyber-attacks or other breaches of information technology security. Such disruptions and failures of our information technology systems could have an adverse effect on our business operations, financial reporting, financial condition and results of operations, and result in reputational damage.

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 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. We cannot assure you that there will not be changes to the 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 due to 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, 2018 was characterized with relatively low levels of radiation, which resulted in a decrease in our PV-related revenues for that year. Lower electricity output due to changes in meteorological conditions and other geographic factors may adversely affect our profitability.

Risks Related to our WtE (Biogas) Projects

We have taken over operations of our WtE projects in early 2019 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 early 2019 when we took over the operations of the two WtE projects that commenced operations in November 2017 and June 2018. In March 2019, we and Ellomay Luxembourg Holdings, S.à.r.l., or Ellomay Luxembourg, our wholly-owned subsidiary, entered into an agreement with Ludan Engineering Company Ltd. (TASE: LUDN), or Ludan, and several of its affiliates, which, among other things, provides for the immediate and unconditional termination of the operations and maintenance services of Ludan's 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 recent entry into the field 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. In order to ensure continuous supply of raw materials, both in terms of the quantity and the quality and composition of the raw materials, the WtE facility is required to enter into supply relationships and it is preferable to try to establish relationships with several waste suppliers, such as farmers, food manufacturers and other specialized waste suppliers and to continuously monitor the proposed sales in order to locate the most efficient and beneficial offers. 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. Additionally, a wrong feedstock mix and/or low feedstock quality might create biology problems such as lower bacteria population, which directly adversely impacts the biogas production. Therefore, any shortage of quality feedstock and changes in the feedstock mix available for use 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.
- As we have taken over the operations of the WtE facilities only recently, it is possible that we will continue to consider and execute additional improvement work on the facilities that were not included in the initial plans or budgets. Any such additional adjustments and improvements could entail significant expenses and adversely impact the operation of the WtE facilities. For example, we constructed a dry silo facility in one of the WtE facilities in the fourth quarter of 2019 in order to improve the operations of the WtE facilities. Any such expenses and delays may adversely affect our results of operations.

Risks Related to our Israeli Operations

The electricity sector in Israel is highly regulated. Any changes in the tariffs, system charges or applicable regulations may adversely affect our operations and results of operations. In addition, failure to obtain and maintain 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 the tariffs charged by the IEC, including a resolution 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. A manufacturer of energy in Israel is required to initially hold a conditional license and thereafter hold a permanent license, issued by the Israeli Electricity Authority, which include ongoing milestones and conditions. Failure to maintain such licenses could adversely affect our development efforts and our 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 inability of the IEC to pay Dorad or Talmei Yosef 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.

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. (ℓ/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, 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. During 2019, Dorad entered into a gas supply agreement with Energean Israel Ltd., or Energean, however, due to the COVID-19 outbreak, a delay is expected in the construction of production facilities and in the gas supply to Dorad from Energean. In addition, the price of 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 2019, the price for natural gas under the agreement with Tamar reached the final floor price in January 2020. Therefore, in the event of future reductions in the fuel and energy prices and the production tariff, the price of gas will not be further reduced, thereby adversely affecting Dorad's results of operations. 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.

- 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.
- Due to 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.
- Dorad is involved in several arbitration and court proceedings initiated by Dorad's shareholders, including Dori Energy, most recently in connection with Dorad's examination of the possible expansion of the Dorad Power Plant, or the "Dorad 2" project. Disagreements and disputes among shareholders may interfere with Dorad's operations and specifically with Dorad's business plan and potential growth.
- The COVID-19 crisis affects Dorad's customers (which include hotels and other industrial customers), and therefore any decrease in electricity consumption by Dorad's customers and in Israel generally (affecting the amount of electricity purchased by the IEC from Dorad), may affect Dorad's financial results. Dorad already reported a certain decrease in consumption of electricity by its customers and by the IEC due to the COVID-19 and is examining the methods for managing in the event of a decrease in its revenues as a result. As the COVID-19 crisis continues and expands, the effects of the reduced consumption on Dorad's results of operations may become more significant.

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 a conditional license applied for 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 previous, currently expired, conditional license, or the Prior 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. On February 26, 2020, Ellomay PS retracted the Prior Conditional License and filed a new request for a similar conditional license for 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, even if a new conditional license will be issued to the Manara PSP, 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 a conditional license that may be granted to Ellomay PS in the future, such conditional license may be revoked by the Israeli Electricity Authority. To our knowledge, the other project that has been granted a conditional license for the construction of a 156 MW pumped storage project in Nesher, Israel (Nesher Pumped Storage Ltd., or Nesher PS) no longer holds such license.

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.

The Manara PSP does not currently hold a conditional license. Even if a conditional license is issued in the future to the Manara PSP, it may be revoked for reasons unrelated to the ability to secure a quota, such as non-compliance with milestones stipulated in the conditional license. Conditional licenses issued by the Israeli Electricity Authority include 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. For example, the deadline for financial closing of the Manara PSP under the Prior Conditional License was February 28, 2020. Due to the receipt of the land assessment from the Israel Land Authority as described in “Item 4.A: History and Development of Ellomay; Recent Development,” it became unfeasible to reach financial closing of the Manara PSP by this deadline. Therefore, on February 26, 2020, the Prior Conditional License was retracted and an application for a new conditional license was filed. Even if a new conditional license is issued to the Manara PSP, the Israeli Electricity Authority could revoke such conditional license if Ellomay PS does not timely meet the milestones included in it. 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 a new conditional license is not granted, or if a conditional license is granted but revoked thereafter, that could prevent the completion of the Manara PSP, resulting in a loss of some or all the funds invested in the Manara PSP.

Risks Related to our Operations and Ownership Structure

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 debentures, there is no assurance we will be able to procure additional project financing for projects under development, including the Manara PSP, which is expected to require significant funding, or any operations we will acquire or projects we wish to advance 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 due to certain restrictive covenants contained in the deeds of trust of our Debentures. The deeds of trust governing our Series B Debentures and our Series C Debentures, or the Deeds of Trust and the Debentures, respectively, contain 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, as a trigger for an obligation to pay additional interest and as a cause for immediate repayment, 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 increased interest payments for some or all of the Debentures or a 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, 2019, our total indebtedness in connection with corporate and project financing was approximately ₪4.4 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 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 depends 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 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. The current COVID-19 outbreak and government programs related to the outbreak may also affect exchange and interest rates. 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 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 or the WtE projects would be considered “investment securities,” as we control the PV Plants and the WtE projects 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 the minority shareholders of the Talasol Project and the Manara PSP, including several rights which effectively require the unanimous consent of all shareholders, we believe that our interests in the in the Talasol Project and the Manara PSP do not constitute “investment securities” given, among other things, our majority shareholder and board membership status in the these projects. 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 develop project and effect acquisitions of projects and to be successful in the operation of such projects thereafter will be significantly dependent upon the efforts of our controlling shareholders that function as key personnel. Several of our key personnel allocate their time to other businesses. Our ability to successfully develop projects and 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. Holders 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 exceeds 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 (as defined below), 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. Holders, but these elections may be detrimental to such U.S. Holders under certain circumstances. The PFIC rules are extremely complex and U.S. Holders 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. Holder 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. Holders that initially acquired our ordinary shares in 2013-2019. 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, Luxembourg, 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 50.5% of our outstanding ordinary shares. Shlomo Nehama, our Chairman of the Board who controls Nechama Investments holds directly an additional 3.8% of our outstanding ordinary shares, Ran Fridrich, our CEO and a member of our Board of Directors, holds directly an additional 0.1% 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 2.9% 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, due to 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 shares. Our 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 executed a buyback of a substantial amount of shares since 2016 and there is no assurance we will do so in the future. We have not paid any cash dividends or announces a share buyback plan since 2016. 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 made “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 18 Rothschild Boulevard, 1st floor, Tel-Aviv 6688121, 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 2019, the Talasol Project reached financial closing. For more information concerning the Talasol Project Finance see “Item 5.B: Operating and Financial Review and Prospects – Liquidity and Capital Resources – Talasol Project Finance.” As of March 15, 2020, an aggregate amount of €40.6 was withdrawn on account of the project finance.

In April 2019, we, through our wholly-owned subsidiary, Ellomay Luxembourg, sold an aggregate of 49% of the outstanding shares of Talasol. The aggregate purchase price of approximately €6.1 million represented 49% of the amounts withdrawn and interests accrued from and by Talasol under its shareholder development costs credit facility in connection with the Talasol Project’s financing as of the closing date of the SPA (approximately €4.9 million), plus a payment for 49% of Talasol’s shares (approximately €4.9 million) plus a premium of approximately €6.1 million. Of such aggregate purchase price, the payment of €1.4 million was deferred until the achievement of a preliminary acceptance certificate under the engineering, procurement and construction agreement of the Talasol Project. As these changes in our ownership interest in Talasol did not result in loss of control, they were accounted for as equity transactions and we therefore recognized in equity an amount of approximately €6.1 million, less associated expenses in the amount of approximately €0.7 million. For more information see “Agreements with Partners in Talasol” below.

Following the consummation of these transactions, Talasol provided the engineering, procurement and construction contractor of the Talasol Project, METKA EGN Limited, a notice to proceed with the construction works of the Talasol Project. Currently construction works are progressing as planned and reached approximately 60%. Construction works are expected to be completed by the end of 2020.

The continued construction of the Talasol Project and the connection of the Talasol Project to the grid are subject to risks and uncertainties. For more information concerning these and other risks see under “Item 3.D: Risk Factors - Risks Related to our Business.” The schedule for the construction of the Talasol Project includes a time buffer of approximately 30 days for the operation of the project. The main equipment required for the construction of the Talasol Project has been available on site for a while. At the end of March 2020, the Spanish government issued orders stopping all construction works and other non-essential activities for two weeks, until Easter. We are closely monitoring the situation and evaluating the potential implications on our business operations.

Ellomay Solar

We are promoting the development and construction, through an indirectly wholly-owned subsidiary, Ellomay Solar S.L.U., or Ellomay Solar, of a PV plant in a plot adjacent to the land on which the Talasol Project is constructed. This PV plant is planned to have a capacity of 28 MW and Ellomay Solar received a grid connection permit and executed a land lease agreement. We currently expect that construction of this PV plant will commence during 2021 and the plant is also expected to become operational within 2021.

Sale of Italian PV Portfolio

On December 20, 2019, we sold ten Italian indirect wholly-owned subsidiaries, which own twelve photovoltaic plants with an aggregate nominal capacity of approximately 22.6 MW, and sold the sale of the receivables arising from shareholder loans provided to such companies. The purchase price was €38.7 million (after approximately €2.3 million adjustments in connection with funds received by us from the Italian subsidiaries during 2019). The Sale and Purchase Agreement governing the sale of the subsidiaries and the receivables includes customary representations and warranties and indemnification mechanisms, including specific indemnification for existing risks for a limited time as follows: (i) indemnification in the amount of up to €0.25 million in connection with potential tax liabilities (until December 31, 2023), (ii) indemnification in the amount of up to €0.5 million in connection with potential incentive reduction under limited circumstances in one of the Italian subsidiaries sold (until December 31, 2023), and (iii) indemnification in the amount of up to €2.1 million in connection with potential incentive reduction under limited circumstances in one of the Italian subsidiaries sold until June 30, 2021. In connection with such indemnification undertakings, we recorded expenses in the amount of approximately €2.1 million following the announcement received from Gestore dei Servizi Elettrici, or GSE, Italy's energy regulation agency, claiming alleged non-compliance of the installed modules with the required certifications under the applicable regulation and raising the need to examine incentive eligibility implications. For further information see the Sale and Purchase Agreement, included as exhibit 4.20 under "Item 19. Exhibits."

Framework Agreements for Development of PV Projects in Italy

First Framework Agreement

In November 2019, Ellomay Luxembourg executed a Framework Agreement, or the First Framework Agreement, with an established and experienced European developer and contractor. Pursuant to the First Framework Agreement, the developer will scout and develop photovoltaic greenfield projects in Italy with the aim of reaching an aggregate authorized capacity of at least 250 MW over a three-year period.

The First Framework Agreement provides that each project will be presented to Ellomay Luxembourg when it becomes "ready to build". Thereafter, if Ellomay Luxembourg accepts the project, the developer is obligated to transfer to Ellomay Luxembourg 100% of the share capital of the entity that holds the rights to the project. With respect to each project, subject to the conditions set forth in the First Framework Agreement, Ellomay Luxembourg will enter into engineering, procurement and construction, or EPC, and O&M contracts with the developer to construct and operate the projects.

The First Framework Agreement provides that when the first project under the First Framework Agreement achieves the positive environmental impact assessment, the parties will negotiate the terms of a model lump-sum, turnkey EPC contract and O&M contract that will be executed with the developer in connection with all projects acquired under the First Framework Agreement.

In connection with the execution of the First Framework Agreement, Ellomay Luxembourg is expected to pay the developer an advance payment of approximately €1.2 million, based on the target aggregate project capacity of 250 MW, and undertook to pay an additional advance payment per each project when the project submits its environmental impact assessment application. In the event the target aggregate capacity is not achieved within a three-year period or in the event a project does not reach “ready to build” status, the advance payment will be proportionately refunded.

The developer is currently in various advanced development stages of projects in an aggregate capacity of approximately 100 MW. It is currently estimated by the developer that projects with an aggregate capacity of approximately 70 MW will achieve “ready to build” status by the end of 2020.

The advancement and development of projects that will become part of the First Framework Agreement is subject to various conditions, including receipt of regulatory approvals and authorizations and procurement of land rights. There can be no assurance as to the aggregate capacity of projects that will reach the “ready to build” status and as to the number and aggregate capacity of projects that Ellomay Luxembourg will decide to acquire, and any such future decision will be subject to the relevant circumstances existing at the time a project reaches the “ready to build” status under the First Framework Agreement.

Second Framework Agreement

In December 2019, Ellomay Luxembourg executed an additional Framework Agreement, or the Second Framework Agreement, with an established and experienced European developer. Pursuant to the Second Framework Agreement, the developer will provide Ellomay Luxembourg with development services with respect to photovoltaic greenfield projects in Italy in the scope of 350 MW with the aim of reaching an aggregate “ready to build” authorized capacity of at least 265 MW over a forty-one month period.

The Second Framework Agreement provides that the developer will offer all projects identified during the term of the Second Framework Agreement exclusively to Ellomay Luxembourg and that, with respect to each project acquired by Ellomay Luxembourg, the developer will be entitled to provide development services until it reaches the “ready to build” status. The parties agreed on a development budget including a monthly development service consideration, to be paid to the developer and all other payments for the tasks required to bring the projects to a ready to build. In addition, Ellomay Luxembourg undertook to pay a success fee to the developer with respect to each project that achieves a “ready to build” status. Currently development is progressing as planned.

In addition to the 265 MW mentioned above, Ellomay Luxembourg has the option to purchase approximately 37 MW that are already under development by the developer, 30 MW of which have already received the approval for connection to the Italian electricity grid.

The advancement and development of projects that will become part of the Second Framework Agreement is subject to various conditions, including receipt of regulatory approvals and authorizations and procurement of land rights. There can be no assurance as to the aggregate capacity of projects that will be identified by the developer and that will thereafter reach the “ready to build” status, and as to our decision and success in completing construction of any of such projects. Any future decision of the Company with respect to the continued development of projects will be subject to the relevant circumstances existing at the time such decision will be made.

We continue promoting the development of these and other new projects. Due to the travel restrictions imposed in connection with COVID-19, the works is mainly performed through conference calls and other telecommunication measures. We have local managers in each of our countries of operations (Spain, Italy and the Netherlands) that continue advancing the ongoing operations under the guidance of the business development team located in Israel.

Series C Debentures Offering in Israel

On July 25, 2019, we issued Series C Nonconvertible Debentures due June 30, 2025 in a public offering in Israel in the aggregate principal amount of NIS 89.065 million (approximately €22.7 million based on the euro/NIS exchange rate at that time). The Series C Debentures bear fixed interest at the rate of 3.3% per year and are not linked to the Israeli CPI or otherwise. The gross proceeds of the offering were NIS 89,065,000 and the net proceeds of the offering, net of related expenses such as consultancy fee and commissions, were approximately NIS 87.6 million (approximately €22.3 million). For additional information concerning the Series B Debentures see “Item 5.B: Liquidity and Capital Resources” and “Item 10.C: Material Contracts.”

Our Debentures are listed for trading on the TASE. However, 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” promulgated under the Securities Act) without registration under the Securities Act or an exemption from the registration requirements of the Securities Act.

Early Repayment of Series A Debentures

On December 16, 2019, we announced that we will fully repay our Series A Debentures, subject to the execution of an agreement to sell our Italian PV portfolio. On December 23, 2020, following the sale of our Italian subsidiaries, the condition was fulfilled. On December 30, 2019, we transferred the repayment amount to the nominee company and on January 5, 2020, our Series A Debentures were repaid in full. Pursuant to the terms of the deed of trust governing the Series A Debentures, the early repayment amount was approximately NIS 80.1 million (approximately €20.6 million) in principal, the sum of approximately NIS 0.05 million (approximately €0.01 million) in accrued interest, and a prepayment charge of approximately NIS 5.7 million (approximately €1.5 million), amounting to an aggregate repayment amount of approximately NIS 85.9 million (approximately €22.1 million).

Private Placements of Securities

July 2019 Private Placement of Ordinary Shares

On July 17, 2019, we issued 800,000 ordinary shares to several Israeli qualified investors in a private placement undertaken in accordance with Regulation S of the Securities Act. The price per share was NIS 39.20 and we received net proceeds of approximately NIS 31.1 million (approximately €7.8 million) (net of related expenses such as consultancy fee of approximately NIS 0.2 million).

February 2020 Private Placement of Ordinary Shares and Warrants

On February 18, 2020, we issued 715,000 ordinary shares and warrants to purchase an additional 178,750 ordinary shares to several Israeli institutional investors in a private placement undertaken in accordance with Regulation S of the Securities Act, or the 2020 Private Placement. The price per share was NIS 70 (approximately \$20.2). The warrants are exercisable for a period of one year, with an exercise price of NIS 80 (approximately \$23.1) per ordinary share. We received net proceeds of NIS 49.9 million (approximately €13.5 million) (net of related expenses such as consultancy fee of approximately NIS 0.1 million).

Waste-to-Energy Projects in the Netherlands

In March 2019, we and Ellomay Luxembourg executed an agreement, or 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 WtE Projects in Goor and Oude-Tonge, both in the Netherlands. 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 acquisition was consummated during 2019, and we currently indirectly wholly-own the two WtE facilities in the Netherlands.

The Manara Pumped Storage Project

Term Sheet for Sale of a Portion of the Manara PSP

We are party to a term sheet, executed in May 2019, between our wholly-owned subsidiary, Ellomay Water Plants Holdings (2014) Ltd., or Ellomay 2014, and the investor for the sale by Ellomay 2014 of shares representing up to 35% of the share capital and of the shareholders loans of Ellomay PS. Ellomay 2014 currently owns 75% of the share capital of Ellomay PS (including 6.67% that are held by a trustee in trust for us and other parties as more fully described in "Item 4.B: Business Overview – Pumped Storage Project in the Manara Cliff in Israel"). The consummation of the sale of the interests in Ellomay PS is scheduled to occur simultaneously with the financial closing of the Manara PSP and is subject to the occurrence of certain conditions precedent, including the execution of definitive agreements, the completion of a due diligence process by the investor, obtaining regulatory approvals and other customary conditions to closing.

Receipt of Land Assessment from the Israel Land Authority

In November 2019, Ellomay PS received a land assessment, or the Assessment, from the Israel Land Authority, or the ILA, in connection with the Manara PSP. The Assessment requires Ellomay PS to pay approximately NIS 160 million (approximately €41.3 million) to the ILA in consideration for the ILA's consent to the sublease of the land on which the Manara PSP is currently planned to be constructed. The ILA's consent is required in order to obtain building permits and financing for the construction of the Manara PSP. Ellomay PS has contested the Assessment and is waiting for the ILA's response. Ellomay PS also has the right to appeal the Assessment if its contest of the Assessment will be rejected. Ellomay PS and its advisors believe that the consent fee required is significantly higher than the reasonable amount, among other reasons due to the consent fee reflecting a demand for payment of more than NIS 1 million per one installed MW. Ellomay PS is reviewing the Assessment and contemplating its future steps in connection with the Assessment and the Manara PSP. Ellomay PS will attempt to reduce the Assessment to a reasonable amount that will maintain the economic feasibility of the Manara PSP.

Retraction of Prior Conditional License and Application for a New Conditional License

On February 26, 2020, Ellomay PS retracted the Prior Conditional License issued to it, which was due to expire on February 28, 2020 because Ellomay PS did not reach financial closing by such date as was required under the milestones included in the Prior Conditional License. On the same date, Ellomay PS filed an application for a new similar conditional license for a pumped storage facility with a capacity of 156 MW, based on the remaining portion of the PS Quota.

We expect to continue promoting the Manara PSP, but we may, for various reasons including in the event the Assessment is not timely overturned or significantly reduced, in the event new conditions license is not issued, or in the event of changes in the applicable regulation and adverse economic conditions, resolve not to continue the advancement of the Manara PSP.

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 5.B: Liquidity and Capital Resources – Project Finance."

Principal Capital Expenditures and Divestitures

From 2017 through March 15, 2020, we made aggregate capital expenditures of approximately €9.8 million in connection with our Spanish PV Plants. Our aggregate capital expenditures in connection with the acquisition of the Talmei Yosef PV Plant was approximately NIS 48.6 million (approximately €1.9 million, based on the NIS/euro exchange rate as of March 15, 2020). The aggregate capital expenditures in connection with the Manara PSP through March 15, 2020, including amounts recorded in the general and administrative expense, were approximately NIS 32.5 million (approximately €8 million). From 2017 through March 15, 2020, capital expenditures incurred by the project companies in connection with the Waste-to-Energy Projects in the Netherlands were approximately €19.6 million. From 2017 through March 15, 2020, capital expenditures incurred in connection with the Talasol Project were approximately €14 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.”

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 website is <http://www.ellomay.com>. The information on our website is not incorporated by reference into this annual report.

B. Business Overview

We are involved in the production of renewable and clean energy. We own five PV Plants that are operating and connected to their respective national grids as follows: (i) four photovoltaic plants in Spain with an aggregate installed capacity of approximately 7.9 MWp and (ii) 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 860 MWp dual-fuel operated power plant in the vicinity of Ashkelon, Israel, (ii) Groen Gas Goor B.V. and 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) 51% of Talasol, which is constructing a photovoltaic plant with a peak capacity of 300 MW in the municipality of Talaván, Cáceres, Spain, and (iv) 75% of Ellomay Pumped Storage (2014) Ltd. (including 6.67% that are held by a trustee in trust for us and other parties as more fully described under “Pumped Storage Project in the Manara Cliff in Israel” below), which is involved in a project to construct a 156 MW pumped storage hydro power plant in the Manara Cliff, Israel.

PV Plants

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.

SolarPower Europe's initial estimates for 2019 suggest the 28 member states of the European Union are poised to have added 16.7 GW of PV to the grid this year, for an astonishing year-on-year increase of 104%. By the end of the year, the EU is expected to have 131.9 GW of cumulative installed solar capacity, up 14% year on year. Global Solar Photovoltaic (PV) capacity is estimated to increase significantly from 593.9 gigawatt (GW) in 2019 to 1,582.9GW in 2030 following significant capacity additions by China, India, Germany, the US and Japan.

The Asia-Pacific (APAC) is the largest regional market in terms of cumulative capacity with a share of 58.1% of global solar PV capacity in 2018. In terms of net annual additions, APAC alone installed 64.5GW of solar PV, which represents 70.8% of net installations in the same year. APAC is expected to remain the largest market during the forecast period 2019 to 2030 due to an increase in capacity installations, led by countries such as China, India and Japan.

China is the largest market for solar PV in the world. Solar PV capacity in China increased significantly from 864MW in 2010 to 174.8GW in 2018. The cumulative capacity saw a significant increase during 2015-2018. The solar PV market in China had a remarkable year in 2017, recording 53.1GW - the highest annual solar PV addition between 2010 and 2018.

New solar installations in Israel are far behind 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 5%.

The original renewable energy directive (2009/28/EC) establishes an overall policy for the production and promotion of energy from renewable sources in the EU. It requires the EU to fulfil at least 20% of its total energy needs with renewables by 2020 – to be achieved through the attainment of individual national targets. All EU countries must ensure that at least 10% of their transport fuels come from renewable sources by 2020.

In December 2018, the revised renewable energy directive 2018/2001/EU entered into force, as part of the clean energy for all Europeans package, aimed at keeping the EU a global leader in renewables and, more broadly, helping the EU to meet its emissions reduction commitments under the Paris Agreement.

The new directive establishes a new binding renewable energy target for the EU for 2030 of at least 32%, with a clause for a possible upwards revision by 2023.

Anatomy of a Solar Power Plant

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.

Solar Power Benefits

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."



The following table includes information concerning our PV Plants:

Name	Installed Production / Capacity ¹	Location	Type of Facility	Connection to Grid	Fixed Tariff	Revenue in the year ended December 31, 2018 (in thousands) ²	Revenue in the year ended December 31, 2019 (in thousands) ²
"Rinconada II"	2,275 kWp	Municipality of Córdoba, Andalusia, Spain	PV – Fixed Panels	July 2010	N/A	€851	€871
"Rodríguez I"	1,675 kWp	Province of Murcia, Spain	PV – Fixed Panels	November 2011	N/A	€631	€612
"Rodríguez II"	2,691 kWp	Province of Murcia, Spain	PV – Fixed Panels	November 2011	N/A	€1,045	€1,010
"Fuente Librilla"	1,248 kWp	Province of Murcia, Spain	PV – Fixed Panels	June 2011	N/A	€506	€494
"Talmei Yosef"	9,000 kWp	Talmei Yosef, Israel	PV – Fixed Panels	November 2013	0.9857 ³ (NIS/kWh)	€1,041 ⁴	€1,133 ⁴

1. 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.
2. These results are not indicative of future results due to various factors, including changes in the climate and the degradation of the solar panels.
3. 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.
4. 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 and out of total proceeds from the sale of electricity of approximately €4.1 million for the year ended December 31, 2019, only revenues related to the ongoing operation of the plant in the amount of approximately €1.1 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:

- Development Agreement with a local experienced developer for the provision of development services with respect to photovoltaic greenfield projects from initial processing, obtaining of approvals and clearances with the aim of reaching "ready to build" status;

- 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 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.
 - o with respect to Italian PV Plants to be developed or held in the future –
 - to the extent the FiT or any other incentive will be applicable - standard “incentive agreements” with 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.
- 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, excluding the Italian PV Plants sold on December 20, 2019, is approximately €30.9 million.

All 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.

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 our Talmei Yosef PV Plant, a technical adviser, or the Technical Advisor, was appointed by the Financing Entity, to monitor the performance of the services. Our current Technical Advisers in Spain and Israel is a leading technical firm which appears in the banks’ white list.

We expect that, if required, we could 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 €26,000 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.

The Talasol Project

In April 2017, we, through Ellomay Luxembourg, purchased 100% of the shares of Talasol for a purchase price of €10 million. An amount of €8 million out of such purchase price was deposited in escrow during May 2017. In October 2018, Ellomay Luxembourg 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 agreement with them 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 €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 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 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 became effective in March 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.

As noted above under “Recent Developments,” in April 2019 the Talasol Project reached financial closing and we sold 49% of our holdings in Talasol to two entities and therefore our current ownership interest in the Talasol Project is 51%.

Agreements with Partners in Talasol

On April 17, 2019, Ellomay Luxembourg executed a Credit Facilities Assignment and Sale and Purchase of Shares Agreement, or the Talasol SPA, with GSE 3 UK Limited and Fond-ICO Infraestructuras II, FICC, or, together, the Talasol Partners, pursuant to which it agreed to sell to each of the Talasol Partners 24.5% of its holdings in Talasol.

The Talasol SPA further provides that Ellomay Luxembourg will assign to the Talasol Partners, in equal parts, 49% of its rights and obligations under the agreements executed in connection with the project finance obtained for the Talasol Project. The Talasol SPA provides that the legal risks will be transferred to the Talasol Partners on the closing date and the economic yields and results of operations of Talasol’s business will be transferred to the Talasol Partners as from December 31, 2018.

The Talasol SPA includes customary representations and warranties of Ellomay Luxembourg and the Talasol Partners and a mutual indemnification mechanism for breaches of representations and warranties or of undertakings, subject to time, minimum claims, minimum aggregate claims and maximum liability limitations, as a sole remedy, subject to customary exceptions. The consummation of the transactions contemplated by the Talasol SPA was subject to the fulfillment or waiver of several customary conditions precedent by June 30, 2019, including the fulfillment of all conditions precedent under the Talasol Project’s project finance and the entry by the Talasol Partners into an equity support agreement.

The transactions contemplated under the Talasol SPA were consummated in April 2019. The aggregate purchase price paid by the Talasol Partners, in the amount of approximately €6.1 million, represented 49% of the amounts withdrawn and interests accrued from and by Talasol under its shareholder development costs credit facility in connection with the Talasol Project’s financing as of the closing date of the Talasol SPA (approximately €4.9 million), plus a payment for 49% of Talasol’s shares (approximately €4.9 million) plus a premium of approximately €6.1 million. Of such aggregate purchase price, the payment of €1.4 million was deferred until the achievement of a preliminary acceptance certificate under the EPC agreement of the Talasol Project.

On the closing date of the Talasol SPA, Ellomay Luxembourg and the Talasol Partners entered into a Partners’ Agreement, or the Talasol PA, setting forth the relationship between the prospective shareholders of Talasol, the governance and management of Talasol, the funding and financing of Talasol and the mechanism for future transfers of Talasol’s shares. The Talasol PA provides that all matters brought for a vote at a partners’ meeting, other than specific reserved matters, will be adopted by the majorities set forth in the Spanish Companies Act. The Talasol PA includes minority rights for the Talasol Partners, and provides that we will appoint the majority of the board members and that all matters brought for a vote at a board of directors meeting will be adopted by a simple majority of the directors, other than specific matters.

The Talasol PA further provides that Ellomay Luxembourg will be entitled to receive a management fee from Talasol in consideration for the administrative, support and management services to be provided to Talasol by Ellomay Luxembourg. The Talasol PA includes restrictions on transfer of the shares of Talasol by Ellomay Luxembourg and any of the Talasol Partners, which is prohibited for a certain period (other than in connection with certain customary permitted transfers) and thereafter is subject to a right of first offer, tag along rights granted to the Talasol Partners on sales by Ellomay Luxembourg and a drag along right granted to Ellomay Luxembourg.

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 €200-€230 million, including development costs of approximately €20 million and interest of approximately €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 Talasol PPA, the Talasol Project's annual revenues are currently expected to be in the range of €23-€25 million.

The Talasol Project is in the construction stage, which entails several risks and uncertainties, including risks relating to delays and difficulties arising during the construction period of the Talasol Project. For more information concerning these and other risks see under "Risk Factors - Risks Related to our Business." 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.

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), Energixs 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:INF1), 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 2017 and in 2019, resulting in lower revenues from our formerly held 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 development, construction and operation of a photovoltaic plant 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 photovoltaic facilities located in Italy 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 a photovoltaic 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, provided 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.

In the past, Italian photovoltaic projects relied on three AUs, three DIAs and six Building Permits. Based on the current regulatory regime, a project to construct a photovoltaic plant in Italy requires the AU, subject to the terms and conditions included therein, or, for cases in which PAS applies, subject to the positive outcome of the relevant procedure.

(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 the past, these incentives were provided mainly through granting of a fixed FiT for a period of 20 years from connection of a photovoltaic plant. The FiT was 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 in the past was provided for under various laws, namely Ministerial Decree dated February 19, 2007 (the Second Conto Energia), applicable to photovoltaic facilities that commenced operations prior to January 1, 2011, Ministerial Decree dated August 6, 2010 (the Third Conto Energia), applicable to photovoltaic facilities that commenced operations from January 1, 2011 through May 31, 2011, the Decree dated May 5, 2011 (the Fourth Conto Energia), applicable to photovoltaic facilities that commenced operations after May 31, 2011 and the Decree dated July 5, 2012 (the Fifth Conto Energia), which, with some exceptions, applies to photovoltaic plants that commenced operations starting from August 27, 2012.

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.

On July 4, 2019, the Italian Ministry for Economic Development issued a decree setting out a new incentive scheme for renewable energy plants including PV (so called “FER1 Decree”).

With particular respect to PV, the FER1 Decree provides incentives the amount of which is mainly based on the plant capacity. Additional bonuses are granted to plants below 1 MWp installed as replacement of asbestos rooftops (inserted in a group called “A2”) and to plants with power below 100 kW installed on buildings provided that the amount of self-consumed energy is equal at least to 40% of the total net production (€10/MWh). Below is a table summarizing the amount of the applicable reference tariff:

Plant Type	Power level (kW)	Reference Tariff (€/MWh)	A2 plants Bonus (€/MWh)	Bonus for self-consumption (€/MWh)
Group A	20 <P ≤100	105	-	10
	100 <P ≤1000	90	-	-
	P>1000	70	-	-
Group A2	20 <P ≤100	105	12	10
	100 <P ≤1000	90	12	-

Incentives are awarded for a period of 20 years at the outcome of seven tenders to be held between September 2019 and September 2021 (with different procedures depending on whether the plant is below or above 1MWp), whereby the effective granted tariff will be equal to the reference tariff as reduced by the percentage reduction offered by the applicant.

Award of the incentive is based on a number of hierarchic criteria that differ for plants below or above 1MWp.

With respect to plants below 1MW, the first criterion is the installation of the plant in areas such as closed dumps or mines, or (for A2 plants) on public buildings such as schools or hospitals. This is aimed at giving preference to environment-friendly plants and therefore, for the avoidance of doubt, such plants will be preferred to other plants even if the tariff reduction set out in the application is lower.

With respect to plants above 1MW, the first criterion is instead the tariff percentage reduction.

For plants above 250KW, the incentive is paid by GSE as positive balance between the tariff and the energy price (i.e. the zonal hourly price); if the balance is negative, GSE is entitled to be returned the relevant amount by the producer. For plants below 250KW, the producer can also request that GSE pay the incentive as all-inclusive tariff (*tariffa onnicomprensiva*).

The incentives provided by the FER1 Decree cannot be cumulated with the ones provided under the various *Conto Energia* and are in any case subject to achievement of an overall cap equal to an annual medium cost for incentives of €5.8 billion per year.

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.

Developments regarding the Italian incentive system and the electric energy sale price since 2013

(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 EU 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 omnicomprendensiva*) 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 zonali 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 commencing January 1, 2014 (subject to an annual update), by means of the amendment of AEEGSI Resolution n. 280/2007.

(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 *ritiro 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%).

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, 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.

Interventions on operating plants and incentives

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. Law no. 128 dated November 2, 2019 has subsequently introduced an amendment to said provision aimed at further limiting GSE’s sanctions. According to the new provision, GSE’s sanctions shall be limited to a reduction only comprised between 10% and 50% of the original value and, if the notice of the breach is provided by the producer, the reduction shall be further reduced by 50%.

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

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 11th 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. In connection with 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 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.

Capacity Market

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.

After consultation with the EU institutions and green light by the latter, the capacity market has been implemented through Decree dated June 28, 2019. However, the remuneration provided therein is not compatible with GSE incentives. Therefore, if a photovoltaic plant benefits from GSE incentives it cannot also benefit from incentives under the capacity market remuneration.

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 9/2013, 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 EU 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).

Royal Decree Law 15/2018

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.

New legislation applicable to renewable energies:

A. Royal Decree-law 17/2019

On November 24, 2019, Royal Decree-law 17/2019, of November 22, or RDL 17/2019, enacted urgent measures for the necessary adaptation of remuneration parameters affecting the electricity system and responding to the process of cessation of activity of thermal generation plants. Among others, this new regulation updates the remuneration parameters of generation plants entitled to a specific remuneration for the regulatory period starting January 1, 2020, as further explained below.

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.

4. RDL 17/2019, adopting urgent measures for the necessary adaptation of remuneration parameters affecting the electricity system and responding to the process of cessation of activity of thermal generation plants.
5. Order TED/171/2020, 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 Period beginning on January 1, 2020, or Order 171/2020.

Pursuant to the above regulations, 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 €54.42/MWh, €52.12/MWh and €48.82/MWh for 2020, 2021 and 2022, 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, 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 the relevant update regulation (i.e., Order 171/2020).
- 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 terminated on December 31, 2019. The second Regulatory Period commenced January 1, 2020 and terminates December 31, 2025 (the corresponding first Regulatory Semi-Period ends December 31, 2022).

- 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). RDL 17/2019 has fixed the reasonable rate of return for the second Regulatory Period at 7.09%. However, for plants prior to RDL the reasonable rate of return will remain at 7.398% if the conditions set forth in RDL 17/2019 are met (mainly to withdraw from any arbitration procedure, or to renounce any compensation, in connection with the regulatory changes in Spain that modified the remuneration regime).
- 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 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 Hidrocarburo). 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

In December 2012, the Spanish Parliament enacted the 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. RDL 15/2018 suspended this tax with respect to the electricity produced and injected to the grid during a period of six months commencing October 6, 2018 through March 31, 2019. Therefore, this tax is in place again.

Removal of the Generation Access Toll

The Spanish National Commission on Markets and Competition (CNMC) has approved Circular 3/2020, which was published in the Official State Gazette on January 24, 2020, by which the electricity generators are exempted from paying the toll to access the grid. This means the removal of the €0.5/MWh access toll that was established for electricity generators under Royal Decree – Law 14/2010 of December 23, 2010.

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. 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 installments on rooftops and water reservoirs, the plan for reaching the 17% target in 2030 is currently based mainly on larger land mounted installments, and requires constructing approximately 400MW of new installments 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 the years 20017-2019, several tenders were conducted. The results of the fourth tender related to land-mounted medium installations that were published in November 2019, set a price per KWh of NIS 0.1798 for an aggregate production capacity of 236 MWp to be constructed by the end of 2020. The results of the second tender related to rooftop and water reservoir mounted installations, also published in November 2019, set a price per KWH of NIS 0.2307 for an aggregate production capacity of 68 MWp.

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.

Based on the publications of the Israeli Electricity Authority, as of the end of fiscal 2019, the aggregate installed photovoltaic capacity in Israel was approximately 2,000 MW (compared to 1,300 MW as of the end of 2018), which is expected to manufacture approximately 7% of the 2019 annual electricity consumption in Israel. The Israeli Electricity Authority expects that by the end of 2020, Israel will have photovoltaic installations in an aggregate capacity of 3,500 MW.

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.

Transfer of Rights in a Photovoltaic Plant

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 860 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 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 2017 and 2018, Dorad repaid an 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. In June 2019, Dorad made the final repayment of shareholders loans in the aggregate amount of NIS 19 million, of which Dori Energy received approximately NIS 3.7 million (approximately €1 million).

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, 2019. 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 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 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, 2019, 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 million (approximately €8 million).

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.

Dividends

On February 27, 2020, Dorad's Board of Directors decided to distribute a dividend of NIS 120 million (approximately €1.6 million). In connection with such dividend distribution, Dori Energy received NIS 22.5 million (approximately €5.8 million) and repaid an amount of NIS 10.25 million (approximately €2.6 million) loan to us.

Legal Proceedings

We and Dori Energy, and several of the other shareholders of Dorad and their representatives and Dorad, 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 Dorad 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 May 2019, a new arbitrator was appointed and dates were set for the discovery process. The evidentiary hearings were scheduled during March-June 2020 and commencing August 2020. Due to the COVID-19 crisis, the evidentiary hearings scheduled for March 2020 and the beginning of April 2020 were cancelled.

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

Petition to Approve a Derivative Claim filed by Edelcom

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 €1.9 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.

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. On July 31, 2019, Edelcom (together with Edeltech and Mr. Edelsburg) submitted a notice of withdrawal of the statement of claim. On August 11, 2019, Dori Energy submitted its response to the notice requesting that the claim be rejected and expenses and legal fees will be determined for the benefit of Dori Energy. On October 22, 2019, the arbitrator deleted the claim subject to Edelcom, Mr. Edelsburg and Edeltech being barred from resubmitting the claim to any other judicial or quasi-judicial entity.

On April 8, 2019, Zorlu filed an opening motion with the District Court in Tel Aviv against Dorad and the directors serving on Dorad's board on behalf of Dori Energy and EAIS. In the opening motion, Zorlu asked the court to instruct Dorad to convene a shareholders meeting and to include on the agenda of this meeting a discussion and a vote on the planning and construction of an additional power plant adjacent to the existing power plant, or the Dorad 2 Project. Zorlu claimed that although the articles of association of Dorad provides that the planning and construction of an additional power plant requires a unanimous consent of the Dorad shareholders, and while Zorlu and Edelcom are opposed to this project, including due to the current disagreements among Dorad's shareholders, Dorad continued taking actions to advance the project, which include spending substantial amounts out of Dorad's funds. Zorlu further claims that the representatives of Dori Energy and EAIS on the Dorad board have acted to prevent the convening of a shareholders meeting as requested by Zorlu. On April 16, 2019, Edelcom submitted a request to join the opening motion as an additional respondent as Edelcom claims that it is another shareholder in Dorad that opposes the advancement of the project at this stage. In addition, Edelcom joined Dori Energy and EAIS as additional respondents to its request, claiming that these entities are required to be part of the proceeding in order to reach a complete and efficient resolution. All parties agreed to the joining of Edelcom, Dori Energy and EAIS to the proceeding. On June 15, 2019, Edelcom filed its response to the petition, requesting that the court accept the petition. On August 13, 2019, Dorad, EAIC and the Dorad board members submitted their responses and requested that the petition be dismissed. On December 8, 2019 an evidentiary hearing was held. On January 12, 2020, the court ruled that Zorlu and Edelcom will submit written summaries within 45 days and that the respondents will submit written summaries 45 days thereafter. *To our knowledge, the Dorad 2 Project is currently under initial internal examination by Dorad and there can be no assurance as to if, when and under what terms it will be advanced or promoted by Dorad.*

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.

The COVID-19 crisis affects Dorad's customers (which, as noted above, include hotels and other industrial customers), and during March 2020 Dorad reported a certain decrease in consumption of electricity by its customers and by the IEC due to the COVID-19 and its implications on the tourism industry, the industrial entities and electricity consumption in general.

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

The Dorad Power Plant is a dual-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 one of the suppliers of natural gas for the Israeli electricity market. Pursuant to information received from Dorad, 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 commenced upon the fulfillment of conditions set forth in the Tamar Agreement, or the Interim Period, the natural gas supply to Dorad is 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, 2016 a notification was received from Tamar whereby the Interim Period will end on September 30, 2020 and on January 22, 2020, Dorad received a notification from Tamar whereby the Interim Period will end on March 1, 2020. According to the notification and the terms of the Tamar Agreement, Tamar will consider Dorad as a permanent customers commencing from the end of the Interim Period.
- 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, commencing January 1, 2020, the production component rate was decreased by approximately 7.9%, resulting again in a decrease of the gas price under the Tamar Agreement to the final floor price and therefore will not be further reduced in the future. 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.

- 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.

On April 2, 2019, Dorad entered into an addendum to the Tamar Agreement according to which the gas quantities specified in the addendum to the Tamar Agreement that Dorad purchases from Tamar will not be included for the purpose of calculating the quantities of gas at the time of the reduction of the purchases from Tamar, in accordance with the instructions of the Tamar Agreement.

Agreement with Alon Gat

On March 6, 2019, Dorad signed a memorandum of understanding with Alon Energy Centers LP, or Alon Gat, which is constructing a private power plant for the production of electricity in Kiryat Gat, Israel, with a capacity of approximately 73 MW. On November 11, 2019, Dorad signed an addendum to this memorandum of understanding. In the framework of the memorandum of understanding and the addendum, Alon Gat will serve as a producer who will provide Dorad with the full availability of the aforementioned power plant and will sell the electricity produced at the power plant to Dorad, which will serve as supplier. In addition, Alon Gat, who holds the production license, will be responsible for operating the Alon Gat power plant and generating electricity at the plant and will bear all costs related to operating the Alon Gat power plant, the availability and the power generation. Dorad will be responsible for all activities related to the power supply sales to the customers and the IEC. On November 12, 2019, commercial operation of the Alon Gat power plant began and the implementation of the memorandum of understanding became effective. The implementation of the memorandum of understanding after May 10, 2020 is subject to the approval of Dorad's lenders, which was received on December 5, 2019, and to the approval of Alon Gat's lenders, which have not yet been received. The memorandum of understanding and addendum contain termination provisions, including in the event of regulatory changes that materially impair the implementation of the understandings between the parties. Following the hearing scheduled by the Israeli Electricity Authority in August 2019 and the resolution published by the Israeli Electricity Authority in January 2020 regarding the amendments to the standards on consumption plan anomalies, which may affect the financial feasibility of the understandings with Alon Gat, Dorad and Alon Gat are examining the feasibility of the understandings. For more information concerning the resolution of the Israeli Electricity Authority see "Consumption Plans and Deviations" under "Material Effects of Government Regulations on Dorad's Operations" below.

Dorad is also a party to a natural gas delivery agreement and to a diesel oil warehousing agreement.

On October 30, 2017, Dorad signed an agreement with Energean 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 second half of 2021. 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 Energean, 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 Energean were fulfilled. On February 5, 2020, Energean informed Dorad that due to the Coronavirus (COVID-19) spread in China, the Chinese government issued restrictions on travel and transportation including to an area where portions of Energean gas production facilities are manufactured and therefore a delay is expected in the construction of production facilities and in the gas supply to Dorad. Dorad notes that in the event of delays, it may purchase natural gas from Tamar at a higher price than the price set in the agreement with Energean.

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. 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.

Tariffs

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.

In September 2010, Dorad received a tariff approval 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 tariff approval pursuant to the Tamar Agreement.

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.

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 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 December 17, 2016, 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 Israeli Electricity Authority published its decision to increase the 2019 electricity rate by approximately 3.3%.

On December 23, 2019, the Israeli Electricity Authority published a decision regarding “Annual Electricity Rate Update 2020,” which, among other things, averaged a 7.9% decrease in the production component as of January 1, 2020, and will remain in effect to the end of 2020.

Consumption Plans and Deviations

In August 2019, the Israeli Electricity Authority published a proposed resolution that is subject to a public hearing concerning an amendment to the standards governing deviations from consumption plans. These standards regulate the accounting mechanism in the event the actual consumer consumption is different than the consumption plan submitted by the electricity manufacturers (such as Dorad), and include a mechanism protecting the manufacturers from random deviations in actual consumption volumes. Based on the Israeli Electricity Authority’s publication, which includes a call for public comments (the hearing process), the Israeli Electricity Authority proposed revoking the protections included in the aforementioned standards, claiming that the manufacturers are misusing the protections and regularly submit plans and forecasts that deviate from the actual expected consumption, and also seeks to impose financial sanctions on the manufacturers, which may be in material amounts upon the occurrence of certain deviation events. On January 27, 2020, the Israeli Electricity Authority issued a resolution amending the standards and imposing financial sanctions in cases of certain extraordinary events that may add up to significant sums. Based on Dorad’s financial statements, included elsewhere in this Report, Dorad is reviewing the aforesaid resolution and its implications on Dorad, on its engagements and financial results, and at the same time is preparing to reduce the implications of the proposed resolution. The resolution will enter into effect as of September 1, 2020.

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 (Biogas) Projects



Plant Title	Installed/ production Capacity	Location	Connection to Grid	Revenue in the year ended December 31, 2018 (in thousands)	Revenue in the year ended December 31, 2019 (in thousands)
"Groen Gas Goor"	475 Nm ³ /h	Goor, the Netherlands	November 2017	€2,760	€2,314
"Goren Gas Oude-Tonge"	375 Nm ³ /h	Oude-Tonge, the Netherlands	June 2018	€1,723 ¹	€2,472

1. 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 Luxembourg, 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, we, through Ellomay Luxembourg, were to acquire at least 51% of each project company and Ludan will own the remaining 49%. 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 projects, based on specific agreements.

Pursuant to the Ludan Agreement, 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.

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. 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 acquisition was consummated during 2019 and we currently indirectly own 100% of these projects and the Ludan Agreement terminated upon consummation of the transactions contemplated by the Ludan Acquisition Agreement.

Following consummation of the acquisition, we exchanged letters with Ludan and several of its subsidiaries in which Ludan made several immaterial claims for payments regarding the Goor and Oude Tonge WtE projects, and we and several of our subsidiaries made several immaterial counter claims against Ludan with respect to the same projects, in amounts exceeding Ludan's claims.

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.

Groen Goor EPC and O&M Agreements

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 Goor Project commenced operations in December 2017. The overall capital expenditure in connection with the Goor Project was approximately €10.8 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 included customary O&M terms.

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 and the senior management provide services both to the Goor Project and to the Oude Tonge Project. In addition, following the consummation of the Ludan Acquisition Agreement, we currently indirectly hold 100% of the share capital of Groen Goor. During 2019 we added a centrifuge decanter and a dry silo system for the Goor Project.

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 Luxembourg, entered into loan agreements with Groen Gas Oude-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 Luxembourg 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 Oude Tonge Project commenced operations in June 2018. The overall capital expenditure in connection with the Oude Tonge Project were approximately €8.2 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 and the senior management provide services both to the Oude Tonge Project and to the Goor Project. In addition, following the consummation of the Ludan Acquisition Agreement, we currently indirectly hold 100% of the share capital of Oude Tonge. During 2019 we added a centrifuge decanter for the Oude Tonge Project.

In May 2017, Oude Tonge executed offtake agreements for selling its produced gas and green gas certificates.

During 2019, we assessed the fair value of our WtE facilities in light of operating losses suffered by these facilities during this period. The examination was conducted based on projected cash flows that were discounted at a rate of 6.6%. The examination concluded that the fair value of the facilities is slightly higher than the carrying value of the projects and therefore there is no need for a provision for impairment. The assumptions on which the examination was based could be affected by our inability to meet our budget, our inability to maintain and procure the feedstock necessary for optimal performance of the units, by technical malfunctions and by other circumstances that influence the operation of the facilities.

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 Luda 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 that is expected to reduce 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.

Sources and Availability of Raw Materials for the Operations of the WtE Projects

As noted above, the anaerobic digestion process requires continuous input of raw materials such as: manure, glycerin, mix grain and corn, all of which 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. Both Groen Goor and Oude Tonge initially executed long term feedstock agreements with feedstock suppliers. These agreements were terminated due to disagreements with the suppliers. In order to ensure continuous supply of raw materials, both in terms of the quantity and the quality and composition of the raw materials, the WtE Projects started working with a large number of waste suppliers, such as farmers, food manufacturers and other specialized waste suppliers in order to continuously monitor the proposed sales and try to locate the most efficient and beneficial offers.

The Netherlands Waste-to-Energy Market and Regulation

In 2009, the EU enacted legislation that set climate and energy targets for the year 2020. The main targets for 2020 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. These targets were revisited by the EU in 2018 and set at 40%, 32% and 32.5%, respectively, for the year 2030. The target for the production rate of energy from renewable sources for the Netherlands imposed by the EU to be reached by the year 2020 is 14%. However, in 2019 only 8.6% of the energy in the Netherlands came from renewable sources, putting the Netherlands 5.4% short of its target. The Dutch government's goal is to have 16% renewable energy by 2023 and 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. As a follow-up to the Energy Agreement and as an elaboration on the Paris Agreement, which the Dutch government signed in 2015, the national Climate Agreement (“*Klimaatakkoord*”) was adopted in June 2019. The Climate Agreement contains several stringent national climate goals (e.g., a CO2 emissions reduction of 49% by 2030 and 95% by 2050) to be achieved through numerous national climate measures but does not eliminate the renewable energy goals set out in the Energy Agreement.

The aforementioned national climate goals are formally included in the national Climate Act (“*Klimaatwet*”), which is in force since September 2019. The Climate Act contains no direct obligations for citizens and businesses; it provides the national government with a framework to establish further legislation in order to reach the national climate goals. The Climate Act prescribes among other obligations that the Dutch government must draft a so-called climate plan (“*klimaatplan*”), containing the most important decisions and measures in the field of climate policy and energy saving management for the next five years. The first climate plan (“*Integraal Nationaal Energieen Klimaatplan 2021-2030*”, or “*INEK*”) was presented on November 1, 2019. The INEK mainly refers to the headlines and goals set in aforementioned national Agreements as well as the Climate Act. It also provides an overview of the current and upcoming Dutch legislation in the field of climate policy.

The Netherlands waste treatment is subject to strict regulatory obligations, requiring that 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, the Dutch government intends to intensify the enforcement of the legal obligation for facilities 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 Dutch Activity Decree (“*Activiteitenbesluit*”) under that Act). In order to support this effort, the Dutch government has drafted and in April 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 Dutch Activity Regulation (“*Activiteitenregeling*”). To further improve that compliance, an information duty regarding taken energy savings measures applies since July 2019 (and every four years thereafter) under the Dutch Activity Decree (“*Activiteitenbesluit*”).

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, the aforementioned rules are gaining even more importance. The Dutch Decree amending investment plan and quality of electricity and gas (“*Besluit tot wijziging van het besluit investeringsplan en kwaliteit elektriciteit en gas*”) is currently in preparation and will enable on short notice an intensified use of the electricity network. The reserve capacity of the high-voltage grid will be dedicated to energy generated by renewable energy sources. The Climate Act prescribes the obligation of a 100% CO2 neutral electricity production in 2050.

Subsidies

The current subsidy scheme for renewable energy in the Netherlands is called SDE+ (“*Stimulerend Duurzame Energieproductie*” or Stimulating Renewable Energy Production). The SDE+ budget has increased substantially over recent years and has grown from €3.5 billion in 2014 to €10 billion in 2019. For 2020, however, this budget is only €2 billion since, unlike in 2019, the SDE+ program in 2020 comprises only one round of application (in the spring), which opens on March 17 and closes on April 2, and is identical (regarding content, techniques and categories) to the application format in 2019. 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.

As of mid-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. The SDE++ is technique neutral, introducing several new techniques as eligible for subsidy, among others relating to heat generation from biomass. Given the wide range of available biomass technologies nowadays, the SDE++ provides for various categories under which subsidy can be requested for biomass projects. Under the SDE++ subsidy program, subsidies will be granted on the basis of prevented CO2 emissions. The SDE++ contribution is equal to the base amount (cost price of reduction of CO2 emissions) minus the correction amount (SPOT price). This will be organized via an operating subsidy scheme. Unlike the SDE+ program, in which the amount requested per kWh is decisive, subsidy applications under the SDE++ program will be handled on the basis of increasing maximum subsidy need per phase. Consequently, projects with a lower subsidy need shall be given priority when granting subsidies under this new subsidy program. Currently the SDE++ program is being elaborated in more detail by the Dutch government. The SDE++ will be determined annually, with a budget of €5 billion in 2020. The maximum subsidy grant is €300 per ton of CO2 emissions. The round of application for the SDE++ (“*Openstellingsronde SDE++ 2020*”) in 2020 is from September 29 until October 22.

Taxes

In May 2019, the Dutch government proposed several options for the adoption of a CO2 emissions tax, which should be effective as of 2021. However, this taxation is currently under public and political debate, while no specific legislation has yet been prepared. The rationale behind the CO2 emissions tax is that the big polluters, generally the larger industrial facilities, have to pay their fair share in reducing CO2 emissions in the Netherlands. Based on the current proposed options, likely a certain tax-free threshold will apply, above which tax will be due per additional ton CO2 emissions. A range of €30 taxation in 2021 increasing to €150 taxation in 2030 is now under discussion, also in relation to the European emissions trading system, as set forth in the European Directive 2003/87/EC. The main features of this system are the CO2 emissions cap and the trading of CO2 emissions allowances, in order to reduce, in a cost-effective way, the CO2 emissions of heavy energy-using facilities in the Netherlands too.

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 (2020 - 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 45% in 2019 and 2020). However, the EIA budget does increase in 2020 (from €151 million in 2013 it decreased to €101 million in 2017 and increased to €147 in 2019 and 2020). In the national Energy Agreement it has been agreed that the EIA program will primarily be focused on energy-efficiency investments. A renewable energy project that is eligible for an SDE+ subsidy is not eligible for the EIA tax advantage (the latter only relates to new projects and projects who have already obtained rights to tax advantages). As compensation, the SDE+ budget has been increased by the Dutch government over the years (see above). It is likely that the EIA program will interact in a similar way with the SDE++ program, but this has not formally been decided yet. Recently, the EIA program has been extended until January 2024. Proposals for the Energy List 2021 can be submitted until September 1, 2020.

Permits

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 Dutch Water Act (“*Waterwet*”) and under local Ordinances (“*Algemene Plaatselijke Verordening*”), could be required too. 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.

Furthermore, 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 Dutch Environmental Permitting Act (“*Wet algemene bepalingen omgevingsrecht*”), 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 under the Dutch Spatial Planning Act: “*Wet ruimtelijke ordening*”) to include transitory rules that allow continuation (but not expansion) of existing operations.

The foregoing will be similar the planned Dutch Environment Law Act (“*Omgevingswet*”), which replaces fifteen existing laws on environment and zoning, including the Dutch Environmental Permitting Act (“*Wet algemene bepalingen omgevingsrecht*”), the Dutch Water Act (“*Waterwet*”) and the Dutch Spatial Planning Act (“*Wet ruimtelijke ordening*”). The Dutch Environment Law Act (“*Omgevingswet*”) is expected to come into force in 2021, and the Dutch Senate (“*Eerste Kamer*”) passed the implementing legislation on February 11, 2020. The aforementioned Acts will materially not fundamentally change under the Dutch Environment Law Act (“*Omgevingswet*”). More-over, permit applications that have been submitted before the date of entry into force, shall presumably be assessed in accordance with the former applicable Acts.

In addition to the aforementioned permits, a permit under the Dutch Nature Protection Act (“*Wet natuurbescherming*”) is necessary for the operation of a waste treatment facility in the Netherlands, in case it may negatively affect designated Natura 2000-areas (“*Natura 2000-gebieden*”), by causing nitrogen to be deposited thereon. By decision of the highest Dutch administrative court, the specific regime for nitrogen depositions, the ‘Integrated Approach to Nitrogen’ (“*Programma Aanpak Stikstof*”) was, how-ever, revoked in May 2019. The key assumption under this regime that, through nature restoration measures and source-directed measures, a general autonomous reduction of nitrogen depositions/emissions can be created (only) in favor of (more) economic developments, is therefore no longer valid. This also applies to the nitrogen exemption limits of the ‘Integrated Approach to Nitrogen’ (“*Programma Aanpak Stikstof*”), which provided for an exemption to the permit obligation under the Dutch Nature Protection Act (“*Wet natuurbescherming*”). As a result, it is currently more difficult to obtain such permit in the Netherlands, in principle also for the operation of a (modified/new) waste treatment facility. Most likely this difficulty will continue until Dutch government will determine and implement additional policies to solve this matter. The Dutch Nature Protection Act (“*Wet natuurbescherming*”) as such will also be integrated in the Dutch Environment Law Act (“*Omgevingswet*”).

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, 2019, we paid an amount of approximately NIS 3.4 million (approximately €0.88 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 million (approximately €10 million).

In August 2016, Ellomay PS received the Prior Conditional License for the Manara PSP from the Minister. The Prior Conditional License initially regulated the construction of a pumped storage plant in the Manara Cliff with a capacity of 340 MW. The Prior Conditional License included several conditions precedent to the entitlement of the holder of the Prior Conditional License to receive an electricity production license. The Prior Conditional License was 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 Prior Conditional License issued to Ellomay PS from 340 MW to 156 MW. The reduced capacity was 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 Prior Conditional License and in Nesher PS's conditional license (which has since expired).

In March 2019, following Ellomay PS's request to extend certain dates and deadlines in the Prior Conditional License granted to it due to the continuation of the planning procedures in the National Infrastructure Committee and the process of obtaining the assessment from the ILA, the Israeli Electricity Authority resolved to extend certain deadlines and dates set forth in the Prior Conditional license held by Ellomay PS. The extensions include, among others: (i) an extension of the term of the Prior 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 Prior 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 Prior 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% (including 6.67% held by a trustee in trust for us and other parties as more fully described below) 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 was effective until September 30, 2019.

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 currently hold an indirect 75% interest (including 6.67% of Ellomay PS that are held by a trustee in trust for us and other parties as more fully described below). 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 and debts 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 accordance with the A.R.Z. Settlement Agreement, a trustee was issued 6.67% of the share capital of Ellomay PS and holds such shares in trust for us, for an affiliate of ours and for A.R.Z. Electricity, pending the fulfillment of the conditions set forth in the A.R.Z. Settlement Agreement. The issuance of such shares to the trustee, as well as the issuance of additional shares to Sheva Mizrakot Ltd. (in order to maintain its percentage holdings in Ellomay PS). Until the shares held in trust are released to A.R.Z. Electricity, Ellomay 2014 controls the voting of these shares and is entitled to the economic benefits associated therewith.

Term Sheet for Sale of up to 35% of the Manara PSP

We are party to a term sheet, executed in May 2019, between Ellomay 2014 and an investor for the sale by Ellomay 2014 of shares representing up to 35% of the share capital and of the shareholders loans of Ellomay PS. Ellomay 2014 currently owns 75% of the share capital of Ellomay PS (including 6.67% of the share capital of Ellomay PS that are held by a trustee in trust for us and other parties). The consummation of the sale of the interests in Ellomay PS is scheduled to occur simultaneously with the financial closing of the Manara PSP and is subject to the occurrence of certain conditions precedent, including the execution of definitive agreements, the completion of a due diligence process by the investor, obtaining regulatory approvals and other customary conditions to closing.

In November 2019, Ellomay PS received the Assessment from the ILA in connection with the Manara PSP. The Assessment requires Ellomay PS to pay approximately NIS 160 million (approximately \$41.3 million) to the ILA in consideration for the ILA's consent to the sublease of the land on which the Manara PSP is currently planned to be constructed. The ILA's consent is required in order to obtain building permits and financing for the construction of the Manara PSP. Ellomay PS contested the Assessment and is awaiting the ILA's response. In addition, Ellomay PS has a right to appeal the Assessment if its contest of the Assessment will be rejected. Ellomay PS and its advisors believe that the consent fee required is significantly higher than the reasonable amount, among other reasons due to the consent fee reflecting a demand for payment of more than NIS 1 million per one installed MW. Ellomay PS is reviewing the Assessment and contemplating its future steps in connection with the Assessment and the Manara PSP. Ellomay PS will attempt to reduce the Assessment to a reasonable amount that will maintain the economic feasibility of the Manara PSP.

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 Israeli 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 (approximately €2.6 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). On March 14, 2019, a pre-trial hearing was held. It was agreed that the parties would hold talks and update the court if they reach any agreement regarding compromising. On March 24, 2019, the parties notified the court that they did not reach a compromise. The claim is now in disclosure proceedings.

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 PS 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 holds geological and hydrology surveys, and an environmental impact assessment.

We expect to continue promoting the Manara PSP, but we may, for various reasons including in the event the Assessment is not timely overturned or significantly reduced, in the event a new conditional license is not issued, or in the event of 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.

Apart from Manara 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 Prior Conditional License for a capacity of 340 MW. The Prior 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 Prior Conditional License was 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.

On February 26, 2020, Ellomay PS retracted the Prior Conditional License issued to it, which was due to expire on February 28, 2020 because Ellomay PS did not reach financial closing by such date as was required under the milestones included in the Prior Conditional License. On the same date, Ellomay PS filed an application for a new similar conditional license for a pumped storage facility with a capacity of 156 MW, based on the remaining portion of the PS Quota. In the event issued, a new conditional license is expected to include updated deadlines for financial closing and the completion of construction of the Manara PSP.

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.

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 and was since renewed from time to time.

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 or the WtE projects would be considered “investment securities,” as we control the PV Plants and the WtE projects via wholly-owned subsidiaries. In addition, despite minority holder protective rights granted to the minority shareholders of the Talasol Project and the Manara PSP, including several rights which effectively require the unanimous consent of all, we believe that our interests in the Talasol Project and the Manara PSP do not constitute “investment securities” given, among other things, our majority shareholder and board membership status. 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 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.àr.l. The Talasol Project is held by Talasol Solar S.L., of which 51% is owned by Ellomay Luxembourg Holdings S.àr.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.

Our Netherlands WtE facilities are held by: (i) Groen Gas Goor B.V. and (ii) Groen Gas Oude-Tonge B.V., both wholly-owned by Ellomay Luxembourg Holdings S.àr.l. 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 Ellomay Pumped Storage (2014) Ltd. (including 6.67% that are held by a trustee in trust for us and other parties).

The Italian PV Plants, sold by us on December 20, 2019, are held by the following Italian companies, which prior to the sale were wholly-owned by Ellomay Luxembourg Holdings S.àr.l.: (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. These companies were sold on December 20, 2019. For more information see “Item 4.A: History and Development of Ellomay; Recent Development.”

D. Property, Plants and Equipment

Our office space of approximately 360 square meters is located in Tel Aviv, Israel. This lease currently expires in February 2025. 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.

Our PV Plants are located in 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. 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
“Rinconada II”	81,103 m ²	Municipality of Córdoba, Andalusia, Spain	PV Plant owned by Ellomay Spain S.L. Land held by owners and leased to Ellomay Spain S.L.
“Rodríguez I”	65,600 m ²	Lorca Municipality, Murcia Region, Spain	PV Plant owned by Rodríguez I Parque Solar, S.L. Lease Agreement executed between the owners and Rodríguez I Parque Solar, S.L.
“Rodríguez II”	50,300 m ²	Lorca Municipality, Murcia Region, Spain	PV Plant owned by Rodríguez II Parque Solar, S.L. Lease Agreement executed between the owners and Rodríguez II Parque Solar, S.L.
“Fuente Librilla”	64,000 m ²	Fuente Librilla Municipality, Murcia Region, Spain	PV Plant owned by Seguisolar S.L. Lease Agreement executed between owners and Seguisolar S.L.
“Talasol” (under construction)	6,040,000 m ²	Talavan (Cáceres) – Extremadura Region, Spain	Lease Agreements executed with the Talavan Municipality, which owns the land
“Talmei Yosef”	164,000 m ²	Talmei Yosef, Israel	Lease Agreement executed with the entity that leased the property from the ILA.

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. Our results of operations for the periods following the sale of our Italian PV Plants (consummated in December 2019) will not include the results of operations of such plants and therefore our past results are not indicative of our results in the future.

A. Operating Results

General

We are involved in the production of renewable and clean energy. We own five PV Plants that are operating and connected to their respective national grids as follows: (i) four photovoltaic plants in Spain with an aggregate installed capacity of approximately 7.9 MWp and (ii) 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 860 MWp dual-fuel operated power plant in the vicinity of Ashkelon, Israel, (ii) 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) 51% of Talasol, which is constructing a photovoltaic plant with a peak capacity of 300 MW in the municipality of Talaván, Cáceres, Spain, and (iv) 75% of the Manara PSP (including 6.67% that are held by a trustee in trust for us and other parties as more fully described in “Item 4.B: Business Overview – Pumped Storage Project in the Manara Cliff in Israel”), which is 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, see Note 21 to our annual financial statements included elsewhere in this Report.

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 to our annual financial statements included elsewhere in this Report regarding taxes on income and deferred tax.

Business combination

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

Segments

In view of our 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 (Biogas) 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

The results of operations included in our financial statements for the year ended December 31, 2019 include the results of operations of the Italian PV Plants that were sold to a third party on December 20, 2019. Our results of operations for the periods following the sale of such Italian PV Plants will not include the results of operations of such plants and therefore our past results are not indicative of our results in the future.

Year Ended December 31, 2019 Compared with Year Ended December 31, 2018

Revenues were approximately €19 million for the year ended December 31, 2019, compared to approximately €18.1 million for the year ended December 31, 2018. The revenue increase is mainly due to the commencement of operations of our WtE project in Oude Tonge, the Netherlands in June 2018 and relatively higher levels of radiation in Italy during 2019 compared to 2018.

Italian PV Segment. Revenues from our Italian PV segment, sold to a third party on December 20, 2019, were approximately €10.1 million for the year ended December 31, 2019, compared to approximately €9.6 million for the year ended December 31, 2018. The increase is mainly due to relatively higher radiation levels in Italy during 2019 compared to 2018.

Spanish PV Segment. Revenues from our Spanish PV segment were approximately €3 million for each of the years ended December 31, 2019 and 2018.

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 €4.1 million for the year ended December 31, 2019, compared to approximately €4 million for the year ended December 31, 2018. The increase in revenues is mainly due to relatively higher radiation levels in Israel during 2019 compared to 2018 and a decrease of the euro/NIS exchange rate during the year ended December 31, 2019 (average euro/NIS exchange rate of 3.99) compared to the year ended December 31, 2018 (average euro/NIS exchange rate of 4.244).

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 €63.4 million (approximately NIS 253.2 million) for the year ended December 31, 2019, compared to approximately €58.1 million (approximately NIS 246.4 million) for the year ended December 31, 2018. The increase in Dorad's NIS denominated revenues is mainly due to a slight tariff increase and increased electricity production sold to Dorad's customers during the year ended December 31, 2019. The increase in Dorad's revenues translated into euro is a result of the decrease of the euro/NIS exchange rate during the year ended December 31, 2019 (average euro/NIS exchange rate of 3.99) compared to the year ended December 31, 2018 (average euro/NIS exchange rate of 4.244).

Netherlands Biogas Segment. Revenues from our Netherlands biogas segment were approximately €4.8 million for the year ended December 31, 2019, compared to approximately €4.5 million for the year ended December 31, 2018. The increase is due to the commencement of operations of one WtE Project in Oude Tonge, the Netherlands, in June 2018.

Operating expenses were approximately €5.6 million for the year ended December 31, 2019, compared to approximately €5.3 million for the year ended December 31, 2018. The increase in operating expenses is mainly attributable to additional operating expenses from the commencement of operations of our WtE Project in Oude Tonge, the Netherlands, in June 2018. Depreciation expenses were approximately €6.4 million for the year ended December 31, 2019, compared to approximately €5.8 million for the year ended December 31, 2018.

Italian PV Segment. Operating expenses in connection with our Italian PV segment were approximately €1.4 million for the year ended December 31, 2019, compared to approximately €1.6 million for the year ended December 31, 2018. The decrease is mainly due to reduced lease expenses due to the implementation of IFRS 16.

Spanish PV Segment. Operating expenses in connection with our Spanish PV segment were approximately €0.5 million for the year ended December 31, 2019 compared to approximately €0.6 million for the year ended December 31, 2018. The decrease is mainly due to reduced lease expenses due to the implementation of IFRS 16.

Israeli PV Segment. Operating expenses in connection with our Israeli PV segment were approximately €0.3 million for the year ended December 31, 2019, compared to approximately €0.5 million for the year ended December 31, 2018. The decrease is mainly due to the cancellation in 2019 of a provision recorded in previous years due to a property tax assessment agreement reached with the authorities.

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 €48.6 million (approximately NIS 193.9 million) for the year ended December 31, 2019, compared to approximately €44.6 million (approximately NIS 189.3 million) for the year ended December 31, 2018. The increase in Dorad's operating expenses is mainly due to increased production, higher electricity quantities purchased from the IEC and increased maintenance expenses.

Netherlands Biogas Segment. Operating expenses in connection with our Netherlands biogas segment were approximately €4.4 million for the year ended December 31, 2019, compared to approximately €3.6 million for the year ended December 31, 2018. The increase is due to commencement of operations of our WtE Project in Oude Tonge, the Netherlands, in June 2018.

Project development costs were approximately €4.2 million for the year ended December 31, 2019, compared to approximately €2.9 million for the year ended December 31, 2018. The increase in project development costs is mainly attributable to consultancy expenses in connection with the Manara PSP.

General and administrative expenses were approximately €3.8 million for the year ended December 31, 2019, compared to approximately €3.6 million for the year ended December 31, 2018. The increase in general and administrative expenses resulted mainly from a slight increase in labor and consultancy expenses.

Our share of profits of equity accounted investee, after elimination of intercompany transactions, was approximately €3.1 million in the year ended December 31, 2019, compared to approximately €2.5 million in the year ended December 31, 2018. The increase in our share of profit of equity accounted investee is mainly attributable to an increase in sales of electricity by Dorad and to lower financial expenses incurred by Dorad due to the CPI indexation of loans from banks and related parties.

Other expenses, net, were approximately €2.1 million in the year ended December 31, 2019, compared to other income, net, of approximately €0.9 million in the year ended December 31, 2018. During 2019 we recorded expenses in the amount of approximately €2.1 million in connection with the announcement received from GSE, Italy's energy regulation agency, by one of our Italian subsidiaries, claiming alleged non-compliance of the installed modules with the required certifications under the applicable regulation and raising the need to examine incentive eligibility implications, or the GSE Claim. On December 20, 2019, we sold our holdings in this subsidiary. The Sale and Purchase Agreement governing the sale of the subsidiary provided for up to €2.1 million of indemnification in connection with the GSE Claim and we recorded this potential payment as other expenses.

Capital gain was approximately €18.8 million in the year ended December 31, 2019, compared to 0 in the year ended December 31, 2018. The capital gain in the year ended December 31, 2019 was recorded in connection with the sale of ten Italian indirect wholly-owned subsidiaries of the Company, which own twelve photovoltaic plants with an aggregate nominal capacity of approximately 22.6 MW on December 20, 2019. The purchase price was €38.7 million (after approximately €2.3 million adjustments in connection with funds received by us from the Italian subsidiaries during 2019).

Financing expenses, net was approximately €8.2 million for the year ended December 31, 2019, compared to approximately €2.1 million for the year ended December 31, 2018. The increase in financing expenses was mainly due to: (i) expenses in connection with exchange rate differences amounting to approximately €2 million in the twelve months ended December 31, 2019, mainly in connection with our NIS denominated Debentures, the loan to an equity accounted investee and cash and cash equivalents, caused by the 9.6% devaluation of the euro against the NIS during this period, compared to income in connection with exchange rate differences amounting to approximately €0.7 million in the twelve months ended December 31, 2018 (ii) charges of approximately €2 million recorded in 2019 in connection with the early repayment of the entire outstanding principal of our Series A Debentures, and (iii) an increase of approximately €0.5 million in interest and swap expenses mainly due to the financing transaction entered in March 2019 by four Spanish indirect wholly-owned subsidiaries and due to expenses recorded in connection with the swap transaction entered by the Italian subsidiaries that were sold on December 20, 2019.

Tax benefit was approximately €0.3 million in the year ended December 31, 2019, compared to taxes on income of approximately €0.2 million in the year ended December 31, 2018. This change is due to deferred taxes arising from timing differences in depreciation expenses in connection with the Talasol Project.

Net profit was approximately €9.8 million in the year ended December 31, 2019, compared to net loss of approximately €0.6 million for the year ended December 31, 2018.

Total other comprehensive income was approximately €1.3 million for the year ended December 31, 2019, compared to total other comprehensive loss of approximately €1.2 million in the year ended December 31, 2018. 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, due to fluctuations in the euro/NIS exchange rates.

Total comprehensive profit was approximately €1 million in the year ended December 31, 2019, compared to total comprehensive loss of approximately €0.5 million in the year ended December 31, 2018.

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

Please see Item 5A of our Form 20-F for the Year ended December 31, 2018, filed with the SEC on March 29, 2019.

Impact of Inflation and Fluctuation of Currencies

The annual rate of inflation in Israel was inflation of 0.4% in the year ended December 31, 2017, inflation of 0.8% in the year ended December 31, 2018 and inflation of 0.6% in the year ended December 31, 2019.

We hold cash and cash equivalents, marketable securities and restricted cash in various currencies, mainly in euro and NIS. Our investments in our 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 our Spanish 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 3B 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 appreciation (or devaluation) of the NIS against the euro.

	Year ended December 31,		
	2019	2018	2017
Appreciation (Devaluation) of the NIS against the euro	(9.6%)	3.3%	2.7%

The representative NIS/euro exchange rate was NIS 4.153 for one euro on December 31, 2017, NIS 4.292 for one euro on December 31, 2018 and NIS 3.878 for one euro on December 31, 2019. The average exchange rates for converting the NIS to euro during the years ended December 31, 2017, 2018 and 2019 were 4.063, 4.244 and 3.993 for one euro, respectively. The representative exchange rate as of March 1, 2020 was NIS 3.819 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."

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, 2019, we had tax loss carry-forwards in the amount of approximately €0.6 million. Such carry-forward tax losses are following a decrease of approximately €20 million as a result of a tax inspection and a final settlement reached with the tax authorities in 2018. 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.

B. Liquidity and Capital Resources

General

As of March 15, 2020, we held approximately €57.1 million in cash and cash equivalents, approximately €2.2 million in marketable securities and approximately €9.9 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 our Spanish PV Plants, including the PV Plant constructed by Talasol (all as more fully described below). In January 2014 and June 2014 we issued the Series A Debentures, in March 2017 we issued the Series B Debentures and in July 2019 we issued the Series C Debentures, all as more fully described below. In addition, the Talmei Yosef PV Plant and our WtE projects also obtained project financing as more fully described below. We currently have no agreements, commitments or understandings for additional financing, however we will require additional funds in order to advance the Manara PSP and other projects that are currently under development or that will be developed in the future. The project finance arrangements entered into by several of the Italian project companies holding our Italian PV plants were transferred as part of the sale of such project companies on December 20, 2019.

On July 17, 2019, we issued 800,000 ordinary shares to several Israeli qualified investors in a private placement undertaken in accordance with Regulation S of the Securities Act. The price per share was NIS 39.20 and we received net proceeds of approximately NIS 31.1 million (approximately €7.8 million) (net of related expenses such as consultancy fee of approximately NIS 0.2 million).

On February 18, 2020, we issued 715,000 ordinary shares and warrants to purchase an additional 178,750 ordinary shares to several Israeli institutional investors in a private placement undertaken in accordance with Regulation S of the Securities Act of 1933, as amended. The price per share was NIS 70 (approximately €18.9). The warrants are exercisable for a period of one year, with an exercise price of NIS 80 (approximately €21.6) per ordinary share. We received net proceeds of NIS 49.9 million (approximately €13.5 million) (net of related expenses such as consultancy fee of approximately NIS 0.1 million).

As of December 31, 2019, we had working capital of approximately €45.4 million, compared to working capital of approximately €35.7 million as of December 31, 2018. 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, 2019, we had approximately €44.5 million of cash and cash equivalents, compared with approximately €36.9 million of cash and cash equivalents at December 31, 2018 and approximately €24 million of cash and cash equivalents at December 31, 2017. The increase in cash during the year ended December 31, 2019 was mainly due to the issuance of our Series C Debentures and the private placement of our ordinary shares, both in July 2019, the payment received in consideration for the sale of 49% of Talasol in April 2019, the payment received in consideration for the sale of our Italian PV plants in December 2019 and the financing of our Spanish PV Plants in March 2019, partially offset by expenses and investments in the Talasol Project. 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.

Project Finance

We are currently party to project finance agreements in connection with our Spanish and Israeli 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 current or future facilities. As the Del Bianco, Costantini, Giaché, Massaccesi, Galatina, Pedale, Soleco and Tecnoenergy PV plants in Italy were sold on December 20, 2019, no amounts were outstanding in connection with project finance facilities of such PV plants as of December 31, 2019. The following is a brief description of the project finance agreements that existed during the year ended December 31, 2019.

Talasol Project Finance

On April 30, 2019, the Talasol Project reached financial closing, or the Talasol Project Finance. The Talasol Project Finance includes the following facilities:

- a. A term facility in the amount of approximately €65.9 million, 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 and synchronous with the applicable interest period described below) plus a margin determined based on the stage of the Talasol 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 Talasol 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 €4.45 million, 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 Talasol 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 €6.67 million, 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 1 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 Euribor synchronous with the applicable interest period described below plus a margin (expected to be 1.76%); and
- f. A revolving debt service reserve facility from the EIB in the amount of €4.45 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.

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 VAT facilities' interest period, however, remains on a monthly basis. 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.

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.

On April 30, 2019, Talasol entered into a swap agreement, replacing the Euribor 6 month rate with a fixed 6 month rate of approximately 0.9412%.

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.

As of December 31, 2019, we did not make withdrawals under the Talasol Project Finance. The only amount outstanding is from the VAT facility in the amount of approximately €0.1 million. We own 51% of Talasol and consolidate its results in our financial statements included elsewhere in this Report.

Rinconada II, Rodríguez I, Rodríguez II and Fuente Librilla 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., or, together, the Spanish Subsidiaries, entered into a facility agreement governing the procurement of project financing in the aggregate amount of approximately €8.4 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 our wholly-owned subsidiary, Ellomay Luxemburg), (ii) pledges over accounts, (iii) pledges over relevant agreements including hedging agreements; and (iv) promissory equipment mortgage.

As of December 31, 2019, the outstanding amounts under the Project Finance were approximately €6.2 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, 2019, the outstanding amount under the Talmei Yosef Project Finance was approximately NIS 74.9 million (approximately €9.3 million).

The Project Finance documents require that security interests be provided in connection with the following: (i) the Talmei Yosef project company's shares and rights in the Talmei Yosef PV Plant (ii) pledges over accounts, and (iii) pledges over future receivables from the sale of electricity

The Project Finance documents also require the Talmei Yosef project company to deposit funds for the renewal of equipment (approximately NIS 1.6 million as of December 31, 2019) as well as funds sufficient to cover its debt service required level which consists of six months payment of principal and interest (approximately NIS 5.2 million as of December 31, 2019).

WtE 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, Ellomay Luxembourg, 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 its rights in connection with the shareholders loans provided to Groen Goor, which loans shall also be subordinated by Ellomay Luxembourg 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 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, 2019, the outstanding amount under the Groen Goor Project Finance was approximately €4.6 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 Luxembourg 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, Ellomay Luxembourg, 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 its rights in connection with the shareholders loans provided to Oude Tonge, which loans shall also be subordinated by Ellomay Luxembourg 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 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, 2019, the outstanding amount under the Oude Tonge Project Finance was approximately €4.2 million.

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 Baa1.il/Stable by Midroog Ltd., an Israeli rating company affiliated with Moody's Investors Services, or Midroog.

On December 16, 2019, we announced that we will fully repay our Series A Debentures, subject to the execution of an agreement to sell our Italian PV portfolio. On December 23, 2020, following the sale of our Italian subsidiaries, the condition was fulfilled. On December 30, 2019, we transferred the repayment amount to the nominee company and on January 5, 2020, our Series A Debentures were repaid in full. Pursuant to the terms of the deed of trust governing the Series A Debentures, the early repayment amount was approximately NIS 80.1 million (approximately €20.8 million) in principal, the sum of approximately NIS 0.05 million (approximately €0.01 million) in accrued interest, and a prepayment charge of approximately NIS 5.7 million (approximately €1.5 million), amounting to an aggregate repayment amount of approximately NIS 85.9 million (approximately €22.3 million).

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 Baa1.il /Stable, on a local scale, by Midroog Ltd. For additional information concerning the Series B Debentures see “Item 10.C: Material Contracts.”

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 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 iLa- to iLBBB+ (by the previous rating company that rated the Series B Debentures, Standard & Poor's Maalot Ltd.), 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, with an increase of 0.5% in the annual interest rate for the period in which we do not meet each standard and up to an increase of 1% in the annual interest rate (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 and includes a mechanism for the update of the annual interest rate of the Series B Debentures in the event we do not meet certain financial standards. The financial covenants are as follows:

1. Our balance sheet 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 (which we calculate in line with the definition of balance sheet equity in the Series B Deed of Trust), on a consolidated basis, plus the Net Financial Debt, 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 annual interest update provision; and
3. The ratio of (a) our equity (which we calculate in line with the definition of balance sheet equity in the Series B Deed of Trust), on a consolidated basis, to (b) our balance sheet, on a consolidated basis, 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 annual interest update provision.

On September 25, 2019, we published our pro forma statement of financial position as at June 30, 2019, which indicated that the ratio of our equity (which we calculate in line with the definition of Balance Sheet Equity in the Series B Deed of Trust) to balance sheet as at June 30, 2019 was 29.2%, triggering a right of the holders of our Series B Debentures to an increase in the annual interest rate applicable to the Series B Debentures of 0.5% until such time as we publish financial results reflecting an increase in such ratio to a minimum of 30%. On December 31, 2019, we published our pro forma statement of financial position as at September 30, 2019, which indicated that the ratio of our equity, as set forth above, to balance sheet as of September 30, 2019 was 31.6%, triggering a decrease in the annual interest rate applicable to the Series B Debentures of 0.5% to its previous rate of 3.69%.

The Series B 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, 2019, the outstanding amount under the Series B Debentures was approximately NIS 104.7 million (approximately €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 4.15 under “Item 19. Exhibits.”

Series C Debentures

On July 25, 2019, we issued approximately NIS 89.1 million (approximately €22.7 million, as of the issuance date) of unsecured non-convertible Series C Debentures due June 30, 2025 through a public offering in Israel. The gross proceeds of the offering were approximately NIS 89.1 million and the net proceeds of the offering, net of related expenses such as consultancy fee and commissions, were approximately NIS 87.6 million (approximately €22.3 million). The Series C Debentures are traded on the TASE.

The principal amount of Series C Debentures is repayable in five (5) unequal annual installments as follows: on June 30, 2021 10% of the principal shall be paid, on June 30 of each of the years 2022 and 2023, 15% of the principal shall be paid and on June 30 of each of the years 2024 and 2025, 30% of the principal shall be paid. The Series C Debentures bear a fixed interest at the rate of 3.3% per year (that is not linked to the Israeli CPI or otherwise), payable semi-annually on June 30 and December 31 commencing December 31, 2019 through June 30, 2025 (inclusive).

The Series C Deed of Trust includes customary provisions, including (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 failure to maintain certain financial covenants, with an increase of 0.25% in the annual interest rate for the period in which we do not meet each standard and up to an increase of 0.5% in the annual interest rate. The Series C 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 C Debentures provided that: (i) we are not in default of any of the immediate repayment provisions included in the Series C Deed of Trust or in breach of any of our material obligations to the holders of the Series C Debentures pursuant to the terms of the Series C Deed of Trust, (ii) the expansion will not harm our compliance with the financial covenants included in the distribution undertaking Series C Deed of Trust and (iii) to the extent the Series C Debentures are rated at the time of the expansion, the expansion will not harm the rating of the existing Series C Debentures.

The Series C Deed of Trust includes a number of customary causes for immediate repayment, including a default with certain financial covenants for two consecutive financial quarters, and includes a mechanism for the update of the annual interest rate of the Series B Debentures in the event we do not meet certain financial standards. The financial covenants are as follows:

1. Our balance sheet equity, on a consolidated basis, shall not be less than €50 million for purposes of the immediate repayment provision and shall not be less than €60 for purposes of the annual interest update provision;
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 (which we calculate in line with the definition of Balance Sheet Equity in the Series C Deed of Trust), on a consolidated basis, plus the Net Financial Debt, or our CAP, Net, to which we refer herein as the Ratio of Net Financial Debt to CAP, Net, shall not exceed the rate of 67.5% for purposes of the immediate repayment provision and shall not exceed a rate of 60% for purposes of the annual interest update provision; and

3. The ratio of (a) our Net Financial Debt, to (b) our earnings before financial expenses, net, taxes, depreciation and amortization, where the revenues from our operations, such as the Talmei Yosef project, are calculated based on the fixed asset model and not based on the financial asset model (IFRIC 12), and before share-based payments, based on the aggregate four preceding quarters, or our Adjusted EBITDA, to which we refer to herein as the Ratio of Net Financial Debt to Adjusted EBITDA, shall not be higher than 12 for purposes of the immediate repayment provision and shall not be higher than 10 for purposes of the annual interest update provision.

The Series C 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 B Deed of Trust and set forth above. We are also required to maintain the following financial ratios (which are calculated based on the same definitions applicable to the financial standards set forth above) after the distribution: (i) balance sheet equity not lower than €70 million, (ii) Ratio of Net Financial Debt to CAP, Net not to exceed 60%, and (iii) Ratio of Net Financial Debt to Adjusted EBITDA, shall not be higher than 8, and not to make distributions if we do not meet all of our material obligations to the holders of the Series C Debentures and if on the date of distribution and after the distribution a cause for immediate repayment exists.

As of December 31, 2019, the outstanding amount under the Series C Debentures was approximately NIS 89.1 million (approximately €23 million).

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

On March 30, 2020, our Board of Directors approved a plan to repurchase our Debentures in an aggregate amount of up to NIS 15 million for a six month period. The timing, volume and nature of repurchases will be at the sole discretion of management and will depend on market conditions, the price and availability of our Debentures, and other factors. No assurance can be given that any particular amount of Debentures will be repurchased and the repurchase plan does not obligate the Company to acquire a specific amount of Debentures in any period.

We currently have no agreements, commitments or understandings for additional financing, however we will require additional funds in order to advance the Manara PSP and other projects under development or that will be developed in the future.

Cash flows

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

	2019	Year ended December 31,		2019
		2018	2017	Convenience Translation into US\$*
	euro			
	(in thousands)			
Net cash from operating activities	3,712	6,590	2,305	4,164
Net cash used in investing activities	(68,862)	(5,795)	(27,343)	(77,275)
Net cash from financing activities	72,518	12,258	29,670	81,375
Effect of exchange rate fluctuations on cash and cash equivalents	259	(133)	(3,156)	294
Increase in cash and cash equivalents	7,627	12,920	1,476	8,558
Cash and cash equivalents at beginning of year	36,882	23,962	22,486	41,388
Cash and cash equivalents at end of year	44,509	36,882	23,962	49,946

* Convenience translation into USD based on an exchange rate of euro 1 = US\$1.122.

Operating activities

In the year ended December 31, 2019, we had net profit of approximately €9.8 million, primarily due to the profit recorded in connection with the sale of ten Italian subsidiaries in December 2019 in the amount of approximately €18.8 million. Net cash from operating activities was approximately €3.7 million.

In the year ended December 31, 2018, we had net profit of approximately €0.6 million, primarily due to increased 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 Talmey 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.

Investing activities

Net cash used in investing activities was approximately €68.9 million in the year ended December 31, 2019, primarily attributable to funds transferred to the nominee company in connection with the early repayment of the Series A Debentures and to investments in the Talasol Project partially offset by the consideration received in connection with the sale of our Italian subsidiaries in December 2019.

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.

Financing activities

Net cash from financing activities in the year ended December 31, 2019 was approximately €72.5 million, derived primarily from the shareholder loans injected by our partners that hold 49% in the Talasol Project, the financing of our Spanish PV Plants, the issuance of the Series C Debenture and the private placement of our ordinary shares, partially offset by prepaid expenses in connection with the Talasol project finance.

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.

For more information concerning hedging transactions undertaken in connection with financings granted at EURIBOR linked interest, in connection with 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 2019, we issued the Series C Debentures, issued ordinary shares in a private placement and obtained project finance for our Spanish PV Plants and for the Talasol Project. For more information see “General,” “Series C Debentures” under “Other Financing Activities” and “Project Finance” above and Notes 11, 12 and 16 to our financial statements included in this Report.

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 our 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.

As of December 31, 2019, we were not in default under any financial covenants pursuant to the agreements set forth above.

As of December 31, 2019, our total current assets amounted to approximately €83.1 million, of which approximately €44.5 million was in cash and cash equivalents and approximately €2.2 million was in marketable securities, compared with total current liabilities of approximately €37.7 million.

As of December 31, 2018, our total current assets amounted to approximately €58.9 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 €19.8 million.

The increase in our cash and marketable securities balance is mainly attributable to the cash received in connection with the issuance of the Series C Debentures, the sale of our Italian PV plants, the sale of 49% of Talasol, the private placement of our ordinary shares, the financing of our Spanish PV Plants and the cash collected in connection with the sale of electricity, net of amounts invested in new operations, repayment of loans and general and administrative expenses.

Outstanding Warrants

As of March 15, 2020, we had outstanding warrants to purchase a total of 178,750 ordinary shares, all of which are currently exercisable. All of these warrants were granted to the investors participating in our private placement in February 2020 and are exercisable at NIS 80.00 per share no later than February 18, 2021.

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

We did not conduct any research and development activities in the years ended December 31, 2017, 2018 and 2019.

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 four PV Plants in Spain, our PV Plant in Israel, two WtE projects in the Netherlands, the Talasol Project (of which we own 51%), our ownership of 50% of the issued and outstanding shares of Dori Energy and our ownership of 75% of the Manara PSP (including 6.67% that are held by a trustee in trust for us and other parties). 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 2017-2019 do not reflect a full three-years of operations of such projects. In addition, as we sold our Italian subsidiaries that held twelve PV plants on December 20, 2019, our results for 2017-2019, which include the revenues from such plants, are not indicative of our future results. The Talasol Project is in the construction stage and the Manara PSP has 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 from the sale of the electricity produced by our facilities 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 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 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, 2019, 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⁾	100,415	5,075	15,551	12,644	67,145
Debentures (including current maturities) ⁽¹⁾	78,235	28,718	18,084	24,430	7,003
Lease liability	25,859	462	806	2,417	22,174
SWAP contracts	7,685	766	2,682	2,172	2,065
FW contracts	252	-	252	-	-
Total	212,446	30,021	37,375	41,663	98,387

* 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.

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 15, 2020:

<u>Name</u>	<u>Age</u>	<u>Position with Ellomay</u>
Shlomo Nehama ⁽¹⁾⁽²⁾	65	Chairman of the Board of Directors
Ran Fridrich ⁽¹⁾⁽²⁾⁽³⁾	67	Director and Chief Executive Officer
Hemi Raphael ⁽¹⁾⁽²⁾	68	Director
Anita Leviant ⁽¹⁾⁽³⁾⁽⁴⁾⁽⁵⁾	65	Director
Mordechai Bignitz ⁽⁴⁾⁽⁵⁾⁽⁶⁾	68	Director
Dr. Michael J. Anghel ⁽⁴⁾⁽⁵⁾⁽⁶⁾	81	Director
Kalia Weintraub	41	Chief Financial Officer
Ori Rosenzweig	43	Chief Investment Officer
Yehuda Saban	41	Director of Operations for Israel and EVP of Business Development

- (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., 18 Rothschild Boulevard, 1st floor, Tel Aviv 6688121, 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 until March 2020 served 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. From 2014 through 2020, Mr. Bignitz served as a director of ARAD Investment and Industrial Development Ltd. (TASE: ARAD) and commencing 2020, Mr. Bignitz serves as a director of ARAD 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 served as an external director of Ellomay since January 24, 2019. From 1977 to 1999, Dr. Anghel led the Discount Investment Corporation Ltd. (one of the major Israeli industrial holding groups) 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 - a technology venture company. From 2004 to 2005, Dr. Anghel served as CEO of DCM, the investment banking arm of the Israel Discount Bank. He led and took part in founding 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 InMode Ltd. (NASDAQ: INMD) 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 was 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.

Yehuda Saban has served as our Director of Operations for Israel and EVP of Business Development since April 2019. Mr. Saban served between 2011- mid 2015 as Executive Vice President Economics & Regulation at Delek Drilling, the biggest oil and gas company in Israel. Previously, Mr. Saban served over six years in various capacities with the budget department of the Israeli Ministry of Finance as Manager of the Telecommunications and Tourism unit, Manager of the Budget and Macroeconomics unit and as an economist in the Energy unit. During those years, Mr. Saban was also an active partner in a number of committees and authorities in the energy, telecommunications and infrastructure fields. Mr. Saban serves as a member of the board of directors of Partner Communications Ltd. (NASDAQ and TASE: PTNR, one of the biggest telecommunication companies in Israel) and of Israel Opportunity Energy Resources LP (TASE: ISOP) and as chairman of its compensation and audit committee as of June 2015. Prior to joining Ellomay, Mr. Saban managed projects and business development for Hutchinson Water between the years 2015-2017. Mr. Saban holds a B.A. in Economics & Business Management (graduated with great honors) and an M.B.A specializing in Financing, both from the Hebrew University in Jerusalem.

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. On April 1, 2019, Yehuda Saban was appointed as out Director of Operations for Israel and EVP of Business Development.

B. Compensation

General

Salaries, fees, commissions, share compensation 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, 2019 was approximately €80million, including an amount of approximately €6 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, 2019. All amounts reported in the table below are as recognized in our financial statements for the year ended December 31, 2019.

Name and Position	Salary ⁽¹⁾	Management Fees	Bonus	Share-Based Payment	Total
	(euro in thousands)				
Shlomo Nehama, <i>Chairman of the Board</i>	-	186 ⁽²⁾	-	-	186 ⁽²⁾
Ran Fridrich, <i>CEO and Director</i>	-	93 ⁽²⁾⁽³⁾	-	-	93 ⁽²⁾⁽³⁾
Yehuda Saban, <i>Director of Operations for Israel and EVP of Business Development</i>	280 ⁽⁴⁾	-	-	-	280 ⁽⁴⁾
Kalia Weintraub, <i>Chief Financial Officer</i>	240	-	25	-	265
Ori Rosenzweig, <i>Chief Investment Officer</i>	232	-	92	29	353

- (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.
- (4) Mr. Saban was appointed as an officer of the Company commencing April 1, 2019. Prior to such appointment, Mr. Saban provided consulting services to one of our subsidiaries. The amount in the table includes all remuneration paid to Mr. Saban during 2019.

Other than options granted to members of our Board of Directors, there are 14,803 outstanding options to purchase ordinary shares that were granted during 2019 to our employees. 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 €385 as of March 15, 2020) 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 52,895 (equivalent to approximately €12,971 as of March 15, 2020) and an attendance fee of NIS 1,870 (equivalent to approximately €459 as of March 15, 2020) 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 term of the 1998 Plan has been 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). Currently, the options granted to non-employee directors 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

The Companies Law provides 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 this Item is an office holder.

Compensation Policy

The Companies Law 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. The Companies Law 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 on June 19, 2019, or the 2019 Shareholders Meeting, our shareholders ratified and approved our 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 4.14 under Item 19.

Approval Process of Terms of Service and Employment of Office Holders

The Companies Law 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. Our most recent annual meeting (the 2019 Shareholders Meeting), was held on June 19, 2019. 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, Mr. Bignitz, Dr. 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 2019, 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 (even 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

The Companies Law 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, the Companies Law 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.

The Companies Law 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 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 determined 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.

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, 2019, 2018 and 2017, we had ten (11) employees. As of December 31, 2019, all of our employees were in management, finance and administration. Nine employees were located in Israel, one employee is located in Spain and one employee in the Netherlands.

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 15, 2020, 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	32.9%
Hemi Raphael ⁽³⁾⁽⁵⁾	2,960,369	24.3%
Ran Fridrich ⁽⁴⁾⁽⁵⁾	2,622,632	21.5%
Anita Leviant ⁽⁶⁾	9,000	*
Mordechai Bignitz ⁽⁶⁾	6,583	*
Dr. Michael J. Anghel ⁽⁶⁾	500	*
Kalia Weintraub	-	-
Ori Rosenzweig	-	-
Yehuda Saban	-	-

* 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 15, 2020 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 12,194,094 ordinary shares outstanding as of March 15, 2020. 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 29.1% of our outstanding ordinary shares, and (ii) 464,973 ordinary shares held directly by Mr. Nehama, which constitute approximately 3.8% 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 32.9% of our outstanding ordinary shares.
- (3) The 2,960,369 ordinary shares beneficially owned by Mr. Raphael consist of: (i) 2,605,845 ordinary shares held by Kanir, which constitute approximately 21.4% of our outstanding share capital, (ii) 314,514 ordinary shares held by a BVI private company wholly-owned by Mr. Raphael, which constitute approximately 2.6% of our outstanding shares and (iii) 40,010 ordinary shares held directly by Mr. Raphael, which constitute approximately 0.3% 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 21.4% of our outstanding share capital and (ii) 16,787 ordinary shares held directly by Mr. Fridrich, which constitute approximately 0.1% 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 50.5% of our outstanding ordinary shares, and holds shared dispositive power with respect to 5,660,466 ordinary shares, which constitute 46.4% 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 54.3%, 53.4% and 50.6%, respectively, of our 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, 2020 to August 1, 2028 and exercise prices per share ranging between \$5.55 - \$13 (ii) Mordechai Bignitz holds currently exercisable options to purchase 7,583 ordinary shares with expiration dates ranging from December 20, 2021 to August 1, 2028 and exercise prices per share ranging between \$5.55 - \$13 and (iii) Dr. Michael J. Anghel holds currently exercisable options to purchase 500 ordinary shares with an expiration date of January 24, 2029 and an exercise price per share of \$8.41.

Our directors currently hold, in the aggregate, options to purchase 20,083 ordinary shares. The options have a weighted average exercise price of approximately \$8.83 per share and have expiration dates until 2029. During the years ended December 31, 2017, 2018 and 2019 each of Anita Leviant and Mordechai Bignitz, both of whom are 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 director under the 1998 Plan and an additional award of options to purchase 1,000 shares on August 1, 2019. 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 17,083 ordinary shares are currently exercisable and options to purchase 3,000 ordinary shares will become exercisable on August 1, 2020.

In June 2019, we granted options to purchase 9,869 ordinary shares to Mr. Ori Rosenzweig, our Chief Investment Officer. The options vest in equal installments on an annual basis over a period of three years and have an exercise price of \$11.19 per ordinary share. Other than Mr. Rosenzweig, 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, 2019, December 31, 2019 and March 15, 2020, there were 30,416, 33,916 and 33,916 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 15, 2020, there were 14,803 options outstanding under the 2000 Plan. The number of additional ordinary shares available for issuance under the 2000 Plan, as of January 1, 2019, December 31, 2019 and March 15, 2020, was 595,009, 580,206 and 580,206, respectively.

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 15, 2020, 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	32.9%
Kanir Joint Investments (2005) Limited Partnership ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	2,605,845	21.4%
The Phoenix Holdings Ltd. ⁽⁸⁾	844,064	6.9%
Yelin Lapidot Holdings Management Ltd. ⁽⁹⁾	1,168,953	9.6%
Clal Insurance Enterprises Holdings Ltd. ⁽¹⁰⁾	824,743	6.7%
Harel Insurance Investments & Financial Services Ltd. ⁽¹¹⁾	650,176	5.3%

- (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 15, 2020 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 12,194,094 ordinary shares outstanding as of March 15, 2020. 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 29.1% of our outstanding ordinary shares and (ii) 464,973 ordinary shares held directly by Mr. Nehama, which constitute approximately 3.8% 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 32.9% 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), 24.3% and 21.5%, 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 354,524 ordinary shares, consisting of: (i) 314,514 ordinary shares held by a BVI private company wholly-owned by Mr. Raphael, which constitute approximately 2.6% of our outstanding shares and (ii) 40,010 ordinary shares held directly by Mr. Raphael, which constitute approximately 0.3% 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 2.9% of our outstanding ordinary shares. Mr. Fridrich directly owns 16,787 ordinary shares, which constitute approximately 0.1% 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 50.5% of our outstanding ordinary shares, and holds shared dispositive power with respect to 5,660,466 ordinary shares, which constitute 46.4% 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 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 our 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 our 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 our outstanding 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/A filed on February 18, 2020 by Mr. Itshak Sharon (Tshuva), Delek Group Ltd. and The Phoenix Holdings Ltd. and other information available to us. The 844,064 ordinary shares beneficially owned include 825,314 ordinary shares and 18,750 ordinary shares underlying currently exercisable warrants issued in connection with the 2020 Private Placement. According to the Schedule 13G/A and other information available to us in connection with the 2020 Private Placement: (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, as follows: (a) 12,608 ordinary shares, which represents a beneficial ownership of approximately 0.1% of our ordinary shares, by Excellence trust funds, (b) 149,844 ordinary shares (including 3,750 ordinary shares issuable upon the exercise of currently exercisable warrants), which represents a beneficial ownership of approximately 1.2% of our ordinary shares, by The Phoenix "nostro" accounts, (c) 664,870 ordinary shares (including 15,000 ordinary shares issuable upon the exercise of currently exercisable warrants), which represents a beneficial ownership of approximately 5.4% of our ordinary shares, by a Partnership for Israeli shares, and (d) 16,742 ordinary shares, which represents a beneficial ownership of approximately 0.1% of our ordinary shares, by a Partnership for investing in shares indexes, (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, and (iii) each of the Phoenix Subsidiaries operates under independent management and makes its own independent voting and investment decisions. Based on the Schedule 13G/A submitted on February 18, 2020, effective as of November 3, 2019, the Phoenix Holdings Ltd. is no longer controlled by Delek Group Ltd. (which is controlled by Itshak Sharon (Tshuva) through private companies wholly-owned by him).
- (9) Based on a Schedule 13G/A submitted on January 9, 2020 by Mr. Dov Yelin, Mr. Yair Lapidot, Yelin Lapidot Holdings Management Ltd, or Yelin Lapidot, and Yelin Lapidot Mutual Funds Management Ltd. According to the Schedule 13G/A: (i) the securities reported therein are beneficially owned as follows: (a) 876,156 ordinary shares, which constitute approximately 7.2% of our outstanding ordinary shares, by mutual funds managed by Yelin Lapidot Mutual Funds Management Ltd., and (b) 292,797 ordinary shares, which constitute approximately 2.4% of our outstanding ordinary shares, by provident funds managed by Yelin Lapidot Provident Fund Management Ltd., (ii) both Yelin Lapidot Mutual Funds Management Ltd. and Yelin Lapidot Provident Fund Management Ltd. are wholly-owned subsidiaries of Yelin Lapidot and operate under independent management and make their own independent voting and investment decisions, and (iii) Messrs. Yelin and Lapidot each own 24.38% of the share capital and 25.004% of the voting rights of Yelin Lapidot, and are responsible for the day-to-day management of Yelin Lapidot. Pursuant to the Schedule 13G, any economic interest or beneficial ownership in any of the securities covered by the Schedule 13G is held for the benefit of the members of the provident funds or mutual funds, as the case may be, and each of Messrs. Yelin and Lapidot, Yelin Lapidot, and wholly-owned subsidiaries of Yelin Lapidot disclaims beneficial ownership of any such securities.
- (10) Based on a Schedule 13G submitted on March 5, 2020 by Clal Insurance Enterprises Holdings Ltd., or Clal. Based on the Schedule 13G, of the 824,743 ordinary shares: (i) 149,743 ordinary shares (including 25,000 ordinary shares issuable upon the exercise of currently exercisable warrants), are beneficially held for Clal's own account and (ii) 675,000 ordinary shares (including 135,000 ordinary shares issuable upon the exercise of currently exercisable warrants), are held for members of the public through, among others, provident funds and/or pension funds and/or insurance policies, which are managed by subsidiaries of Clal, which subsidiaries operate under independent management and make independent voting and investment decisions. Consequently, Clal notes in the Schedule 13G that the Schedule 13G will not constitute an admission that it is the beneficial owner of more than 149,743 ordinary shares.
- (11) Based on a Schedule 13G submitted on March 26, 2020 by Harel Insurance Investments & Financial Services Ltd., or Harel. Based on the Schedule 13G, of the 650,176 ordinary shares reported as beneficially owned by Harel: (i) 636,967 ordinary shares are held for members of the public through, among others, provident funds and/or mutual funds and/or pension funds and/or insurance policies and/or exchange traded funds, which are managed by subsidiaries of Harel, each of which subsidiaries operates under independent management and makes independent voting and investment decisions, (ii) 13,189 ordinary shares are held by third-party client accounts managed by subsidiaries of the Harel as portfolio managers, each of which subsidiaries operates under independent management and makes independent investment decisions and has no voting power in the securities held in such client accounts, and (iii) 20 ordinary shares are beneficially held for Harel's own account. Consequently, Harel notes in the Schedule 13G that the Schedule 13G shall not be construed as an admission by Harel that it is the beneficial owner of more than 20 ordinary shares.

Significant Changes in the Ownership of Major Shareholders

On February 18, 2019, Mr. Itshak Sharon (Tshuva), Delek Group Ltd. and The Phoenix Holdings Ltd. submitted a Schedule 13G to the SEC indicating that they beneficially own 895,618 ordinary shares, which at the time constituted 8.39% of our outstanding ordinary shares. On July 30, 2019, Mr. Dov Yelin, Mr. Yair Lapidot and Yelin Lapidot Holdings Management Ltd submitted a Schedule 13G to the SEC indicating that they beneficially own 642,318 ordinary shares, which at the time constituted 5.6% of our outstanding ordinary shares. On January 9, 2020, Mr. Dov Yelin, Mr. Yair Lapidot and Yelin Lapidot Holdings Management Ltd submitted an amendment to a Schedule 13G to the SEC indicating that they beneficially own 1,168,953 ordinary shares, which at the time constituted 10.2% of our outstanding ordinary shares. On February 18, 2020, Mr. Itshak Sharon (Tshuva), Delek Group Ltd. and The Phoenix Holdings Ltd. submitted an amendment to their Schedule 13G to the SEC indicating that Mr. Sharon and Delek Group Ltd. no longer beneficially own any shares of our company and that The Phoenix Holdings Ltd. held, as of December 31, 2019, 750,314 ordinary shares, which, at the time, constituted 6.5% of our outstanding ordinary shares. On February 18, 2020 we issued to The Phoenix Holdings Ltd. and to an affiliated entity an aggregate of 75,000 ordinary shares and warrants to purchase an aggregated of 18,750 ordinary shares in connection with the February 2020 Private Placement. On March 5, 2020, Clal Insurance Enterprises Holdings Ltd. submitted a Schedule 13G to the SEC indicating that they beneficially own 824,743 ordinary shares, which represents a beneficial ownership of 6.7% of our outstanding ordinary shares. On March 26, 2020, Harel Insurance Investments & Financial Services Ltd. submitted a Schedule 13G to the SEC indicating that it beneficially owns 650,176 ordinary shares, which represents a beneficial ownership of 5.3% of our outstanding ordinary shares.

Based on information available to us and on an amendment to a Schedule 13D submitted to the SEC on November 13, 2019 by Kanir, Kanir Investments, Mr. Raphael, Mr. Fridrich, S. Nechama, Mr. Nehama, Bonstar, Mr. Joseph Mor and Mr. Ishay Mor, Kanir sold an aggregate of 180,552 ordinary shares, which represent 1.5% of our outstanding ordinary shares. Based on information available to us, during 2020, each of Messrs. Raphael and Fridrich sold 100,000 ordinary shares, which represent 0.8% of our outstanding ordinary shares.

Record Holders

Based on a review of the information provided to us by our transfer agent, as of March 15, 2020, there were 38 record holders of ordinary shares, of which 9 represented United States* record holders holding approximately 39.8% of our outstanding ordinary shares (including approximately 39.5% 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 52.7% 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 €372,000), 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 2019 Shareholders Meeting, following the approval of our Audit Committee, Compensation Committee and Board, our shareholders approved certain amendments and 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, 2022, (ii) the termination of service of all of the Kanir and Nechama Investments nominees on our Board of Directors, (iii) a date that is six (6) months following the delivery of a written termination notice by Meisaf and Kanir to the Company or by the Company to Meisaf and Kanir, or (iv) the cessation of provision of Chairman and CEO services.

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.

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 deeds of trust governing our Debentures. 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 and 2019.

The terms of the deeds 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, 2019.

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.

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.

Limitations on the Rights to Own Securities in Our Company

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 acquirer 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 amendments to the Management Agreement filed by us as Exhibit 4.10 and Exhibit 4.8 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 4.7 and 4.8 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 4.15 under Item 19.

Series C Deed of Trust

For a description of our debt agreements, including the Series C Deed of Trust governing our Series C Debentures, see “Item 5.B: Operating and Financial Review and Prospects – Liquidity and Capital Resources.”

The descriptions of the Series C 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 C Deed of Trust filed by us as Exhibit 4.19 under Item 19.

Sale of Italian PV Portfolio

For a description of the agreement for the sale of our Italian subsidiaries, see “Item 4.A: Recent developments.”

The descriptions of the sale and purchase agreement does not purport to be complete and is qualified by reference to the full text of the sale and purchase agreement filed by us as Exhibit 4.20 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.

Taxation of Non-Israeli Residents

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 investor U.S. Holder (as defined below) 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 address all federal income tax consequences that may be relevant to particular persons, and does not take into account the specific circumstances of any particular persons, including, but not limited to:

- tax-exempt entities or any individual retirement account or Roth IRA;
- banks and other financial institutions;
- insurance companies;
- real estate investment trusts and regulated investment companies;
- broker dealers;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons liable for alternative minimum tax;
- “U.S. shareholders” (as defined in Code Section 951(b), generally persons owning directly, indirectly or constructively at least 10% of our shares by vote or value);
- persons that hold ordinary shares as part of a straddle, hedge, conversion transaction or other integrated transaction;
- U.S. expatriates;
- persons whose functional currency is not the U.S. dollar;
- persons that are residents of or have a permanent establishment in a jurisdiction outside the United States or persons who are not U.S. Holders; and
- persons who acquired the shares pursuant to the exercise of any employee share option or otherwise as compensation.

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.

Taxation of U.S. Holders

Distributions on Ordinary Shares. Subject to the discussion in “Passive Foreign Investment Company” 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 corporate U.S. Holders.

With respect to non-corporate U.S. Holders, dividends may qualify as “qualified dividend income” which is eligible for reduced rates of taxation provided that (1) we are eligible for the benefits of the income tax treaty between the United States and Israel or with respect to any dividend paid on shares which are readily tradable on an established securities market in the United States; (2) we are not a PFIC (as defined below) for either the taxable year in which the dividend was paid or the preceding taxable year; (3) the U.S. Holder satisfies certain holding period requirements; and (4) the U.S. Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property. A corporate U.S. Holder (and a non-corporate 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 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. Subject to specific requirements, certain U.S. Holders 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. U.S. Holders should consult with their tax advisors regarding the effect, if any, of this tax on the 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 (1) 75% or more of its gross income is passive income or (2) 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. Holder 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 2019. 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 U.S. Holders hold ordinary shares, such U.S. Holders will be subject to special tax rules with respect to any “excess distribution” that they receive and any gain that they realize from a sale or other disposition (including a pledge) of the ordinary shares, unless such U.S. Holders make a “mark-to-market” election as discussed below. Distributions that each U.S. Holder receives in a taxable year that are greater than 125% of the average annual distributions that such U.S. Holder received during the shorter of the three preceding taxable years or such U.S. Holder’s 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 each U.S. Holder’s 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 a U.S. Holder holds 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.

A U.S. Holder may not avoid taxation under the rules described above by making a “qualified electing fund” election to include such U.S. Holder’s 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 a U.S. Holder makes a mark-to-market election for the ordinary shares, such U.S. Holder 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 such U.S. Holder’s taxable year over such U.S. Holder’s adjusted basis in such ordinary shares. A U.S. Holder is 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 a U.S. Holder’s income for prior taxable years. Amounts included in a U.S. Holder’s 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. Each U.S. Holder’s 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. U.S. Holders should consult their tax advisors 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 U.S. Holders should consult their tax advisors.

If a U.S. Holder holds ordinary shares in any year in which we are a PFIC, such U.S. Holder is generally required to file Internal Revenue Service Form 8621 every year. U.S. Holders should consult their tax advisors regarding their PFIC shareholder reporting obligation in connection with their investment.

U.S. Information and Backup Withholding. Dividends and proceeds from the sale or exchange of shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number on a properly completed Internal Revenue Service Form W-9 or otherwise properly establishes an exemption from backup withholding. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder’s U.S. federal income tax liability, if any, and such U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund and furnishing any required information to the Internal Revenue Service.

Foreign Financial Asset Reporting. 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. U.S. Holders should consult with their tax advisors regarding the requirements of filing IRS Form 8938 under these rules.

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 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://mava.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. We utilize interest rate swap derivatives to convert certain floating-rate debt to fixed-rate debt. Our interest rate swap derivatives involve an agreement to pay a fixed-rate interest and receive a floating-rate interest, at specified intervals, calculated on an agreed notional amount that matches the amount of the original loan and paid on the same installments and maturity dates. In the future, we may enter into additional interest rate swaps or other derivatives contracts to further hedge our exposure to fluctuations 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, 2019:

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%). This transaction is connected to an Italian subsidiary and on December 23, 2019, we sold this indirect wholly-owned subsidiary.

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%. This transaction is connected to an Italian subsidiaries and on December 23, 2019, we sold the indirect wholly-owned subsidiaries.

A euro 17.6 million interest swap transaction for a period of 18 years, payable semi-annually commencing on March 12, 2019, whereby we are the fixed rate payer (the fixed rate is set at 3%).

The principal of the interest rate swap transaction is based on a pre-determined sculptured repayment schedule in the maximum amount of Euro 131 million for a period of 12 years, payable semi-annually commencing on April 30, 2019, whereby we are the fixed rate payer (the fixed rate is set at 2.92% - 3.69%).

For more information concerning hedging transactions, see Note 21 to our financial statements included elsewhere in this Report.

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, 2019	
	Increase	Decrease
	Equity	Equity
	€ thousands	
Change in the exchange rate of:		
5% in the USD	185	(185)
5% in NIS	412	(412)

	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

A change in interest rate would have increased (decreased) profit or loss by the amounts shown below:

	December 31,	
	2019	2018
	Profit or loss	Profit or loss
	€ in thousands	
Increase of 1%	580	1,012
Increase of 3%	1,701	2,604
Decrease of 1%	(542)	(581)
Decrease of 3%	(1,663)	(2,172)

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, 2019. 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, 2019, 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, 2019 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:
https://d1io3yog0oux5.cloudfront.net/e3111ca667e22f9c04e6965ab5256a4b/ellomay/db/222/2287/file/Code_of_Business_Conduct_and_Ethics.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 Somekh Chaikin and other KPMG member firms.

	2018	2019
	(euro in thousands)	
Audit Fees ⁽¹⁾	192	236
Audit-Related Fees ⁽²⁾	25	34
Tax Fees ⁽³⁾	39	31
Total	256	301

(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 performed during the fiscal year.

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-102 of this report.

The Financial statements of Dorad Energy Ltd. are included in pages FD-1 – FD-51 of this report.

ITEM 19: Exhibits

Number	Description
<u>1.1</u>	<u>Memorandum of Association of the Registrant (translated from Hebrew), reflecting amendments through June 9, 2011⁽¹⁾</u>
<u>1.2</u>	<u>Second Amended and Restated Articles of the Registrant, reflecting amendments through June 21, 2018⁽²⁾</u>
<u>2.1</u>	<u>Specimen Certificate for ordinary shares⁽³⁾</u>
<u>2.2</u>	<u>Description of Rights of Securities Registered Under Section 12 of the Exchange Act</u>
<u>4.1</u>	<u>1998 Share Option Plan for Non-Employee Directors</u>
<u>4.2</u>	<u>2000 Stock Option Plan</u>
<u>4.3</u>	<u>Form of Indemnification Undertaking between the Registrant and its officers and directors, granted until June 21, 2018⁽¹⁾</u>
<u>4.4</u>	<u>Form of Indemnification Undertaking and Exemption between the Registrant and its officers and directors, granted following June 21, 2018⁽⁴⁾</u>
<u>4.5</u>	<u>Form of Registration Rights Agreement, dated September 12, 2005, among the Registrant, certain investors, Bank Hapoalim, Bank Leumi and Israel Discount Bank⁽⁵⁾</u>
<u>4.6</u>	<u>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⁾</u>
<u>4.7</u>	<u>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)*}</u>
<u>4.8</u>	<u>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)^{(2)*}</u>
<u>4.9</u>	<u>Rinconada II Building Right Agreement (summary of Spanish version)^{(3)*}</u>
<u>4.10</u>	<u>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⁾</u>
<u>4.11</u>	<u>Rodríguez I Lease Agreements (summary of Spanish version)^{(9)*}</u>
<u>4.12</u>	<u>Rodríguez II Lease Agreements (summary of Spanish version)^{(9)*}</u>
<u>4.13</u>	<u>Fuente Librilla Lease Agreement (summary of Spanish version)^{(9)*}</u>
<u>4.14</u>	<u>Updated Directors and Officers Compensation Policy, adopted July 5, 2016⁽¹⁰⁾</u>
<u>4.15</u>	<u>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)⁽¹¹⁾</u> *
<u>4.16</u>	<u>Talmei Yosef Lease Agreement (summary of Hebrew version)⁽¹⁰⁾</u>

Number	Description
4.17	Talasol Lease Agreements (summary of Spanish versions)*
4.18	Amendment No. 3 to Management Services Agreement, by and among the Registrant, Kanir Joint Investments (2005) Limited Partnership and Meisaf Blue & White Holdings Ltd., dated June 19, 2019
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)⁽¹²⁾
	*
4.20	Sale and Purchase Agreement between Ellomay Luxembourg Holdings S.a.r.l and Sonnedix San Davide S.r.l, executed on December 20, 2020
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, 2012 and incorporated by reference herein.
- (3) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2011 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, 2014 and incorporated by reference herein.
- (10) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2017 and incorporated by reference herein.
- (11) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
- (12) Included in the Registrant's Form 6-K dated September 25, 2019 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: April 7, 2020

Ellomay Capital Ltd. and its Subsidiaries

**Consolidated Financial
Statements
As at December 31, 2019**

Consolidated Financial Statements as at December 31, 2019

Contents	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Statements of Financial Position</u>	F-3
<u>Consolidated Statements of Profit or Loss and Other Comprehensive Income (Loss)</u>	F-4
<u>Consolidated Statements of Changes in Equity</u>	F-5 - F-7
<u>Consolidated Statements of Cash Flows</u>	F-8 - F-9
<u>Notes to the Consolidated Financial Statements</u>	F-10 - F-102



Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, 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, 2019 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 3B of the notes to the consolidated financial statements.

Change in Accounting Principle

As discussed in note 2C to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019, due to the adoption of International Financial Reporting Standard No.16, Leases.

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
April 7, 2020

Consolidated Statements of Financial Position

		December 31,		
		2019	2018	2019
				Convenience Translation into US\$ in thousands (Note 3B)
	Note	€in thousands		
Assets				
Current assets:				
Cash and cash equivalents	4	44,509	36,882	49,946
Marketable securities	5	2,242	2,132	2,516
Short term deposits	5	6,446	-	7,233
Restricted cash	5	22,162	*1,315	24,869
Receivable from concession project	6D	1,463	1,292	1,642
Financial assets	6B	1,418	1,282	1,591
Trade and other receivables	7	4,882	12,623	5,478
		83,122	55,526	93,275
Non-current assets				
Investment in equity accounted investee	6A	33,561	27,746	37,661
Advances on account of investments	6B	883	798	991
Receivable from concession project	6D	27,122	25,710	30,435
Fixed assets	8	114,389	87,220	128,363
Right-of-use asset	14	15,401	-	17,282
Intangible asset	6D	5,042	4,882	5,658
Restricted cash and deposits	5	10,956	*5,400	12,294
Deferred tax	19	2,285	2,423	2,564
Long term receivables	7	12,249	1,455	13,746
Derivatives		5,162	-	5,793
		227,050	155,634	254,787
Total assets		310,172	211,160	348,062
Liabilities and Equity				
Current liabilities				
Current maturities of long term loans	10	4,138	5,864	4,644
Debentures	12	26,773	8,758	30,044
Trade payables		1,765	2,126	1,979
Other payables	9	5,010	3,103	5,622
		37,686	19,851	42,289
Non-current liabilities				
Lease liability	14	15,402	-	17,284
Long-term loans	11	89,182	60,228	100,077
Debentures	12	44,811	42,585	50,285
Deferred tax	19	6,467	6,219	7,257
Other long-term liabilities	13	1,795	*1,959	2,014
Derivatives		7,263	*3,361	8,150
		164,920	114,352	185,067
Total liabilities		202,606	134,203	227,356
Equity				
Share capital	16	21,998	19,980	24,685
Share premium		64,160	58,344	71,998
Treasury shares		(1,736)	(1,736)	(1,948)
Transaction reserve with non-controlling Interests		6,106	-	6,852
Reserves		3,283	1,169	3,684
Retained earnings		12,818	758	14,384
Total equity attributed to shareholders of the Company		106,629	78,515	119,655
Non-Controlling Interest		937	(1,558)	1,051
Total equity		107,566	76,957	120,706
Total liabilities and equity		310,172	211,160	348,062

* Reclassified, see Note 2E

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,			
		2019	2018	2017	2019
		€ in thousands (except per share data)			Convenience Translation into US\$ in thousands (Note 3B)
Revenues	18E	18,988	18,117	13,636	21,308
Operating expenses	18B	(6,638)	(6,342)	(2,549)	(7,449)
Depreciation and amortization expenses	18B	(6,416)	(5,816)	(4,518)	(7,200)
Gross profit		5,934	5,959	6,569	6,659
Project development costs	6B	(4,213)	(2,878)	(2,739)	(4,728)
General and administrative expenses	18C	(3,827)	(3,600)	(2,420)	(4,295)
Share of profits of equity accounted investee	6	3,086	2,545	1,531	3,463
Other income (expenses), net	18D	(2,100)	884	18	(2,357)
Capital gain	6C	18,770	-	-	21,063
Operating Profit		17,650	2,910	2,959	19,805
Financing income	18A	1,827	2,936	1,333	2,050
Financing income (expenses) in connection with derivatives, net	18A	897	494	(3,156)	1,007
Financing expenses	18A	(10,877)	(5,521)	(7,405)	(12,206)
Financing expenses, net		(8,153)	(2,091)	(9,228)	(9,149)
Profit (loss) before taxes on income		9,497	819	(6,269)	10,656
Tax benefit (taxes on income)	19	287	(215)	(372)	322
Profit (loss) for the year		9,784	604	(6,641)	10,978
Profit (loss) attributable to:					
Owners of the Company		12,060	1,057	(6,115)	13,533
Non-controlling interests		(2,276)	(453)	(526)	(2,555)
Profit (loss) for the year		9,784	604	(6,641)	10,978
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		2,103	(787)	(359)	2,360
Effective portion of change in fair value of cash flow hedges		1,076	(1,008)	(1,244)	1,207
Net change in fair value of cash flow hedges transferred to profit or loss		(1,922)	643	1,382	(2,157)
Total other comprehensive income (loss)		1,257	(1,152)	(221)	1,410
Total comprehensive income (loss) for the year		11,041	(548)	(6,862)	12,388
Earnings (loss) per share					
Basic earnings (loss) per share	20	1.09	0.10	(0.57)	1.24
Diluted earnings (loss) per share		1.09	0.10	(0.57)	1.24

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-controlling Interests	Total Equity
	Share capital	Share premium	Retained earnings (accumulated deficit)	Treasury shares	Translation Reserve from Foreign Operations	Hedging Reserve	Transaction reserve with non-controlling Interests	Total		
	€ in thousands									
Balance as at January 1, 2019	19,980	58,344	758	(1,736)	1,396	(227)	-	78,515	(1,558)	76,957
Profit (loss) for the year	-	-	12,060	-	-	-	-	12,060	(2,276)	9,784
Other comprehensive loss for the year	-	-	-	-	2,960	(846)	-	2,114	(857)	1,257
Total comprehensive loss for the year	-	-	12,060	-	2,960	(846)	-	14,174	(3,133)	11,041
Transactions with owners of the Company, recognized directly in equity:										
Sale of shares in subsidiaries to non-controlling interests	-	-	-	-	-	-	5,439	5,439	5,374	10,813
Purchase of shares in subsidiaries from non-controlling interests	-	-	-	-	-	-	667	667	254	921
Issuance of ordinary shares	2,010	5,797	-	-	-	-	-	7,807	-	7,807
Options exercise	8	11	-	-	-	-	-	19	-	19
Share-based payments	-	8	-	-	-	-	-	8	-	8
Balance as at December 31, 2019	21,998	64,160	12,818	(1,736)	4,356	(1,073)	6,106	106,629	937	107,566
Balance as at January 1, 2018	19,980	58,339	(299)	(1,736)	2,219	138	-	78,641	(1,141)	77,500
Profit (loss) 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	19,980	58,344	758	(1,736)	1,396	(227)	-	78,515	(1,558)	76,957

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	Transaction reserve with non-controlling Interests	Total		
	€in thousands									
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	19,980	58,339	(299)	(1,736)	2,219	138	-	78,641	(1,141)	77,500

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	Transaction reserve with non-controlling Interests	Total		
	US\$ in thousands									
	Convenience translation into US\$ (exchange rate as at December 31, 2019: euro 1 = US\$ 1.122)									
Balance as at January 1, 2019	22,420	65,472	851	(1,948)	1,567	(255)	-	88,107	(1,748)	86,359
Profit (loss) for the year	-	-	13,533	-	-	-	-	13,533	(2,555)	10,978
Other comprehensive loss for the year	-	-	-	-	3,322	(950)	-	2,372	(962)	1,410
Total comprehensive loss for the year	-	-	13,533	-	3,322	(950)	-	15,905	(3,517)	12,388
Transactions with owners of the Company, recognized directly in equity:										
Sale of shares in subsidiaries to non-controlling interests	-	-	-	-	-	-	6,104	6,104	6,031	12,135
Buy of shares in subsidiaries from non-controlling interests	-	-	-	-	-	-	748	748	285	1,033
Issuance of ordinary shares	2,256	6,505	-	-	-	-	-	8,761	-	8,761
Options exercise	9	12	-	-	-	-	-	21	-	21
Share-based payments	-	9	-	-	-	-	-	9	-	9
Balance as at December 31, 2019	24,685	71,998	14,384	(1,948)	4,889	(1,205)	6,852	119,655	1,051	120,706

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

Consolidated Statements of Cash Flows

	For the year ended December 31			2019 Convenience Translation into US\$ in thousands (Note 3B)
	2019	2018	2017	
	€ in thousands			
Cash flows from operating activities				
Profit (loss) for the year	9,784	604	(6,641)	10,978
Adjustments for:				
Financing expenses, net	8,153	2,091	9,228	9,149
Capital gain	(18,770)	-	-	(21,063)
Depreciation and amortization	6,416	5,816	4,518	7,200
Share-based payment transactions	8	5	5	9
Share of profits of equity accounted investees	(3,086)	(2,545)	(1,531)	(3,463)
Payment of interest on loan from an equity accounted investee	370	3,036	407	415
Change in trade receivables and other receivables	403	(17)	2,012	452
Change in other assets	(1,950)	37	126	(2,188)
Change in receivables from concessions project	1,329	1,431	(84)	1,491
Change in accrued severance pay, net	9	15	2	10
Change in trade payables	461	633	(258)	517
Change in other payables	5,336	(1,565)	(2,655)	5,988
Taxes on income (tax benefit)	(287)	215	372	(322)
Income taxes paid	(100)	(77)	(42)	(112)
Interest received	1,719	1,835	505	1,929
Interest paid	(6,083)	(4,924)	(3,659)	(6,826)
	(6,072)	5,986	8,946	(6,814)
Net cash provided by operating activities	3,712	6,590	2,305	4,164

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

Consolidated Statements of Cash Flows

	For the year ended December 31,			
	2019	2018	2017	2019
	€in thousands			Convenience Translation into US\$ in thousands (Note 3B)
Cash flows from investing activities:				
Acquisition of fixed assets	(74,587)	(3,708)	(7,576)	(83,699)
Acquisition of subsidiary, net of cash acquired (see Note 6C and Note 6D)	(1,000)	(1,000)	(9,851)	(1,122)
Repayment of loan from an equity accounted investee	-	1,540	-	-
Proceeds from sale of investments	34,586	-	-	38,811
Advances on account of investments	-	-	(8,000)	-
Proceeds from marketable securities	-	3,316	1,277	-
Acquisition of marketable securities	-	-	(6,677)	-
Proceeds from settlement of derivatives, net	532	664	620	597
Proceed (investment) in restricted cash, net	(26,003)	(3,107)	3,225	(29,180)
Investment in short term deposit	(6,302)	-	-	(7,072)
Repayment (grant) Loan to others	3,912	(3,500)	(361)	4,390
Net cash used in investing activities	(68,862)	(5,795)	(27,343)	(77,275)
Cash flows from financing activities:				
Repayment of long-term loans and finance lease obligations	(5,844)	(17,819)	(2,224)	(6,558)
Repayment of Debentures	(9,836)	(4,668)	(4,842)	(11,038)
Cost associated with long term loans	(12,218)	-	-	(13,711)
Proceeds from options	19	-	-	21
Sale of shares in subsidiaries to non-controlling interests	13,936	-	-	15,638
Acquisition of shares in subsidiaries from non-controlling interests	(2,961)	-	-	(3,323)
Issuance of ordinary shares	7,807	-	-	8,761
Repurchase of own shares	-	-	(14)	-
Proceeds from long term loans, net	59,298	34,745	5,575	66,542
Proceeds from issuance of Debentures, net	22,317	-	31,175	25,043
Net cash from financing activities	72,518	12,258	29,670	81,375
Effect of exchange rate fluctuations on cash and cash equivalents	259	(133)	(3,156)	294
Increase in cash and cash equivalents	7,627	12,920	1,476	8,558
Cash and cash equivalents at the beginning of year	36,882	23,962	22,486	41,388
Cash and cash equivalents at the end of the year	44,509	36,882	23,962	49,946

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

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 1 – General

- A. Ellomay Capital Ltd. (hereinafter - the "Company"), is an Israeli Company operating in the business of renewable energy and a power generator and developer of renewable energy and power projects in Europe and Israel. As of December 31, 2019, the Company owns five photovoltaic plants (each, a "PV Plant" and, together, the "PV Plants") that are connected to their respective national grids and operating as follows: (i) four photovoltaic plants in Spain with an aggregate installed capacity of approximately 7.9 MWp and (ii) one photovoltaic plant in Israel with an aggregate installed capacity of approximately 9 MWp. In addition, the Company indirectly owns: (i) 9.375% of Dorad Energy Ltd. (hereinafter - "Dorad"), (ii) 75% of Ellomay Pumped Storage (2014) Ltd. (including 6.67% that are held by a trustee in trust for the Company and other parties), which is promoting a project to construct a 156 MW pumped storage hydro power plant in the Manara Cliff, Israel, (iii) 51% of Talasol Solar S.L.U which is constructing a photovoltaic plant with a peak capacity of 300 MW in the municipality of Talaván, Cáceres, Spain and (iv) Groen Gas Goor B.V. and 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.

C. Material events in the reporting period

- On April 30, 2019, the Company, through its Spanish subsidiary Talasol Solar, S.L.U. ("Talasol"), closed on the financing for the construction of a photovoltaic plant with a peak capacity of 300MW in the municipality of Talaván, in Extramadura Spain (the "Talasol Project") and on the sale of 49% of its indirect holdings in Talasol. The purchase price under the Talasol SPA was fixed at €16.1 million. Following the consummation of these transactions, Talasol provided the engineering, procurement and construction contractor of the Talasol Project, METKA EGN Limited, a notice to proceed with the construction works of the Talasol Project. The Talasol Project's total CAPEX is expected to be approximately €228 million, of which an aggregate amount of approximately €131 million will be provided by a term loan under the project finance obtained by Talasol from Rabobank, ABN AMRO and Deutsche Bank (commercial tranche) and the European Investment Bank.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 1 – General (cont'd)

C. Material events in the reporting period (cont'd)

2. During 2019, the Company completed the purchase of 49% of the companies that own the anaerobic digestion plans in Goor and Oude-Tonge, both in the Netherlands, from Ludan and several entities affiliated with Ludan for an acquisition price of approximately €3 million. As of December 31, 2019, the Company wholly-owns these companies.
3. On July 17, 2019, the Company issued 800,000 ordinary shares to several Israeli qualified investors in a private placement undertaken in accordance with Regulation S of the Securities Act of 1933, as amended. The price per share was set at NIS 39.20 and the gross proceeds to the Company were approximately NIS 31.3 million (approximately €7,807 thousand).
4. On July 25, 2019, the Company issued NIS 89,065 thousand (approximately €22,690 thousand based on the Euro /NIS exchange rate at that time) principal amount of unsecured non-convertible Series C Debentures ("Series C Debentures") through a public offering limited to residents of Israel at a fixed annual interest rate of 3.3%. The gross proceeds of the offering were approximately NIS 89.1 million (including offering expenses and commissions of approximately NIS 1.6 million). The Series C Debentures are traded on the TASE (Tel Aviv Stock Exchange).
5. In 2019, the Company announced the early repayment of the entire outstanding principal of the Company's Series A Debentures pursuant to the terms of the deed of trust governing these Debentures. On December 30, 2019 the Company transferred to the nominee company an amount of approximately NIS 85.9 million (approximately €22.3 million) including prepayment charge of approximately NIS 5.7 million (approximately €1.5 million) designated for such repayment that was executed on January 5, 2020 (See Note 12B Series A Debentures).
6. On December 20, 2019, the Company sold ten Italian indirect wholly-owned subsidiaries (the "Italian Subsidiaries"), which own twelve photovoltaic plants with an aggregate nominal capacity of approximately 22.6 MW for a purchase price of €38.7 million (after approximately €2.3 million adjustments in connection with funds received by the Company from the Italian Subsidiaries during 2019). The Company recorded a profit of approximately €18.8 million in connection with the sale of the Italian Subsidiaries in its financial results for the year ended December 31, 2019.
7. In November 2019, the Company, through its wholly-owned subsidiary, Ellomay Luxembourg executed a Framework Agreement (the "First Framework Agreement"), with an established European developer and contractor. Pursuant to the First Framework Agreement, the developer will scout and develop photovoltaic greenfield projects in Italy with the aim of reaching an aggregate authorized capacity of at least 250 MW over a three-year period. The First Framework Agreement provides that each project will be presented to Ellomay Luxembourg when it becomes "ready to build". Thereafter, if Ellomay Luxembourg accepts the project, the developer is obligated to transfer to Ellomay Luxembourg 100% of the share capital of the entity that holds the rights to the project. With respect to each project, subject to the conditions set forth in the First Framework Agreement, Ellomay Luxembourg will enter into engineering, procurement and construction, or EPC, and O&M contracts with the developer to construct and operate the projects. In connection with the execution of the First Framework Agreement, Ellomay Luxembourg is expected to pay the developer an advance payment of approximately €1.2 million, based on the target aggregate project capacity of 250 MW, and undertook to pay an additional advance payment per each project when the project submits its environmental impact assessment application. In the event the target aggregate capacity is not achieved within a three-year period or in the event a project does not reach "ready to build" status, the advance payment will be proportionately refunded.

In December 2019, the Company, through its wholly-owned subsidiary, Ellomay Luxembourg executed an additional Framework Agreement (the "Second Framework Agreement"), with an established and experienced European developer. Pursuant to the Second Framework Agreement, the developer will provide Ellomay Luxembourg with development services with respect to photovoltaic greenfield projects in Italy in the scope of 350 MW with the aim of reaching an aggregate "ready to build" authorized capacity of at least 265 MW over a forty-one month period. The Second Framework Agreement provides that the developer will offer all projects identified during the term of the Second Framework Agreement exclusively to Ellomay Luxembourg and that, with respect to each project acquired by Ellomay Luxembourg, the developer will be entitled to provide development services until it reaches the "ready to build" status. The parties agreed on a development budget including a monthly development service consideration, to be paid to the developer and all other payments for the tasks required to bring the projects to a ready to build. In addition, Ellomay Luxembourg undertook to pay a success fee to the developer with respect to each project that achieves a "ready to build" status. Currently development is progressing as planned. In addition to the 265 MW mentioned above, Ellomay Luxembourg has the option to purchase approximately 37 MW that are already under development by the developer, 30 MW of which have already received the approval for connection to the Italian electricity grid.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 2 – Basis of Preparation**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 by the Company's Board of Directors for issue on April 7, 2020.

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. The Company's management 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. 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.

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, 2019

Note 2 – Basis of Preparation (cont'd)

B. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements (cont'd)**Determination of fair value**

Preparation of the financial statements requires the Company to determine the fair value of certain assets and liabilities.

When determining the fair value of an asset or liability, the Company uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

- 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).

C. Initial application of new standards, amendments to standards and interpretations**(1) IFRS 16, *Leases***

As from January 1, 2019 (hereinafter: “the date of initial application”) the Company applies International Financial Reporting Standard 16, *Leases* (hereinafter: “IFRS 16” or “the standard”), which replaced International Accounting Standard 17, *Leases* (hereinafter: “IAS 17” or “the previous standard”).

The main effect of the standard’s application is reflected in annulment of the existing requirement from lessees to classify leases as operating (off-balance sheet) or finance leases and the presentation of a unified model for lessees to account for all leases similarly to the accounting treatment of finance leases in the previous standard. Until the date of initial application, the Company classified most of the leases in which it is the lessee as operating leases, as it did not substantially bear all the risks and rewards from the assets. Assets leased under a finance lease included mainly photovoltaic plants.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 2 – Basis of Preparation (cont'd)

C. Initial application of new standards, amendments to standards and interpretations**(1) IFRS 16, *Leases***

In accordance with IFRS 16, for agreements in which the Company is the lessee, the Company recognizes a right-of-use asset and a lease liability at the inception of the lease contract for all the leases in which the Company has a right to control identified assets for a specified period of time, other than exceptions specified in the standard. Accordingly, the Company recognizes depreciation and amortization expenses in respect of a right-of-use asset, tests a right-of-use asset for impairment in accordance with IAS 36 and recognizes financing expenses on a lease liability. Therefore, as from the date of initial application, lease payments relating to assets leased under an operating lease, which were presented as part of general and administrative expenses in the income statement, are capitalized to assets and written down as depreciation and amortization expenses. Furthermore, leased assets, which were classified as finance leases at inception of the lease and were recognized in the statement of financial position as fixed assets, were reclassified as right-of-use assets.

The Company elected to apply the standard using the modified retrospective approach, with an adjustment to the balance of retained earnings as at January 1, 2019 and without a restatement of comparative data. In respect of all the leases, the Company elected to apply the transitional provisions such that on the date of initial application it recognized a liability at the present value of the balance of future lease payments discounted at its incremental borrowing rate at that date calculated according to the average duration of the remaining lease period as from the date of initial application, and concurrently recognized 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 did not have an effect on the Company's equity at the date of initial application.

Furthermore, as part of the initial application of the standard, the Company has chosen to apply the following expedients:

- (1) Relying on a previous definition and/or assessment of whether an arrangement is 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;
- (3) Applying the practical expedient regarding the recognition and measurement of short-term leases, for both leases that end within 12 months from the date of initial application and leases for a period of up to 12 months from the date of their inception for all groups of underlying assets to which the right-of-use relates;

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 2 – Basis of Preparation (cont'd)

C. Initial application of new standards, amendments to standards and interpretations

The table below presents the cumulative effects of the items affected by the initial application on the statement of financial position as at January 1, 2019:

(1) IFRS 16, *Leases*

	According to IAS 17	The change € in thousands	According to IFRS 16
Right-of-use asset	-	4,192	4,192
Deferred tax assets	-	1,040	1,040
Lease liabilities	-	4,192	4,192
Deferred tax liabilities	-	1,040	1,040

In measurement of the lease liabilities, the Company discounted lease payments using the nominal incremental borrowing rate at January 1, 2019. The discount rates used to measure the lease liability range between 2.56% and 4.57% (weighted average of 3.4%). This range is affected by differences in the lease term, differences between asset groups, and so forth.

(2) IFRIC 23, *Uncertainty Over Income Tax Treatments* (“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 applied using the cumulative effect approach. The application of IFRIC 23 did not have a material effect on the financial statements.

(3) Amendment to IAS 28, *Investments in Associates and Joint Venture: Long-Term Interests in Associates or Joint Ventures* (hereinafter – the “Amendment”)

The Amendment clarifies that for long-term interests that form part of the entity's net investment in the associate or joint venture, the entity shall first apply the requirements of IFRS 9 and then apply the instructions of IAS 28 with respect to the remainder of those interests, so that the long-term interests are in the scope of both IFRS 9 and IAS 28. The Amendment clarifies that for long-term interests that form part of the entity's net investment in the associate or joint venture, the entity shall first apply the requirements of IFRS 9 and then apply the instructions of IAS 28 with respect to the remainder of those interests, so that the long-term interests are in the scope of both IFRS 9 and IAS 28. The application of the Amendment did not have a material effect on the financial statements.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 2 – Basis of Preparation (cont'd)**D. Change in classification**

During the current year, the Company changed the consolidated statements of financial position classification related derivatives and long-term liabilities. An amount of €3,361 thousand liabilities in connection with derivatives in 2018 was reclassified from long-term liabilities and presented separately due to materiality considerations.

E. Immaterial adjustment of comparative data

During 2019 an immaterial error was found with respect to the classification of a restricted deposit in the amount of €3,338 thousand that was classified as short-term restricted cash and deposits instead of long-term. The Company recorded a correction with respect to the comparative amounts as at December 31, 2018, thereby reducing current assets and increasing non-current assets by €3,338 thousand.

Note 3 – Significant Accounting Policies**A. Basis of consolidation and equity method accounting****1. 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. 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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 – Significant Accounting Policies (cont'd)**A. Basis of consolidation and equity method accounting (cont'd)**

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.

Long-term interests in associates and joint ventures that, in substance, form part of the net investment in the associate or joint venture, such as preferred shares and long-term loans that their repayment is not expected and is unlikely to occur in the foreseeable future, are first accounted for in accordance with the guidance of IFRS 9 and then the equity method is applied in accordance with the guidance of IAS 28.

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.

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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 – Significant Accounting Policies (cont'd)**A. Basis of consolidation and equity method accounting (cont'd)***Non-controlling interests (cont'd)*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.

Transactions with non-controlling interests, while retaining control

Transactions with non-controlling interests while retaining control are accounted for as equity transactions. Any difference between the consideration paid or received and the change in non-controlling interests is included in the owners' share in equity of the Company directly in retained earnings.

The amount of the adjustment to non-controlling interests is calculated as follows:

For an increase in the holding rate, according to the proportionate share acquired from the balance of non-controlling interests in the consolidated financial statements prior to the transaction.

For a decrease in the holding rate, according to the proportionate share realized by the owners of the subsidiary in the net assets of the subsidiary, including goodwill.

Furthermore, when the holding rate of the subsidiary changes, while retaining control, the Company re-attributes the accumulated amounts that were recognized in other comprehensive income to the owners of the Company and the non-controlling interests.

Loss of control

Upon the loss of control, the Company derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. The amounts recognized in capital reserves through other comprehensive income with respect to the same subsidiary are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the subsidiary had itself realized the same assets or liabilities.

B. 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;

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 – Significant Accounting Policies (cont'd)**B. Functional and presentation currency (cont'd)****Foreign operations (cont'd)-**

- 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.

Presentation Currency-

For the convenience of the reader, the reported euro figures as of December 31, 2019 and for the year then ended, are presented in dollars, translated at the representative rate of exchange as of December 31, 2019 (euro 0.891 = 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.

C. 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 (except for financial assets that are measured at fair value through profit and loss, for which transaction costs are recognized in profit and loss). A trade receivable without a significant financing component is initially measured at the transaction price.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 – Significant Accounting Policies (cont'd)**C. Financial instruments (cont'd)****Non-derivative Financial assets – policy applicable as from January 1, 2018 (cont'd)*****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.

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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 – Significant Accounting Policies (cont'd)**C. 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)***

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).

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.

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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 – Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

Non-derivative financial assets – policy applicable before January 1, 2018 (cont'd)*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 Company'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 Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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 Company'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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)**C. Financial instruments (cont'd)****Non-derivative financial assets – policy applicable before January 1, 2018 (cont'd)****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.

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, fluctuation in the electricity prices and changes in the flow and interest on variable-rate loans. The Company continue to apply IAS 39 for the hedge accounting.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

Derivative financial instruments, including hedge accounting (cont'd)*Hedge accounting (cont'd)*

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.

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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)**C. Financial instruments (cont'd)****Derivative financial instruments, including hedge accounting (cont'd)****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.

D. Fixed assets**1. 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.

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.

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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 – Significant Accounting Policies (cont'd)

D. Fixed assets (cont'd)

Depreciation (cont'd)

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.

E. Capitalization of borrowing costs

Policy applicable as from January 1, 2018

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. 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. Other borrowing costs are recognized as incurred as financing expenses in profit or loss.

Policy applicable before January 1, 2018

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.

F. 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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 – Significant Accounting Policies (cont'd)**F. Impairment (cont'd)**

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 such as: significant financial difficulty, probability that the associate will enter bankruptcy or other financial reorganization or losses in operation for a long period of time. 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.

G. Share-based payment transactions

The Company's directors are entitled to, and certain of the Company's employees receive, remuneration in the form of equity-settled share-based payment transactions. The cost of equity-settled transactions with directors and employees 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 17.

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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)

H. 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.

I. 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 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 without adjustment for the Company's credit risk. The carrying amount of the provision is adjusted each period to reflect the time that has passed and the amount of the adjustment is recognized as a financing expense.

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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)

J. Leases*Policy applicable as from January 1, 2019***Determining whether an arrangement contains a lease**

On the inception date of the lease, the Company determines whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Company assesses whether it has the following two rights throughout the lease term:

- (a) The right to obtain substantially all the economic benefits from use of the identified asset;
- (b) The right to direct the identified asset's use.

Leased assets and lease liabilities

Contracts that award the Company control over the use of a leased asset for a period of time in exchange for consideration, are accounted for as leases. Upon initial recognition, the Company recognizes a liability at the present value of the balance of future lease payments (these payments do not include certain variable lease payments), and concurrently recognizes a right-of-use asset at the same amount of the lease liability, adjusted for any prepaid or accrued lease payments, plus initial direct costs incurred in respect of the lease.

Since the interest rate implicit in the Company's leases is not readily determinable, the incremental borrowing rate of the lessee is used. Subsequent to initial recognition, the right-of-use asset is accounted for using the cost model, and depreciated over the shorter of the lease term or useful life of the asset.

The Company has elected to apply the practical expedient by which short-term leases of up to one year and/or leases in which the underlying asset has a low value, are accounted for such that lease payments are recognized in profit or loss on a straight-line basis, over the lease term, without recognizing an asset and/or liability in the statement of financial position.

The lease term

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the lessee will or will not exercise the option, respectively.

Variable lease payments

Variable lease payments that depend on an index or a rate, are initially measured using the index or rate existing at the commencement of the lease and are included in the measurement of the lease liability. When the cash flows of future lease payments change as the result of a change in an index or a rate, the balance of the liability is adjusted against the right-of-use asset.

Other variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss in the period in which the event or condition that triggers payment occurs.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)

J. Leases (cont'd)*Policy applicable as from January 1, 2019 (cont'd)***Depreciation of right-of-use asset**

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows:

- Lands 20-40 years

Reassessment of lease liability

Upon the occurrence of a significant event or a significant change in circumstances that is under the control of the Company and had an effect on the decision whether it is reasonably certain that the Company will exercise an option, which was not included before in the lease term, or will not exercise an option, which was previously included in the lease term, the Company re-measures the lease liability according to the revised leased payments using a new discount rate. The change in the carrying amount of the liability is recognized against the right-of-use asset, or recognized in profit or loss if the carrying amount of the right-of-use asset was reduced to zero.

Policy applicable before January 1, 2019

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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)

K. Revenue recognition*Policy applicable as from January 1, 2018*

The Company recognizes revenue when the customer obtains control over the promised goods. The revenue is measured according to the amount of the consideration to which the Company expects to be entitled in exchange for the goods 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.

Identifying the contract

The Company accounts for a contract with a customer only when the following conditions are met:

- (a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
- (b) The Company can identify the rights of each party in relation to the goods that will be transferred;
- (c) The Company can identify the payment terms for the goods that will be transferred;
- (d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
- (e) It is probable that the consideration, to which the Company is entitled to in exchange for the goods transferred to the customer, will be collected.

For the purpose of paragraph (e) the Company examines, inter alia, the percentage of the advance payments received and the spread of the contractual payments, past experience with the customer and the status and existence of sufficient collateral.

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met or when one of the following events occurs: the Company has no remaining obligations to transfer goods to the customer and any consideration promised by the customer has been received and cannot be returned; or the contract has been terminated and the consideration received from the customer cannot be refunded.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)

K. Revenue recognition (cont'd)**Determining the transaction price**

The transaction price is the amount of the consideration to which the Company expects to be entitled in exchange for the goods promised to the customer.

Contract modifications

A contract modification is a change in the scope or price (or both) of a contract that was approved by the parties to the contract. A contract modification can be approved in writing, orally or be implied by customary business practices. A contract modification can take place also when the parties to the contract have a disagreement regarding the scope or price (or both) of the modification or when the parties have approved the modification in scope of the contract but have not yet agreed on the corresponding price modification.

When a contract modification has not yet been approved by the parties, the Company continues to recognize revenues according to the existing contract, while disregarding the contract modification, until the date the contract modification is approved or the contract modification is legally enforceable.

The Company accounts for a contract modification as an adjustment of the existing contract since the remaining goods after the contract modification are not distinct and therefore constitute a part of one performance obligation that is partially satisfied on the date of the contract modification. The effect of the modification on the transaction price is recognized as an adjustment to revenues (increase or decrease) on the date of the contract modification, meaning on a catch-up basis.

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 revenue is recognized in the period in which the goods are provided by the Company.

Policy applicable before January 1, 2018**Sale of goods**

Revenue from the sale of goods in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of returns and discounts. When the credit period is short and constitutes the accepted credit in the industry, the future consideration is not discounted.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)**K. Revenue recognition (cont'd)****Sale of goods (cont'd)**

Revenue is recognized when persuasive evidence exists (usually in the form of an executed sales agreement) that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Transfer usually occurs when the products are received by the customer.

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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)**L. Income tax (cont'd)**

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.

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 and employees.

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.

In the statements of cash flows, interest received and Interest paid are presented as part of cash flows from operating activities.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)**O. 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.

P. New standards, amendments to standards and interpretations not yet adopted**(1) Amendment to IFRS 3, *Business Combinations* (“the Amendment”)**

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.

In the opinion of the Company, application of the Amendment will not have a material effect on the accounting treatment of future acquisitions of operations.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)

P. New standards, amendments to standards and interpretations not yet adopted (cont'd)

(2) Amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 7, *Financial Instruments: Disclosures*, *Interest Rate Benchmark Reform* ("the Amendments")

The Amendments include several mandatory reliefs relevant for examining whether a hedging relationship affected by the uncertainty arising from the IBOR interest rate reform (a reform that in the future will lead to the elimination of interest rates such as the Libor and Euribor interest rates) qualifies for hedge accounting. Thus for example:

- When determining the probability of occurrence of the hedged cash flows, the existing contractual cash flows should be used, and future changes arising from the IBOR reform should be ignored.
- When performing a prospective assessment of effectiveness, the existing contractual terms of the hedged item and hedging item should be taken into consideration, and the uncertainties arising from the reform be ignored.

The Amendments are applicable retrospectively as from January 1, 2020 with earlier application being permitted. The relief included in the Amendments will end on the earlier of: the date the uncertainty arising from the reform no longer exists and the date the hedging relationship was discontinued.

In the opinion of the Company, application of the Amendments will not have a material effect on the financial statements.

Note 4 - Cash and Cash Equivalents

	December 31	
	2019	2018
	€ in thousands	
Cash	24,948	35,984
On call deposits	19,561	898
Cash and cash equivalents	44,509	36,882
Cash and cash equivalents in the statement of cash flows	44,509	36,882

The Company's exposure to credit, interest rate and currency risks, and a sensitivity analysis for financial assets, are included in Note 21 regarding financial instruments.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 5 - Restricted Cash, Deposits and Marketable Securities

	December 31	
	2019	2018
	€ in thousands	
Marketable securities ⁽¹⁾	2,242	2,132
Short-term restricted cash ⁽²⁾	22,162	*1,315
Short-term deposits ⁽³⁾	6,446	-
Long-term restricted non-interest bearing bank deposits ⁽⁴⁾	3,094	408
Restricted cash, long-term bank deposits ⁽⁵⁾	7,862	4,992
Long-term restricted cash and deposits	10,956	*5,400

* Reclassified, see Note 2

(1) 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) On December 16, 2019, the Company announced its intention to repay the entire outstanding principal of the Company's Series A Debentures on December 31, 2019. Due to technical issues related to the clearing system, the Company executed a regular principal repayment of NIS 20,034 thousand (approximately €5,160 thousand) and the repayment of the remaining outstanding principal balance was scheduled for January, 2020. On December 30, 2019 the funds designated for such repayment were transferred to the nominee company.

(3) Bank deposits with annual interest rate as of December 31, 2019 of 0.58%.

(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, 2019

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. The Company holds 50% of Dori Energy that holds 18.75% of the share capital of Dorad Energy Ltd. ("Dorad"), which owns an approximate 860 MWp dual-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.

As of December 31, 2019, 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 41,177 thousand (approximately €10,618 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, 2019).

During January and November 2018, Dorad repaid 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). During 2018, Dori Energy paid the Company an aggregate amount of approximately NIS 19,250 thousand (approximately €4,576 thousand) as repayment of shareholders loans. In June 2019, Dorad made the final repayment of shareholders loans in the aggregate amount of NIS 19 million, of which Dori Energy received approximately NIS 3,733 thousand (approximately €896 thousand). In connection with the June 2019 repayment by Dorad, the Company received an amount of NIS 1,500 thousand (approximately €370 thousand). Subsequent to the report date, in February 2020, Dorad declared a dividend distribution of NIS 120,000 thousand (approximately €31,600 thousand). In connection with such dividend distribution, Dori Energy received NIS 22,500 thousand (approximately €5,800 thousand) and repaid an amount of NIS 10,250 thousand (approximately €2,643 thousand) loan to the Company.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 6 - Investee Companies and other investments (cont'd)

A. Equity accounted investees (cont'd)

U. Dori Energy Infrastructures Ltd. ("Dori Energy") (cont'd)–

As of December 31, 2019, 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 171,000 thousand (approximately €4,093 thousand). The Company's indirect share of guarantees provided on behalf of Dorad by Dorad's shareholders is approximately NIS 16,031 thousand (approximately €4,134 thousand).

On January 15, 2018 the Israeli Electricity Authority 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 Israeli Electricity Authority published a decision regarding "Electricity Rates for Customers of IEC in 2019" which in accordance the average production component will increase by about 3.3% from January 1, 2019 and will remain in effect to the end of 2019. On December 23, 2019, the Israeli Electricity Authority published a decision regarding "Annual Electricity Rate Update 2020", which, among other things, averaged a 7.9% decrease in the production component as of January 1, 2020, and will remain in effect to the end of 2020.

In August 2019, the Israeli Electricity Authority published a proposed resolution that is subject to a public hearing concerning an amendment to the standards governing deviations from consumption plans. These standards regulate the accounting mechanism in the event the actual consumer consumption is different than the consumption plan submitted by the electricity manufacturers, and include a mechanism protecting the manufacturers from random deviations in actual consumption volumes. The Israeli Electricity Authority proposed revoking the protections included in the aforementioned standards, claiming that the manufacturers are misusing the protections and regularly submit plans and forecasts that deviate from the actual expected consumption, and also seeks to impose financial sanctions on the manufacturers, which may be in material amounts upon the occurrence of certain deviation events. On January 27, 2020, the Israeli Electricity Authority issued a resolution amending the standards and imposing financial sanctions in cases of certain extraordinary events that may add up to significant sums. The resolution will enter into effect as of September 1, 2020.

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 originally 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, and thereafter amended to add Mr. Ori Edelsburg (a director in Dorad) and affiliated companies.

Notes to the Consolidated Financial Statements as at December 31, 2019

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)*

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 December 27, 2016, this proceeding, as well as the two proceedings mentioned below, were moved to an arbitration proceeding.

On February 23, 2017, 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. in which they repeated their claims included in the 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.

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 €18 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 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, 2019

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 Dorad 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, 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 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, 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.

Commencing March 2018, Zorlu and Edelcom initiated requests and actions in order to remove the arbitrator from her position. On February 12, 2019, the Israeli Supreme Court ruled by a majority ruling that an appeal submitted by Zorlu and Edelcom in connection with the removal of the arbitrator from her position should be accepted and determined that the respondents in the proceedings will pay expenses to Zorlu in the amount of NIS 10,000 (approximately €2,430).

In May 2019, a new arbitrator was appointed and dates were set for the discovery process. The evidentiary hearings were scheduled during March-June 2020 and commencing August 2020. Due to the COVID-19 crisis, the evidentiary hearings scheduled for March 2020 and the beginning of April 2020 were cancelled.

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 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, which holds 18.75% of Dorad, 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 €1.9 million) in consideration for management and entrepreneurship services.

Notes to the Consolidated Financial Statements as at December 31, 2019

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)

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. As noted above, on December 27, 2016, this proceeding, along with the proceeding mentioned above and below, was moved to arbitration. For more information see above.

The Company estimates (after consulting with legal counsel), that at this stage it is not yet possible to assess the outcome of the proceeding.

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, this proceeding, along with the two proceeding mentioned above, was moved to arbitration.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 6 - Investee Companies and other investments (cont'd)**A. Equity accounted investees (cont'd)****U. Dori Energy Infrastructures Ltd. ("Dori Energy") (cont'd)–***Statement of Claim filed by Edelcom*

On July 31, 2019, Edelcom (together with Edeltech and Mr. Edelsburg) submitted a notice of withdrawal of the statement of claim. On August 11, 2019, Dori Energy submitted its response to the notice requesting that the claim be rejected and expenses and legal fees will be determined for the benefit of Dori Energy. On October 22, 2019, the arbitrator deleted the claim subject to Edelcom, Mr. Edelsburg and Edeltech being barred from resubmitting the claim to any other judicial or quasi-judicial entity.

Opening Motion filed by Zorlu

On April 8, 2019, Zorlu filed an opening motion with the District Court in Tel Aviv against Dorad and the directors serving on Dorad's board on behalf of Dori Energy and EAIS. In the opening motion, Zorlu asked the court to instruct Dorad to convene a shareholders meeting and to include a discussion and a vote on the planning and construction of an additional power plant adjacent to the existing power plant (the "Dorad 2 Project"), on the agenda of this meeting. Zorlu claimed that while the articles of association of Dorad provides that the planning and construction of an additional power plant requires a unanimous consent of the Dorad shareholders, and while Zorlu and Edelcom are opposed to this project, including due to the current disagreements among Dorad's shareholders, Dorad continued taking actions to advance the project, which include spending substantial amounts out of Dorad's funds. Zorlu further claims that the representatives of Dori Energy and EAIS on the Dorad board have acted to prevent the convening of a shareholders meeting as requested by Zorlu. On April 16, 2019, Edelcom submitted a request to join the opening motion as an additional respondent as Edelcom claims that it is another shareholder in Dorad that opposes the advancement of the project at this stage. In addition, Edelcom joined Dori Energy and EAIS as additional respondents to its request, claiming that these entities are required to be part of the proceeding in order to reach a complete and efficient resolution. All parties agreed to the joining of Edelcom, Dori Energy and EAIS to the proceeding. On June 15, 2019, Edelcom filed its response to the petition, requesting that the court accept the petition. On August 13, 2019, Dorad, EAIC and the Dorad board members submitted their responses and requested that the petition be dismissed. On December 8, 2019 an evidentiary hearing was held. Subsequent to the report date, on January 12, 2020, the court ruled that Zorlu and Edelcom will submit written summaries within 45 days and that the respondents will submit written summaries 45 days thereafter. *To the Company's knowledge, the Dorad 2 Project is currently under initial internal examination by Dorad and there can be no assurance as to if, when and under what terms it will be advanced or promoted by Dorad.*

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 6 - Investee Companies and other investments (cont'd)

A. Equity accounted investees (cont'd)

U. Dori Energy Infrastructures Ltd. ("Dori Energy") (cont'd)–

Composition of the investments

	December 31	
	2019	2018
	€ in thousands	
Investment in shares	23,580	19,641
Long-term loans	10,595	8,774
Deferred interest	(614)	(669)
	33,561	27,746
Current Maturities of the long-term loans	-	415
	33,561	28,161

Changes in investments

	2019	2018
	€ in thousands	
Changes in equity and loans:		
Balance as at January 1	28,161	30,820
Repayment of long term loans	(370)	(4,576)
Interest and reevaluation in connection with long term loans	782	1,079
Deferred interest	54	52
Elimination of interest on loan from related party	(868)	(1,130)
The Company's share of income	3,086	2,545
Foreign currency translation adjustments	2,716	(629)
Balance as at December 31	33,561	28,161

Notes to the Consolidated Financial Statements as at December 31, 2019

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												
2019												
Dori Energy	50	44	62,484	62,506	(215)	(20,852)	(21,067)	41,483	20,742	3,269	(431)	23,580
2018												
Dori Energy	50	1,154	49,629	50,783	(204)	(18,005)	(18,209)	32,574	16,287	3,376	(22)	19,641

(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						
2019						
Dori Energy	50	5,281	2,640	868	(422)	3,086
2018						
Dori Energy	50	3,668	1,834	1,130	(419)	2,545

Notes to the Consolidated Financial Statements as at December 31, 2019

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 (€64 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, 2019, the Company estimated the fair value of the second installment to be paid at approximately NIS 5,500 thousand (approximately €1,418 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 Sheuva 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. ("Ortam") and the Galilee Development Cooperative Ltd., an Israeli cooperative ("Galilee"). 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 and milestones. 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, 2019, the Company paid an amount of approximately NIS 3,400 thousand (approximately €883 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 approximately NIS 39,000 thousands (approximately €10,000 thousand).

Notes to the Consolidated Financial Statements as at December 31, 2019

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 "Prior Conditional License") from the Israeli Minister of Energy (the "Minister"). The Prior Conditional License initially regulated the construction of a pumped storage plant in the Manara Cliff with a capacity of 340 MW. The Prior Conditional License includes several conditions precedent to the entitlement of the holder of the Prior Conditional License to receive an electricity production license. The Prior 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, 2019

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). On March 14, 2019, a pre-trial hearing was held. It was agreed that the parties would hold talks and update the court if they reach any agreement regarding compromising. On March 24, 2019 the parties notified the court that they did not reach a compromise. The claim is now in disclosure proceedings.

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 Prior 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.

In November 2019 Ellomay PS received a land assessment, or the Assessment, from the Israel Land Authority, or the ILA, in connection with the Manara PSP. The Assessment requires Ellomay PS to pay approximately NIS 160 million (approximately €41.3 million) to the ILA in consideration for the ILA's consent to the sublease of the land on which the Manara PSP is currently planned to be constructed. The ILA's consent is required in order to obtain building permits and financing for the construction of the Manara PSP. Ellomay PS has contested the Assessment and is waiting for the ILA's response. Ellomay PS also has the right to appeal the Assessment if its contest of the Assessment will be rejected. Ellomay PS and its advisors believe that the consent fee required is significantly higher than the reasonable amount, among other reasons due to the consent fee reflecting a demand for payment of more than NIS 1 million per one installed MW. Ellomay PS is reviewing the Assessment and contemplating its future steps in connection with the Assessment and the Manara PSP. Ellomay PS will attempt to reduce the Assessment to a reasonable amount that will maintain the economic feasibility of the Manara PSP.

On February 26, 2020, Ellomay PS retracted the Prior Conditional License issued to it, which was due to expire on February 28, 2020 because Ellomay PS did not reach financial closing by such date as was required under the milestones included in the Prior Conditional License. On the same date, Ellomay PS filed an application for a new similar conditional license for a pumped storage facility with a capacity of 156 MW, based on the remaining portion of the quota for pumped storage projects in Israel as determined by the Israeli Government and implemented by the Israeli Electricity Authority, which is currently 800 MW.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 6 - Investee Companies and other investments (cont'd)

B. Pumped Storage Projects (cont'd)

In December 2018, the Company executed a settlement agreement, with A.R.Z. Electricity, which indirectly holds 8.33% in Ellomay PS. The Settlement Agreement resolves a claim made by A.R.Z. Electricity and Mr. Raanan Aloni against the Company and its affiliates, in connection with the Manara PSP, and other disputes between such parties concerning the Manara PSP. The 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, subject to the full and timely payment by A.R.Z. Electricity and Raanan Aloni of all their obligations and debts to the Company and to Ellomay PS, plus interest at a rate of 5% per annum.

In 2019 an amount of approximately €3,500 thousand, mainly attributable to consultancy expenses for the planned construction of Manara PSP power plant, was recorded under project development costs. The Company expects to continue promoting the Manara PSP but may, for various reasons including in the event the Assessment is not timely overturned or significantly reduced, in the event a new conditional license is not issued, or in the event of 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	
	2019	2018
	€ in thousands	
On account of the Manara PSP	883	798
	<u>883</u>	<u>798</u>

Composition of short-term and long-term financial assets

	December 31	
	2019	2018
	€ in thousands	
Income receivable in connection with the A.R.Z. Electricity PSP	1,418	1,282
	<u>1,418</u>	<u>1,282</u>

C. Subsidiaries -**1. Biogas Projects in the Netherlands**

In July 2016, the Company, through its wholly-owned subsidiary Ellomay Luxembourg Holdings S.à.r.l. ("Ellomay Luxembourg"), 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 Waste-to-Energy (specifically Gasification and Bio-Gas (anaerobic digestion)) projects in the Netherlands. Pursuant to the Ludan Agreement, subject to the fulfillment of certain conditions, the Company, through Ellomay Luxembourg, was to acquire at least 51% of each project company and Ludan will own the remaining 49%.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 6 - Investee Companies and other investments (cont'd)

C. Subsidiaries – (cont'd)

1. Biogas Projects in the Netherlands (cont'd)

Groen Goor Anaerobic Digestion Project-

Pursuant to the Ludan Agreement, the Company, through Ellomay Luxembourg, acquired 51% of 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") during 2016.

During September 2016, the Company, through Ellomay Luxembourg, 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 Luxembourg, acquired 51% of Groen Gas Oude-Tonge B.V. ("Groen Gas Oude-Tonge") a project company 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") during 2017.

During April 2017, Oude-Tonge, entered into an EPC agreement with Ludan.

The Oude-Tonge facility commenced operations in June 2018.

In March 2019, the Company executed an agreement with Ludan and several entities affiliated with Ludan, for the acquisition of 49% of Groen Goor and Groen Gas Oude-Tonge in consideration for approximately €3 million. The acquisition was consummated during 2019, and the Company currently indirectly wholly-owns the two Biogas installations in the Netherlands.

During 2019, the Company assessed the fair value of two cash generating projects in the Netherlands in the Biogas segment in light of operating losses suffered by these projects during this period. The examination was conducted based on projected cash flows that were discounted at a rate of 6.6%. The examination concluded that the fair value of the projects is slightly higher than the carrying value of the projects and therefore there is no need for a provision for impairment. The assumptions on which the examination was based could be affected by our inability to meet our budget, our inability to maintain and procure the feedstock necessary for optimal performance of the units, by technical malfunctions and by other circumstances that influence the operation of the projects.

2. The Talasol Project

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 Luxembourg 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 Luxembourg. The remaining amount of €2 million was deposited in January 2019 in a trust account held in escrow and will be released to the sellers of the Talasol shares upon the earliest to occur of three years following the execution of the SPA or the issuance of the commissioning certificate of the Talasol Project.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 6 - Investee Companies and other investments (cont'd)

C. Subsidiaries - (cont'd)

2. The Talasol Project (cont'd)

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 includes 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 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. The PPA became effective in March 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. On April 30, 2019, the Talasol Project reached financial closing (see Note 11).

On April 17, 2019, the Company, through its wholly owned subsidiary Ellomay Luxembourg, executed a Credit Facilities Assignment and Sale and Purchase of Shares Agreement ("the Talasol SPA"), with GSE 3 UK Limited and Fond-ICO Infraestructuras II, FICC (together, "the Talasol Partners"), pursuant to which it agreed to sell to each of the Talasol Partners 24.5% of its holdings in Talasol. The Talasol SPA further provides that the Company will assign to the Talasol Partners, in equal parts, 49% of its rights and obligations under the agreements executed in connection with the project finance obtained for the Talasol Project. The transactions contemplated under the Talasol SPA were consummated in April 2019. The aggregate purchase price paid by the Talasol Partners, in the amount of approximately €16.1 million, represented 49% of the amounts withdrawn and interests accrued from and by Talasol Project's financing as of the closing date of the Talasol SPA (approximately €4.9 million), plus a payment for 49% of Talasol's shares (approximately €4.9 million) plus a premium of approximately €6.1 million.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 6 - Investee Companies and other investments (cont'd)**C. Subsidiaries - (cont'd)****2. The Talasol Project (cont'd)**

Of such aggregate purchase price, the payment of €1.4 million was deferred until the achievement of a preliminary acceptance certificate under the EPC agreement of the Talasol Project. As the Company directs the operations of Talasol and the rights granted to the Talasol Partners are minority protective rights, these changes in the Company's ownership interest in Talasol did not result in loss of control and were accounted for as equity transactions. The Company therefore recognized in Equity an amount of approximately €6.1 million, less associated expenses in the amount of approximately €0.7 million.

On the closing date of the Talasol SPA, the Company, through its wholly owned subsidiary Ellomay Luxembourg, and the Talasol Partners entered into a Partners' Agreement ("the Talasol PA") setting forth the relationship between the prospective shareholders of Talasol, the governance and management of Talasol, the funding and financing of Talasol and the mechanism for future transfers of Talasol's shares.

The Talasol PA further provides that Ellomay Luxembourg will be entitled to receive a management fee from Talasol in consideration for the administrative, support and management services to be provided to Talasol by Ellomay Luxembourg.

3. Sale of Italian indirect wholly-owned subsidiaries

On December 20, 2019, the Company sold ten Italian indirect wholly-owned subsidiaries, which own twelve photovoltaic plants with an aggregate nominal capacity of approximately 22.6 MW, and sold the sale of the receivables arising from shareholder loans provided to such companies. The agreed purchase price was €38.7 million (after approximately €2.3 million adjustments in connection with funds received by the Company from the Italian Subsidiaries during 2019). As a result of such sale, the Company recorded a capital gain of approximately €18.8 million.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 6 - Investee Companies and other investments (cont'd)

C. Subsidiaries - (cont'd)

3. Sale of Italian indirect wholly-owned subsidiaries (cont'd)

Identifiable sold assets and liabilities:

	December 31 2019
	€ in thousands
Cash and cash equivalents	4,106
Trade and other receivables	4,569
Deferred tax and advance tax payment and tax provision	2,864
Fixed assets	41,431
Restricted cash	156
Right of use asset	1,356
Trade and other payables	(2,458)
Loans and borrowings	(30,725)
Lease liability	(1,377)
Total net identifiable assets	19,922
Capital gain	18,770
	38,692
Cash and cash equivalents	(4,106)
Proceeds from sale of investments	34,586

The Sale and Purchase Agreement governing the sale of the subsidiaries and the receivables includes customary representations and warranties and indemnification mechanisms, including specific indemnification for existing risks for a limited time as follows:

- (i) Indemnification in the amount of up to €250 thousand in connection with potential tax liabilities (until December 31, 2023).
- (ii) Indemnification in the amount of up to €500 thousand in connection with potential incentive reduction under limited circumstances in one of the Italian subsidiaries sold (until December 31, 2023).
- (iii) During 2019 the Company recorded approximately €2.1 million expenses in connection with the announcement received from GSE, Italy's energy regulation agency, by one of the Company's Italian subsidiaries, claiming alleged non-compliance of the installed modules with the required certifications under the applicable regulation and raising the need to examine incentive eligibility implications (the "GSE Claim"). On December 20, 2019, the Company sold its holdings in this subsidiary. The Sale and Purchase Agreement governing the sale of the subsidiary provided for an indemnification of up to €2.1 million in connection with the GSE Claim and the Company recorded this potential payment as other expenses.

Notes to the Consolidated Financial Statements as at December 31, 2019

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 ₪4,476 thousand), subject to certain adjustments, after which the aggregate consideration amounted to approximately NIS 48,625 thousand (approximately ₪1,815 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):

	<u>Acquisition date</u> <u>€ in thousands</u>
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:

	<u>€ in thousands</u>
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.

Composition of Asset from concession project

	<u>Asset from concession project</u> <u>€ in thousands</u>
Balance as at December 31, 2018	27,002
Total income recognized in profit or loss	1,757
Proceeds from asset from concession project	(2,994)
Foreign Currency translation adjustments	2,820
Balance as at December 31, 2019	<u>28,585</u>
Less current maturities	1,463
Long-term Asset from concession project	<u>27,122</u>

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 7 - Trade and Other Receivables and Assets

	December 31	
	2019	2018
	€ in thousands	
Current Assets - Other receivables:		
Government authorities	781	2,706
Income receivable	1,075	3,830
Interest receivable	38	6
Current tax	-	195
Current Maturities of loan to an equity accounted investee	-	415
Trade receivable	805	156
Inventory	284	-
Derivatives (refer to Note 21)	94	-
Forward contracts closed (1)	-	529
Loan to others (2)	-	3,500
Prepaid expenses and other	1,805	1,286
	4,882	12,623
Non-current Assets - Long term receivables:		
Advance tax payment	-	996
Prepaid expenses associated with long term loans	12,218	-
Annual rent deposits	30	27
Other	1	432
	12,249	1,455

- (1) The Company closed euro/USD forward contracts with an accumulated profit of approximately €529 thousand (approximately \$606 thousand) and received between January and March 2019 an amount of €531 thousand.
- (2) In November 2018, Talasol provided an amount of €3,500 thousand to METKA EGN Limited, the EPC contractor of the Talasol Project, for the purpose of securing or executing main supply contracts for the execution of the EPC agreement with Metka. The amount was repaid in May 2019.
- (3) Prepaid commission expenses paid in connection with the credit Talasol project finance.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 8 - Fixed assets

	Photovoltaic Plants	Biogas installations	Office furniture and equipment	Leasehold Improvements	Total
	€in thousands				
Cost					
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	98,289	18,656	138	52	117,135
Balance as at January 1, 2019	98,289	18,656	138	52	117,135
Additions	*73,402	932	9	-	74,343
Disposals	*(68,908)	-	-	-	(68,908)
Effect of changes in exchange rates	1	-	-	-	1
Balance as at December 31, 2019	102,784	19,588	147	52	122,571
Depreciation					
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	28,550	1,192	121	52	29,915
Balance as at January 1, 2019	28,550	1,192	121	52	29,915
Depreciation for the year	4,383	1,353	8	-	5,744
Disposals	*(27,477)	-	-	-	(27,477)
Balance as at December 31, 2019	5,456	2,545	129	52	8,182
Carrying amounts					
As at January 1, 2018	63,768	15,046	23	-	78,837
As at December 31, 2018	69,739	17,464	17	-	87,220
As at December 31, 2019	97,328	17,043	18	-	114,389

*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). On December 20, 2019, the Company sold ten Italian indirectly wholly-owned subsidiaries, which own twelve of the aforementioned seventeen photovoltaic plants with an aggregate nominal capacity of approximately 22.6 MW.

In connection with PV Plants owned by the Company as of December 31, 2019 and the Talasol Project, the Company recorded as of December 31, 2019, fixed assets at an aggregate value of approximately €102,784 thousand, in accordance with actual costs incurred. Depreciation with respect to the PV Plants in Italy (sold by the Company on December 20, 2019) was 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, 2019, the Company recorded depreciation expenses with respect to its PV Plants in Italy and Spain of approximately €4,383 thousand.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 8 - Fixed assets (cont'd)

Presented hereunder are data regarding the Company's investments in photovoltaic plants as at December 31, 2019:

PV Plant Title	Nominal Capacity	Connection to Grid	Cost included in
			the Book value as
			at
			December 31,
			2019
			€ in thousands
"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	under construction	83,770

Investment in Biogas Installations

In connection with the Company's Biogas Installations (see Note 6C 1), the Company recorded as of December 31, 2019, fixed assets at an aggregate value of approximately €19,588 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, 2019, the Company recorded depreciation expenses with respect to its Biogas Installations in the Netherlands of approximately €1,353 thousand.

Capitalized borrowing costs

In the reporting period borrowing costs in the amount of €1,140 thousand were capitalized to qualifying assets. Those expenses are related to the Talasol Project.

Note 9 - Other Payables

	December 31	
	2019	2018
	€ in thousands	
Employees and payroll accruals	224	111
Indemnification liability (refer to Note 18D)	2,100	-
Government authorities	155	185
Lease liability (S/T)	225	-
Derivatives (refer to Note 21)	766	365
Accrued expenses	1,430	2,316
Current tax	110	126
	5,010	3,103

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 10 - Current maturities of long term loans

Composed as follows:

	Linkage terms	Interest rate 2018 and 2019	December 31 2019	December 31 2018
		%	€ in thousands	
Current maturities of long term	EURIBOR	1.6-3.5	2,469	4,405
loans (refer to Note 11)	Consumer price index in Israel	4.65	1,669	1,459
			4,138	5,864

Note 11 - Loans

A. Loans details

Composed as follows:

	Linkage term	Interest rate 2019	December 31 2019
		%	€ in thousands
Bank loans	EURIBOR	1.6-3.5	25,620
	Consumer price index in Israel	4.65	19,323
Other long-term loans		2.5-5.5	48,377
			93,320

	Linkage term	Interest rate 2018	December 31 2018
		%	€ in thousands
Bank loans	EURIBOR	1.6-3.5	42,545
	Consumer price index in Israel	4.65	18,843
Other long-term loans		2.5-5	4,704
			66,092

- 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 in the amount of €1.1 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 December 20, 2019, the Company sold its holdings in this subsidiary.

- 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, 2025. As of December 31, 2019, the amount of the loan is €1,755 thousand.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 11 - Loans (cont'd)

A. Loans details (cont'd)

3. 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), 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), 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. The amount of €4,850 thousand was withdrawn in 2017 and 2018 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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 11 - Loans (cont'd)

A. Loans details (cont'd)

In connection with the Loan Agreements 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 in the favor of Rabobank. As of December 31, 2019, 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 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.

4. 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 milestones 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.

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, 2019, the financial covenants were met.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 11 - Loans (cont'd)

A. Loans details (cont'd)

5. 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.

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%.

On December 20, 2019, the Company sold its holdings in these subsidiaries.

6. On March 12, 2019, four of the Company's Spanish subsidiaries (together, hereinafter – the “Subsidiaries”) entered into a €18.4 million project finance Facility Agreement (the “Facility Agreement”). The €18.4 million principal amount is divided into: (i) four term loan facilities, one for each Subsidiary, in the aggregate amount of €17.6 million with terms ending in December 2037, and (ii) a revolving credit facility to attend the debt service if needed, for a maximum amount of euro 0.8 million granted to any of the Subsidiaries.

The loans provided under the Facility Agreement bear an annual interest at the rate of Euribor 6 months plus a margin of 2% (with a zero interest floor) and 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 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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 11 - Loans (cont'd)

A. Loans details (cont'd)

The regulatory value of the photovoltaic plants owned by the 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 €14.6 million as of September 30, 2018. The Facility Agreements includes a cash-sweep payment mechanism and obligation that applies in the event the Subsidiaries' net debt to regulatory value ratio is equal to or higher than 0.7:1. As of December 31, 2019, the financial covenants were met.

The Subsidiaries entered into swap agreements on March 12, 2019 with respect to 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 6 month rate of approximately 1%, resulting in a fixed annual interest rate of approximately 3%. Such swap transactions qualify for hedge accounting.

The Project Finance documents require that security interests be provided in connection with the following: (i) the Subsidiaries' shares (held by Ellomay Luxembourg), (ii) pledges over accounts, (iii) pledges over relevant agreements including hedging agreements; and (iv) promissory equipment mortgage.

7. On April 30, 2019, the Talasol Project reached financial closing in the aggregate amount of approximately €158.5 million ("the Project Finance"). The Project Finance consists of several facilities from Deutsche Bank AG and from the European Investment Bank ("EIB"). The Talasol Project Finance includes the following facilities:

(a) a term facility in the amount of approximately €65.9 million, 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 EURIBOR (with a zero floor and synchronous with the applicable interest period described below) plus a margin determined based on the stage of the Talasol 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 financial power swap agreement that Talasol entered into last June (see Note 21) (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. As of December 31, 2019, the Company made no withdrawals on account of this facility;

(b) a revolving debt service reserve facility in the amount of €4.45 million, 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 Talasol 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) VAT facility in the amount of €6.67 million, 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 1 month EURIBOR (with a zero floor) plus a margin of 2%. As of December 31, 2019, the amount of the VAT facility is €80 thousand;

(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;

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 11 - Loans (cont'd)

A. Loans details (cont'd)

(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 EURIBOR synchronous with the applicable interest period plus a margin (expected to be 1.76%). As of December 31, 2019, the Company made no withdrawals on account of this facility; and

(f) a revolving debt service reserve facility from the EIB in the amount of €4.45 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.

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 VAT facilities' interest period, however, remains on a monthly basis. 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 Luxembourg), (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.

In connection with the Talasol Project Finance, Ellomay Luxembourg, 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.

On April 30, 2019 Talasol entered into a swap agreement for an amount equal to at least 95% of the maximum amount of the term facilities and replacing the Euribor 6 month rate with a fixed 6 month rate of approximately 0.9412%.

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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 11 - Loans (cont'd)

A. Loans details (cont'd)

8. On April 30, 2019, following the financial closing of Talasol Project and sale of 49% holdings of the Talasol Project, Talasol entered into a loan agreement with GSE 3 UK Limited and Fond-ICO Infraestructuras II, FICC (own 24.5%, respectively). The unpaid balance (principal and interest) of the loan will bear interest of Euribor 6 month plus 5.27%. The maturity date of this loan is December 31, 2037. As of December 31, 2019, the amount of the loan is €46,622 thousand.

B. The aggregate annual maturities are as follows:

	December 31 2019	December 31 2018
	€ in thousands	
Second year	7,656	6,069
Third year	5,274	5,847
Fourth year	5,342	6,040
Fifth year	5,242	6,163
Sixth year and thereafter	65,668	36,109
Long-term loans	89,182	60,228
Current maturities	4,138	5,864
	93,320	66,092

- 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. For more information, see Note 21.

D. Movement in liabilities deriving from financing activities

	Note	Liabilities		Total
		Loans and borrowings	Debentures	
		€in thousands		
Balance as at January 1, 2019		66,092	51,343	117,435
Changes from financing cash flows				
Proceeds from issue of debentures	12	-	22,317	22,317
Repayment of Debentures	12	-	(9,836)	(9,836)
Receipt of loans	11	63,821	-	63,821
Repayment of loans	11	(11,051)	-	(11,051)
Accrued interest	11	1,608	-	1,608
Transaction costs related to borrowings		223	2,101	2,324
Sale of Italian subsidiaries		(29,400)	-	(29,400)
Total net financing cash flows		91,293	65,925	157,218
Effect of changes in foreign exchange rates		2,027	5,659	7,686
Balance as at December 31, 2019		93,320	71,584	164,904

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 12 - Debentures

A. Composed as follows:

	December 31, 2019		December 31, 2018	
	Face value	Carrying amount	Face value	Carrying amount
	€ in thousands		€ in thousands	
Debentures	72,137	71,584	52,056	51,343
Less current maturities	26,928	26,773	8,975	8,758
Total long-term debentures	45,209	44,811	43,081	42,585

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. 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 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 the Company's 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

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 12 – Debentures (cont'd)

B. Debentures – Details (cont'd)**Series A Debentures (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).

In December 2019, the Company announced the early repayment of the entire outstanding principal of the Company's Series A Debentures pursuant to the terms of the deed of trust governing these Debentures.

The early repayment amount was the sum of approximately NIS 80.1 million (approximately €20.8 million) in principal, the sum of approximately NIS 0.05 million (approximately €0.01 million) in accrued interest and a prepayment charge of approximately NIS 5.7 million (approximately €1.5 million), amounting to an aggregate repayment amount of approximately NIS 85.9 million (approximately €22.3 million). On December 30, 2019 the funds designated for such repayment were transferred to the nominee company.

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. The Series B Debentures are traded on the TASE and have been rated Baal.il /Stable, on a local scale, by Midroog Ltd.

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 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 the Company's Debentures from ilA- to ilBBB+ (by the previous rating company that rated the Series B Debentures, Standard & Poor's Maalot Ltd.), the Series B Debentures fixed annual interest rate was increased by 0.25% to 3.69%.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 12 – Debentures (cont'd)**B. Debentures – Details (cont'd)****Series B Debentures (cont'd)**

The Series B 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 the Company's 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, with an increase of 0.5% for the period in which the Company do not meet each standard and up to an increase of 1% in the annual interest (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 the Company's 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 the Company's continued compliance with the financial covenants included in the Series B Deed of Trust and provided that the Company are not in default of any of the immediate repayment provisions included in the Series B Deed of Trust or in material default of the Company's 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 and includes a mechanism for the update of the annual interest rate of the Series B Debentures in the event the Company do not meet certain financial standards. The financial covenants are as follows:

1. the Company's balance sheet 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 the Company's subsidiaries, or, together, the Net Financial Debt, to (b) the Company's equity (which the Company calculate in line with the definition of balance sheet equity in the Series B Deed of Trust), on a consolidated basis, plus the Net Financial Debt, 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 annual interest update provision; and
3. The ratio of (a) the Company's equity (which the Company calculate in line with the definition of balance sheet equity in the Series B Deed of Trust), on a consolidated basis, to (b) the Company's balance sheet, on a consolidated basis, 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 annual interest update provision.

On September 25, 2019, the Company published the Company's pro forma statement of financial position as at June 30, 2019, which indicated that the ratio of the Company's equity (which the Company calculate in line with the definition of Balance Sheet Equity in the Series B Deed of Trust) to balance sheet as at June 30, 2019 was 29.2%, triggering a right of the holders of the Company's Series B Debentures to an increase in the annual interest rate applicable to the Series B Debentures of 0.5% until such time as the Company publish financial results reflecting an increase in such ratio to a minimum of 30%.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 12 – Debentures (cont'd)**B. Debentures – Details (cont'd)****Series B Debentures (cont'd)**

On December 31, 2019, the Company published the Company's pro forma statement of financial position as at September 30, 2019, which indicated that the ratio of the Company's equity, as set forth above, to balance sheet as of September 30, 2019 was 31.6%, triggering a decrease in the annual interest rate applicable to the Series B Debentures of 0.5% to its previous rate of 3.69%.

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

As of December 31, 2019, 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 €21,452 thousand, based on the NIS/euro exchange rate as at December 31, 2019) with a euro notional principal. Such currency swap transactions qualify for hedge accounting.

Series C Debentures

On July 25, 2019, the Company issued Series C Debentures due June 30, 2025 in a public offering in Israel in the aggregate principal amount of NIS 89,065 thousand (approximately €22,690 thousand based on the Euro /NIS exchange rate at that time). The Series C Debentures bear fixed interest at the rate of 3.3% per year and are not linked to the Israeli CPI or otherwise. The gross proceeds of the offering were NIS 89,065 thousand and the net proceeds of the offering, net of related expenses such as consultancy fee and commissions, were approximately NIS 87,600 thousand (approximately €22,317 thousand). The principal amount of Series C Debentures is repayable in five (5) unequal annual installments as follows: on June 30, 2021 10% of the principal shall be paid, on June 30 of each of the years 2022 and 2023, 15% of the principal shall be paid and on June 30 of each of the years 2024 and 2025, 30% of the principal shall be paid. The Series C Debentures bear a fixed interest at the rate of 3.3% per year (that is not linked to the Israeli CPI or otherwise), payable semi-annually on June 30 and December 31 commencing December 31, 2019 through June 30, 2025 (inclusive).

The Series C Deed of Trust includes customary provisions, including (i) a negative pledge such that the Company may not place a floating charge on all of the Company's assets, subject to certain exceptions and (ii) an obligation to pay additional interest for failure to maintain certain financial covenants, with an increase of 0.25% for the period in which the Company do not meet each standard and up to an annual increase of 0.5%. The Series C Deed of Trust does not restrict the Company's ability to issue any new series of debt instruments, other than in certain specific circumstances, and enables us to expand the Series C Debentures provided that: (i) the Company are not in default of any of the immediate repayment provisions included in the Series C Deed of Trust or in breach of any of the Company's material obligations to the holders of the Series C Debentures pursuant to the terms of the Series C Deed of Trust, (ii) the expansion will not harm the Company's compliance with the financial covenants included in the distribution undertaking Series C Deed of Trust and (iii) to the extent the Series C Debentures are rated at the time of the expansion, the expansion will not harm the rating of the existing Series C Debentures.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 12 – Debentures (cont'd)

A. Debentures – Details (cont'd)

Series C Debentures (cont'd)

The Series C Deed of Trust includes a number of customary causes for immediate repayment, including a default with certain financial covenants for two consecutive financial quarters, and includes a mechanism for the update of the annual interest rate of the Series B Debentures in the event the Company do not meet certain financial standards. The financial covenants are as follows:

1. the Company's balance sheet equity, on a consolidated basis, shall not be less than €50 million for purposes of the immediate repayment provision and shall not be less than €60 for purposes of the annual interest update provision;
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 the Company's subsidiaries, or, together, the Net Financial Debt, to (b) the Company's equity (which the Company calculate in line with the definition of Balance Sheet Equity in the Series C Deed of Trust), on a consolidated basis, plus the Net Financial Debt, or the Company's CAP, Net, to which the Company refer herein as the Ratio of Net Financial Debt to CAP, Net, shall not exceed the rate of 67.5% for purposes of the immediate repayment provision and shall not exceed a rate of 60% for purposes of the annual interest update provision; and
3. The ratio of (a) the Company's Net Financial Debt, to (b) the Company's earnings before financial expenses, net, taxes, depreciation and amortization, where the revenues from the Company's operations, such as the Talmei Yosef project, are calculated based on the fixed asset model and not based on the financial asset model (IFRIC 12), and before share-based payments, based on the aggregate four preceding quarters, or the Company's Adjusted EBITDA, to which the Company refer to herein as the Ratio of Net Financial Debt to Adjusted EBITDA, shall not be higher than 12 for purposes of the immediate repayment provision and shall not be higher than 10 for purposes of the annual interest update provision.

The Series C Deed of Trust includes similar conditions to the Company's ability to make distributions to the Company's shareholders as are included in the Series A and Series B Deeds of Trust and set forth above. the Company are also required to maintain the following financial ratios (which are calculated based on the same definitions applicable to the financial standards set forth above) after the distribution: (i) balance sheet equity not lower than €70 million, (ii) Ratio of Net Financial Debt to CAP, Net not to exceed 60%, and (iii) Ratio of Net Financial Debt to Adjusted EBITDA, shall not be higher than 8, and not to make distributions if the Company do not meet all of the Company's material obligations to the holders of the Series C Debentures and if on the date of distribution and after the distribution a cause for immediate repayment exists.

As of December 31, 2019, the financial covenants were met.

C. The aggregate annual maturities are as follows:

	December 31 2019	December 31 2018
	€ in thousands	
Second year	6,927	8,789
Third year	8,098	8,833
Fourth year	9,714	8,874
Fifth year	13,195	10,354
Sixth year and thereafter	6,877	5,735
Long-term loans	44,811	42,585
Current maturities	26,773	8,758
	71,584	51,343

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 13 - Other Long-term Liabilities

	December 31 2019	December 31 2018
	€in thousands	
Government authorities	-	209
Forward contracts closed (1)	1,767	1,731
Liabilities for employees benefits	28	19
	1,795	1,959

- (1) The Company closed euro/USD forward contracts with an accumulated loss of approximately €1,767 thousand (approximately \$1,982 thousand) that are expected to be received between 2021 and 2022 (depending on the relevant dates of the forward positions).

Note 14 - Leases

Leases in which the Company is the lessee

The Company applies IFRS 16, Leases, as from January 1, 2019. The Company has lease agreements with respect to lessees of lands.

1. Information regarding material lease agreements entered into during the period

- a. The Company leases land in Talmei Yosef from the Talmei Yosef Moshav for a period of approximately 25 years, on which the Talmei Yosef PV Plant is located. The contractual period of the aforesaid lease agreements ends on November 25, 2034. A lease liability in the amount of €1,606 thousand and right-of-use asset in the amount of €1,585 thousand have been recognized in the statement of financial position as at December 31, 2019 in respect of leases of land.
- b. The Company leases land in Spain from private lessors for a period of approximately 16 years, on which it sets up photovoltaic sites. The contractual period of the aforesaid lease agreements ends on July 25, 2035. A lease liability in the amount of €1,177 thousand and right-of-use asset in the amount of €1,160 thousand have been recognized in the statement of financial position as at December 31, 2019 in respect of leases of land.
- c. The Company leases land in Spain from the Municipality of Talaván for a period of approximately 42 years, on which it sets up photovoltaic sites. The contractual period of the aforesaid lease agreements ends on September 8, 2060. A lease liability in the amount of €2,844 thousand and right-of-use asset in the amount of €2,656 thousand have been recognized in the statement of financial position as at December 31, 2019 in respect of leases of land.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 14 - Leases (cont'd)

Leases in which the company is the lessee (cont'd)

2. Right-of-use assets

	Talmei Yosef	Spain	Talasol	Italy	Total
	€in thousands				
Cost					
Balance as at January 1, 2019	-	-	-	-	-
Additions	1,516	1,235	12,686	1,469	16,906
Disposals	-	-	-	(1,469)	(1,469)
Effect of changes in exchange rates	172	-	-	-	172
Balance as at December 31, 2019	1,688	1,235	12,686	-	15,609
Depreciation					
Balance as at January 1, 2019	-	-	-	-	-
Depreciation for the year	103	75	30	113	321
Disposals	-	-	-	(113)	(113)
Balance as at December 31, 2019	103	75	30	-	208
Carrying amounts					
As at January 1, 2018	-	-	-	-	-
As at December 31, 2018	-	-	-	-	-
As at December 31, 2019	1,585	1,160	12,656	-	15,401

3. Lease liability

Maturity analysis of the company's lease liabilities

	December 31, 2019
	€in thousands
Less than one year	225
One to five years	1,439
More than five years	13,963
Total	15,627
Current maturities of lease liability	225
Long-term lease liability	15,402

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 14 - Leases (cont'd)

Leases in which the company is the lessee (cont'd)

4. Additional information on leases

(a) Amounts recognized in profit or loss

	2019
	€ in thousands
Interest expenses on lease liability	341
Total	341

(b) Short-term leases

As mentioned in Note 3J regarding significant accounting policies, the Company accounts for short-term leases and leases of low-value assets as expense on a straight-line basis over the lease term, instead of a right-of-use asset and lease liability. These leases include office space.

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 and provide board services and chief executive officer services. 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 management fee was increased to \$400 thousand in June 2013 (approximately €356 thousand, based on the NIS/euro exchange rate as at December 31, 2019 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, 2022.

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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 15 - Transactions and Balances with Related Parties (cont'd)

B. Compensation to key management personnel and interested parties (including directors)

Directors and officers participate in the Company's share option programs. For further information see Note 17 regarding share-based payments.

Compensation to key management personnel and interested parties that are employed by the Company:

	Year ended December 31					
	2019		2018		2017	
	Number of People	Amount €thousands	Number of People	Amount €thousands	Number of People (*)	Amount €thousands
Short-term employee						
Benefits	3	689	2	371	2	377
Post-employment						
Benefits	2	56	2	48	2	57
Share-based payments	1	29	2	-	2	-

* 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					
	2019		2018		2017	
	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	72	3	49	3	35
share-based payments	3	9	3	5	3	14

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	2019	2018	2019	2018	2017
	%				€thousands		
Dori Energy	8.1 (*)	NIS+CPI	10,595	9,189	814	1,130	1,158

(*) See Note 6A

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 16 - Equity

A. Composition of share capital

	December 31, 2019		December 31, 2018		December 31, 2017	
	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	11,737,140(1)	17,000,000	10,675,508(1)	17,000,000	10,675,508(1)

(1) Net of treasury shares as follows: 258,046 Ordinary shares as of December 31, 2019, 2018 and 2017, all of which have been purchased according to share buyback programs that were authorized the Company's Board of Directors.

On July 17, 2019, the Company issued 800,000 ordinary shares to several Israeli qualified investors in a private placement undertaken in accordance with Regulation S of the Securities Act. The price per share was set at NIS 39.20 and net proceeds were approximately NIS 31,100 thousand (approximately €7,807 thousand based on the Euro /NIS exchange rate at that time) (net of related expenses such as consultancy fee and commissions of approximately NIS 200 thousand (approximately €50 thousand based on the Euro /NIS exchange rate at that time)).

B. Rights attached to shares:

1. Voting rights at the general meeting, right to dividend and rights upon liquidation of the Company.
2. Commencing August 22, 2011, the Company's ordinary shares 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.

Notes to the Consolidated Financial Statements as at December 31, 2019

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 were to 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 were 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, which were then outstanding. The buyback program did not obligate the Company to acquire a specific number of shares in any period. As of December 31, 2019, 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.

On March 23, 2016, the Company announced the decision to distribute a cash dividend in the amount of \$0.225 per share (an aggregate distribution of approximately \$2.4 million). The Company distributed this dividend in April 2016.

The Company did not declare or pay a cash dividend during 2017 and did not repurchase any of its ordinary shares or declare or pay a cash dividend during 2018 and 2019.

Note 17 - Share-Based Payment

A. Expenses recognized in the financial statements

The expenses recognized in the financial statements for services received from directors and employees is shown in the following table:

	Year ended December 31		
	2019	2018	2017
	€thousand		
Expenses arising from share-based payment			
Transactions	8	5	5

The share-based payments that the Company granted to its employees and directors are described below. The share option plans were extended for an additional ten-year period in 2018. Other than the extension, there have been no modifications or cancellations to any of the share options plans during 2019, 2018 or 2017. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Notes to the Consolidated Financial Statements as at December 31, 2019

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		
	2019	2018	2017
Dividend yield	0%	0%	0%
Expected volatility	0.428	0.384	0.342
Risk-free interest	1.73%	2.67%	1.34%
Expected life (in years)	2-3	2-3	2-3

All options granted during 2019, 2018 and 2017 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	
	2019	2018
	US\$	
Weighted average exercise prices	11.4	8.95
Weighted average fair value on grant date	3.4	2.1

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.

As of December 31, 2019, 20,083 options are outstanding and 33,916 ordinary shares are available for future grants 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.

As of December 31, 2019, options to purchase 14,803 ordinary shares are outstanding and 206,580 ordinary shares are available for future grants under the 2000 Plan. Options that are cancelled or forfeited become available for future grant.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 17 - Share-Based Payment (cont'd)

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:

	2019		2018		2017	
	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	27,169	7.82	25,502	7.54	22,502	7.34
Granted during the year	18,303	11.41	3,000	8.95	3,000	9.02
Exercised during the year	(3,586)	6.27	-	-	-	-
Expired during the year	(7,000)	8.25	(1,333)	5	-	-
Outstanding at end of year	34,886	9.83	27,169	7.82	25,502	7.54
Exercisable at end of year	16,583	8.09	24,169	7.68	22,502	7.34

D. The weighted average remaining contractual life for the share options outstanding as of December 31, 2019 was 7.33 years (as of December 31, 2018 was 5.51 years and as of December 31, 2017 was 5.72 years).

E. The range of exercise prices for share options outstanding as of December 31, 2019: \$5.55- \$13 (as of December 31, 2018 and as of December 31, 2017 was \$4.7- \$9.37).

Notes to the Consolidated Financial Statements as at December 31, 2019

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		
	2019	2018	2017
	€ in thousands		
Interest Income and consumer price index in Israel in connection to concession project	1,757	1,948	789
Interest income	70	291	544
Change in fair value of derivatives, net	897	494	-
Gain from exchange rate differences, net	-	697	-
Total financing income	2,724	3,430	1,333

2. Financing expenses

	For the year ended December 31		
	2019	2018	2017
	€ in thousands		
Change in fair value of derivatives, net	-	-	3,156
Swap interest	270	206	110
Debentures interest and related expenses	4,696	2,604	2,753
Interest on loans	2,666	2,330	776
Consumer price index in Israel for loan	102	171	-
Bank charges and other commissions	585	210	180
Forward loss	513	-	-
Loss from exchange rate differences, net	2,045	-	3,586
Total financing expenses	10,877	5,521	10,561

B. Operating Costs, Depreciation and Amortization

	For the year ended December 31		
	2019	2018	2017
	€ in thousands		
Depreciation from fixed assets	5,744	5,500	4,518
Depreciation from Right-of-use assets	321	-	-
Amortization	351	316	-
Professional services	663	375	210
Annual rent	9	390	267
Operating and maintenance services	5,322	4,942	1,574
Insurance	344	245	203
Other	300	390	295
Total operating costs	13,054	12,158	7,067

C. General and administrative expenses

	For the year ended December 31		
	2019	2018	2017
	€ in thousands		
Salaries and related compensation	1,324	1,016	1,030
Professional services	1,978	2,185	1,255
Other	525	399	135
Total general and administrative expenses	3,827	3,600	2,420

Notes to the Consolidated Financial Statements as at December 31, 2019

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		
	2019	2018	2017
	€in thousands		
Other income in connection with the A.R.Z. electricity pumped storage project (see Note 6B)	-	73	18
Compensation from contractor (*)	-	811	-
Other (**)	(2,100)	-	-
Total other income, net	(2,100)	884	18

(*) Compensation from EPC and O&M contractor of the Company's Biogas projects in Netherlands due to deficiencies in the operation of these projects.

(**) Indemnification in the amount of up to €2,100 thousand in connection with potential incentive reduction under limited circumstances in one of the Italian subsidiaries that was sold on December 20, 2019. In connection with such indemnification, the Company recorded expenses in the amount of approximately €2,100 thousand (see Note 6C).

E. Revenues

	For the year ended December 31		
	2019	2018	2017
	€in thousands		
Revenues from the sale of solar electricity	13,069	12,593	13,150
Revenues from the sale of gas and power produced by anaerobic digestion plants	4,786	4,483	303
Revenues from concessions project	1,133	1,041	183
Total Revenues	18,988	18,117	13,636

Note 19 - Taxes on Income

A. Regional Taxation

Israeli taxation

Presented hereunder are the tax rates relevant to the Company in the years 2017-2019:

2017 – 24%, 2018 – 23% and 2019 – 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.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 19 - Taxes on Income (cont'd)

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.

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.

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 Energy 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		
	2019	2018	2017
	€ in thousands		
Current tax income (expense)			
Current year	(741)	(438)	(494)
Adjustments for prior years, net	(14)	26	1,044
	(755)	(412)	550
Deferred tax income			
Creation and reversal of temporary differences	1,042	197	(922)
Actual Tax benefit (tax on income)	287	(215)	(372)

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 19 - Taxes on Income (cont'd)

C. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense:

	2019	2018	2017
	€ in thousands		
Profit (loss) before taxes on income	9,497	819	(6,269)
Primary tax rate of the Company	23%	23%	24%
Tax calculated according to the Company's primary tax rate	(2,184)	(188)	1,505
Additional tax (tax saving) in respect of:			
Different tax rate of foreign subsidiaries	(11)	45	(106)
Neutralization of tax calculated in respect of the Company's share in profits of equity accounted investees	710	585	367
Changes in deferred taxes for tax losses and benefits from previous years for which deferred taxes were not created in the past	3,681	-	(448)
Change in temporary differences for which deferred tax were not recognized	(166)	(576)	(359)
Current year tax losses and benefits for which deferred taxes were not created	(1,740)	(136)	(1,142)
Tax benefit (taxes) in respect to previous years and others	(3)	55	(189)
Actual Tax benefit (tax on income)	287	(215)	(372)

D. Carry forward tax losses:

As of December 31, 2019, Ellomay Capital Ltd. had available carry forward tax losses, carry forward capital tax losses and deductions aggregating to approximately €600 thousand, which have no expiration date. Such carry tax losses are following a decrease of approximately €20,000 thousand as a result of a tax inspection and a final settlement reached with the tax authorities in 2018.

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, 2019

Note 19 - Taxes on Income (cont'd)

E. Deferred taxes:

	Financial assets	Fixed assets	Long term loans	Swap contract	Carry- forward tax losses	Total
	€ in thousands					
Balance of deferred tax asset (liability) as at January 1, 2019	(6,935)	(1,916)	710	198	4,147	(3,796)
Changes recognized in profit or loss	719	865	(97)	(27)	(418)	1,042
Changes recognized due to sale of operation	-	(243)	(613)	(261)	(555)	(1,672)
Changes recognized in other comprehensive income	(756)	-	-	768	232	244
Balance of deferred tax asset (liability) as at December 31, 2019	(6,972)	(1,294)	-	678	3,406	(4,182)

	Financial assets	Fixed assets	Long term loans	Swap contract	Carry- forward tax losses	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	(6,935)	(1,916)	710	198	4,147	(3,796)

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 20 - Earnings Per Share

The calculation of basic earnings per share as at December 31, 2019, December 31, 2018 and December 31, 2017 was based on the profit attributable to the Company's ordinary shareholders divided by a weighted average number of ordinary shares outstanding, calculated as follows:

	For the year ended December 31		
	2019	2018	2017
	€ in thousands (other than share and per share data)		
Net income (loss) attributed to owners of the Company	12,060	1,057	(6,115)
Weighted average ordinary shares outstanding ⁽¹⁾	11,064,847	10,675,508	10,675,757
Dilutive effect:			
Stock options and warrants ⁽²⁾	5,589	3,349	-
Diluted weighted average ordinary shares Outstanding	11,070,436	10,678,857	10,675,757
Basic profit (loss) per share from continuing operations	1.09	0.10	(0.57)
Diluted profit (loss) per share from continuing operations	1.09	0.10	(0.57)

(1) Net of treasury shares.

(2) An amount of 3,198 dilutive stock options and warrants were not included in diluted loss per share because they are anti-dilutive for the year ended December 2017.

Notes to the Consolidated Financial Statements as at December 31, 2019

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	
	2019	2018
	€ in thousands	
Derivatives presented under current assets		
Currency swap	94	-
Derivatives presented under non-current assets		
Financial power swap	4,967	-
Currency swap	103	-
Forward contracts	92	-
	<u>5,162</u>	<u>-</u>
Derivatives presented under current liabilities		
Currency swap	-	(192)
Swap contracts	(766)	(173)
	<u>(766)</u>	<u>(365)</u>
Derivatives presented under non-current liabilities		
Forward contracts	(344)	(977)
Currency swap	-	(1,925)
Swap contracts	(6,919)	(459)
	<u>(7,263)</u>	<u>(3,361)</u>

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 21 - Financial Instruments (cont'd)

The following table sets forth the details of the Company's Forward and SWAP contracts with banking institutions:

	December 31, 2019			Fair value - € in thousand
	Currency/ linkage/interest rate receivable	Currency/ Linkage/interest rate Payable	Date of expiration	
Euro 17.6 million interest swap transaction for a period of 18 years, semi-annually.	Euribor 6 months	Fixed 1%	December 20, 2037	(907)
The principal of the interest rate swap transaction is based on a pre-determined sculptured repayment schedule in the maximum amount of Euro 131 million for a period of 12 years, semi-annually.	Euribor 6 months	Fixed 0.9412%	September 30, 2031	(6,778)
Forward Euro/USD contracts with an aggregate Euro denominated principal of Euro 18 million.	weighted average rate of approximately 1.18		November 2021	(252)
NIS 83.2 million currency swap transaction Euro/NIS for a period of 7 years, semi-annually.	NIS	Euro	June 2024	197
Financial power swap- Electricity price swap fixed for float	Electricity price in Spain	Fixed price	September 30, 2030	4,967

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, 2019, the Company does not have any significant concentration of credit risk.

Cash and short-term deposits

As at December 31, 2019 and 2018, the Company had cash and cash equivalents in the amount of €44,509 thousand and €36,882 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 4.

Marketable securities

As at December 31, 2019 and 2018, the Company invested in a traded Bond in an amount of €2,242 thousand and €2,132 thousand, respectively, with the intention to maintain the value of its liquid resources. See also Note 5.

Restricted cash

As at December 31, 2019 and 2018, the Company had a balance of current restricted cash in an amount of €22,162 thousand and €1,315 thousand, respectively, and a balance of non-current restricted cash of €10,956 thousand and €5,400 thousand, respectively. See also Note 5 and also Note 2 E for Reclassified comparative data.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 21 - Financial Instruments (cont'd)**C. Credit Risk (cont'd)**Trade and other receivables

As at December 31, 2019 and 2018, the Company had a balance of trade receivables of €805 thousand and €156 thousand, respectively. This balance mainly refers to the balance from the Israeli Electricity Authority for the PV Plant located in Israel and is due in 30 days. It is also referring 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.

As at December 31, 2019 and 2018, the Company had a balance of revenue receivables of €1,075 thousand and €3,830 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. On December 20, 2019, the Company sold ten Italian indirect wholly-owned subsidiaries. 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 Enterprice Agency that is responsible to pay the amount of subsidy for the Biogas installations 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.

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, 2019 and 2018, the Company had a balance of government authorities' receivables of €781 thousand and €2,706 thousand, respectively. This balance refers to VAT and withholding tax receivables in Italy, Spain, Israel 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, financing agreements and EPC and O&M agreements of its subsidiaries in Spain. See also Note 6, Note 11 and Note 12.

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:

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 21 - Financial Instruments (cont'd)

D. Liquidity risk (cont'd)

	December 31, 2019					
	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	93,320	100,415	5,075	9,041	19,154	67,145
Debentures	71,584	78,235	28,718	8,615	33,899	7,003
Lease liabilities	15,627	25,859	462	806	2,417	22,174
Trade payables and other accounts payable	2,928	2,928	2,928	-	-	-
	183,459	207,437	37,183	18,462	55,470	96,322
Derivative finance liabilities						
Forward contracts	252	252	-	252	-	-
Swap contracts	7,685	7,685	766	2,682	2,172	2,065
	7,937	7,937	766	2,934	2,172	2,065
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	-	-	-
	122,254	135,312	23,198	18,461	53,634	40,019
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
	3,726	3,726	365	885	2,079	397

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 21 - Financial Instruments (cont'd)**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 Euro/USD and NIS/Euro on the Company's balance sheet.

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 million with a euro notional principal (currency swap transactions). Such currency swap transactions qualify for hedge accounting.

In order to manage the foreign exchange exposure in USD, the Company executed several forward transactions, of which Euro/USD forward positions with an aggregate euro denominated principal of €18 million, with a weighted average rate of approximately 1.18 USD/EUR and expiration dates in November 2021.

Notes to the Consolidated Financial Statements as at December 31, 2019

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, 2019				
	Non-monetary/ Non finance	NIS(*)	Unlinked	EURO	Total
			€in thousands		
Current assets:					
Cash and cash equivalents	-	23,385	1,517	19,607	44,509
Marketable securities	-	-	2,242	-	2,242
Short term deposits	-	6,446	-	-	6,446
Restricted cash	-	22,162	-	-	22,162
Asset from concession project	-	1,463	-	-	1,463
Financial asset short-term	-	1,418	-	-	1,418
Trade and other receivables	304	1,199	396	2,983	4,882
Non-current assets:					
Investments in equity accounted investees	26,131	7,430	-	-	33,561
Advances on account of investments in process	883	-	-	-	883
Asset from concession project	-	27,122	-	-	27,122
Fixed assets	114,389	-	-	-	114,389
Right of use asset	-	1,585	-	13,816	15,401
Concession intangible asset	5,042	-	-	-	5,042
Restricted cash long-term	-	5,639	-	5,317	10,956
Deferred tax	2,285	-	-	-	2,285
Other assets	12,218	31	-	-	12,249
Derivatives	-	-	-	5,162	5,162
Current liabilities:					
Loans and borrowings	-	(1,669)	-	(2,469)	(4,138)
Short-term debentures	-	(26,773)	-	-	(26,773)
Trade payables	-	(266)	-	(1,499)	(1,765)
Accrued expenses and other payables	-	(3,519)	-	(1,491)	(5,010)
Non-current liabilities:					
Lease liability	-	(1,529)	-	(13,873)	(15,402)
Long-term loans	-	(19,409)	-	(69,773)	(89,182)
Long-term debentures	-	(44,811)	-	-	(44,811)
Deferred tax	(6,467)	-	-	-	(6,467)
Derivatives	-	-	-	(7,263)	(7,263)
Other long-term liabilities	-	(28)	-	(1,767)	(1,795)
Total exposure in statement of financial position in respect of financial assets and financial liabilities	154,785	(124)	4,155	(51,250)	107,566

(*) including items linked to CPI

Notes to the Consolidated Financial Statements as at December 31, 2019

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 (cont'd)

	December 31, 2018				
	Non-monetary/ Non finance	NIS(*)	Unlinked	EURO	Total
	€ in thousands				
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	-	-	-	1,315	**1,315
Asset from concession project	-	1,292	-	-	1,292
Financial asset short-term	-	1,282	-	-	1,282
Trade and other receivables	1,279	780	531	10,033	12,623
Non-current assets:					
Investments in equity accounted investees	21,175	6,571	-	-	27,746
Advances on account of investments in process	798	-	-	-	798
Asset from concession project	-	25,710	-	-	25,710
Fixed assets	87,220	-	-	-	87,220
Concession intangible asset	4,882	-	-	-	4,882
Restricted cash long-term	-	4,992	267	141	**5,400
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)
Trade payables	-	(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

(**) Reclassified, see Note 2 E

Notes to the Consolidated Financial Statements as at December 31, 2019

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 (cont'd)

Information regarding significant exchange rates:

	For the year ended December 31			
	Rate of Change		Rate of Change	
	%	Dollar	%	NIS
1 Euro in 2019	(2)	1,122	(9.6)	3,878
1 Euro in 2018	(4.4)	1,145	3.3	4,292

(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, 2019	
	Increase	Decrease
	Equity	Equity
	€thousands	
Change in the exchange rate of:		
5% in the USD	185	(185)
5% in NIS	412	(412)

	December 31, 2018	
	Increase	Increase
	Equity	Equity
	€thousands	
Change in the exchange rate of:		
5% in the USD	169	(169)
5% in NIS	(367)	367

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 21 - Financial Instruments (cont'd)

E. Market risk (cont'd)

(2) 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.

The Company entered into various project finance agreements that are based on EURIBOR rate and therefore it may be affected by adverse movements in interest rates. The Company utilize interest rate swap derivatives to convert certain floating-rate debt to fixed-rate debt. The Company interest rate swap derivatives involve an agreement to pay a fixed-rate interest and receive a floating-rate interest, at specified intervals, calculated on an agreed notional amount that matches the amount of the original loan and paid on the same installments and maturity dates.

Sensitivity analysis

A change in interest rate would have increased (decreased) profit or loss by the amounts shown below:

	December 31,	
	2019	2018
	Profit or loss	Profit or loss
	€ in thousands	
Increase of 1%	580	1,012
Increase of 3%	1,701	2,604
Decrease of 1%	(542)	(581)
Decrease of 3%	(1,663)	(2,172)

(3) Electricity market prices risk

As a result of the Company's operations in the electricity market, the Company is exposed to the impact of changes in the electricity prices.

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. The PPA became effective in March 2019.

The fair value of the PPA is measured by discounting the future fixed and assessed cash flows, over the period of the contract and using market interest rates appropriate for similar instruments. The value is adjusted for the parties' credit risks. The future prices are assessed the electricity field.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 21 - 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 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, 2019						
	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	71,584	73,211	-	-	Discounting future cash flows by the market interest rate on the date of measurement.	Discount rate of Euribor+ 2.53%, fix rate for 5 years 2.9%-3.1% and 4.65% Linkage to Consumer price index in Israel
Loans from banks and others (including current maturities)	93,320	-	94,677	-		
	164,904	73,211	94,677	-		
December 31, 2018						
	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	51,343	49,190	-	-	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
Loans from banks and others (including current maturities)	66,092	-	66,233	-		
	117,435	49,190	66,233	-		

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 21 - Financial Instruments (cont'd)

F. Fair value (cont'd)

(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	
	2019	2018
	%	
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%	fix rate for 5 years 2.9% - 3.1%

(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). |

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 21 - Financial Instruments (cont'd)

F. Fair value (cont'd)

(3) Fair values hierarchy (Cont'd)

	December 31, 2019				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 6B)	-	-	1,418	1,418	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	-	2,242	-	2,242	Market price
Forward contracts	-	(252)	-	(252)	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	-	(7,685)	-	(7,685)	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	-	197	-	197	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 Energy loan	-	-	10,595	10,595	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. The discounting rate was estimated at approximately 10% and the expected yearly change of Israeli Consumer Price Index, during the expected lifetime of the loan, was estimated at approximately 1%.
Financial power swap	-	-	4,967	4,967	Fair value is measured by discounting the future fixed and assessed cash flows, over the period of the contract and using market interest rates appropriate for similar instruments. The value is adjusted for the parties' credit risks.

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 21 - Financial Instruments (cont'd)

F. Fair value (cont'd)

(3) Fair values hierarchy (Cont'd)

	December 31, 2018				
	Level 1	Level 2	Level 3	Total	Valuation techniques for determining fair value
	€in thousands				
Income receivable in connection with the A.R.Z. electricity pumped storage project (see Note 6B)	-	-	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 Energy 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. The discounting rate was estimated at approximately 10% and the expected yearly change of Israeli Consumer Price Index, during the expected lifetime of the loan, was estimated at approximately 1%.

Notes to the Consolidated Financial Statements as at December 31, 2019

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:

	<u>Financial assets</u> <u>Income</u> <u>receivable in</u> <u>connection with</u> <u>the A.R.Z.</u> <u>electricity</u> <u>pumped storage</u> <u>project</u> <u>€ in thousands</u>
Balance as at December 31, 2018	1,282
Foreign Currency translation adjustments	136
Balance as at December 31, 2019	1,418
	<u>Financial assets</u> <u>Dori Energy</u> <u>loan</u> <u>€ in thousands</u>
Balance as at December 31, 2018	9,189
Total income recognized in profit or loss	413
Foreign Currency translation adjustments	993
Balance as at December 31, 2019	10,595
	<u>Financial assets</u> <u>Financial power</u> <u>swap</u> <u>€ in thousands</u>
Balance as at December 31, 2018	-
Total income is recognized in other comprehensive income	4,967
Balance as at December 31, 2019	4,967

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 22 - Operating Segments

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 as follows: (i) approximately 22.6MWp aggregate installed capacity of photovoltaic power plants in Italy, that the Company sold on December 20, 2019, (ii) approximately 7.9MWp aggregate installed capacity of photovoltaic power plants in Spain, (iii) a photovoltaic power plant of approximately 9 MWp installed capacity in Israel and (iv) Talasol, which is constructing 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 860 MW, located south of Ashkelon, Israel.
- Anaerobic digestion plants (Biogas) – 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.
- 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, 2019

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	Biogas	Dorad	Manara			
	For the year ended December 31, 2019									
	€ in thousands									
Revenues	10,082	2,987	4,114	-	4,786	63,416	-	85,385	(66,397)	18,988
Operating expenses	(1,422)	(504)	(325)	-	(4,387)	(48,558)	-	(55,196)	48,558	(6,638)
Depreciation and amortization expenses	(3,668)	(903)	(2,271)	(30)	(1,353)	(5,031)	-	(13,256)	6,840	(6,416)
Gross profit (loss)	4,992	1,580	1,518	(30)	(954)	9,827	-	16,933	(10,999)	5,934
Project development costs										(4,213)
General and administrative expenses										(3,827)
Share of profits (loss) of equity accounted investee										3,086
Other income, net										(2,100)
Capital gain (loss)										18,770
Operating profit										17,650
Financing income										1,827
Financing income (expenses) in connection with derivatives, net										897
Financing expenses, net										(10,877)
Profit before taxes on Income										9,497
Segment assets as at December 31, 2019	-	16,324	38,942	118,848	18,463	116,561	2,473	311,611	(1,439)	310,172

Notes to the Consolidated Financial Statements as at December 31, 2019

Note 22 - Operating Segments (cont'd)

	PV							Total reportable segments	Reconciliations	Total consolidated
	Italy	Spain	Israel	Talasol	Biogas	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 and amortization 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)
General and administrative expenses										(3,600)
Share of profits (loss) of equity accounted investee										2,545
Other income, net										884
Operating profit										2,910
Financing income										2,936
Financing income (expenses) in connection with derivatives, net										494
Financing expenses, net										(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, 2019

Note 22 - Operating Segments (cont'd)

	PV						Total reportable segments	Reconciliations	Total consolidated
	Italy	Spain	Israel	Dorad	Biogas	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 and amortization 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)
General and administrative expenses									(2,420)
Share of pro loss of equity accounted investee									1,531
Other income, net									18
Operating Profit									2,959
Financing income									1,333
Financing income (expenses) in connection with derivatives, net									(3,156)
Financing expenses, net									(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

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. On December 20, 2019, the Company sold ten Italian Subsidiaries, which own twelve photovoltaic plants with an aggregate nominal capacity of approximately 22.6 MW.

The following table lists the revenues from the Company's operations in Israel, the Netherlands, Italy and Spain:

	For the year ended December 31		
	2019	2018	2017
	€ in thousands		
Israel	1,133	1,041	183
The Netherlands	4,786	4,483	303
Italy	10,082	9,560	10,143
Spain	2,987	3,033	3,007
Total revenues	18,988	18,117	13,636

Notes to the Consolidated Financial Statements as at December 31, 2019

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	
	2019	2018
	€ in thousands	
Israel	19	17
The Netherlands	17,043	17,464
Italy	-	44,986
Spain	109,545	24,753
Total fixed assets, net	126,607	87,220

Note 23 - Subsequent Events

- a. In February 2020, the Company issued 715,000 ordinary shares and warrants to purchase an additional 178,750 ordinary shares to several Israeli institutional investors in a private placement undertaken in accordance with Regulation S of the Securities Act of 1933, as amended. The price per share was set at NIS 70 (approximately €8.9). The warrants are exercisable for a period of one year, with an exercise price of NIS 80 (approximately €21.6) per ordinary share. The gross proceeds to the Company in connection with the private placement were NIS 50.05 million (approximately €3.5 million).
- b. In December 2019, COVID-19 was identified in Wuhan, China. This virus continues to spread globally and as of the end of March 2020, has spread to over 180 countries, including Spain and Italy, which as of the end of March 2020 have the highest numbers of deaths, and Israel. The spread of COVID-19 has resulted in the World Health Organization declaring the outbreak of COVID-19 as a "pandemic." Many countries around the world, including Spain, Israel and Italy, have imposed quarantines and restrictions on travel and mass gatherings and curtailed and limited non-essential works in an attempt to slow the spread of the virus.

Although the Company's operations have not thus far been materially adversely affected by the restrictions imposed by local governments and authorities in the countries in which the Company operate, in the event the restrictions continue our operations, including our projects under construction and development, may be adversely affected. The spread of COVID-19 and its implications may also affect our operations through changes in the prices of oil, resulting in a decrease in the electricity prices, reduction in demand for electricity, delays in construction of projects due to curtailment of work, limited availability of components required in order to operate or construct new projects, regulatory changes by countries affected by the virus, including changes in subsidies, collection delays, delays in obtaining permits, limited availability or changes in terms of financing for future projects, limited availability of corporate financing and lower returns on potential future investments. As a result, our business and operating results could be negatively affected. The extent to which COVID-19 impacts our business will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact, among others. For example, at the end of March 2020, the Spanish government issued orders stopping all construction works and other non-essential activities for two weeks, until Easter. The Company is closely monitoring the situation and evaluating the potential implications on its business operations.

- c. On March 30, 2020, the Company's Board of Directors approved a plan to repurchase the Company's Debentures in an aggregate amount of up to NIS 15 million (approximately €3.9 million) for a six month period. The timing, volume and nature of repurchases will be at the sole discretion of management and will depend on market conditions, the price and availability of our Debentures, and other factors.

Dorad Energy Ltd.

Financial Statements

As at December 31, 2019

Financial Statements as at December 31, 2019

Contents	Page
Auditors' Report	FD-2
Statements of Financial Position	FD-3
Statements of Profit or Loss	FD-4
Statements of Changes in Equity	FD-5
Statements of Cash Flows	FD-6
Notes to the Financial Statements	FD-7 – FD-51



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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its financial performance and its cash flows for each of the years in the three-year period ended December 31, 2019 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Change in Accounting Principle

As discussed in Note 2F to the financial statements in 2019, the Company adopted International Financial Reporting Standard 16, Leases. Our opinion is not modified with respect to this matter.

/s/ Somekh Chaikin
Somekh Chaikin
Certified Public Accountants (Israel)
Member Firm of KPMG International

Tel Aviv
February 27, 2020

Statements of Financial Position

		December 31 2019	December 31 2018
	Note	NIS thousands	NIS thousands
Current assets			
Cash and cash equivalents	4	266,021	117,220
Trade and Income receivable	5	292,759	297,997
Other receivables	6	22,685	56,417
Financial derivatives		-	387
Total current assets		581,465	472,021
Non-current assets			
Restricted deposit	13A1B	438,032	431,096
Prepaid expenses	13A2, 13A4	37,225	41,704
Fixed assets	7	3,698,716	3,869,800
Intangible assets		2,247	3,265
Right of use assets	18	64,161	-
Total non-current assets		4,240,381	4,345,865
Total assets		4,821,846	4,817,886
Current liabilities			
Current maturities of loans from banks	8	231,380	*224,444
Current maturity of loans from related parties	11	-	17,805
Current maturities of lease liabilities	18	4,551	-
Trade payables	9	288,127	340,829
Other payables	10	10,509	5,966
Total current liabilities		534,567	589,044
Non-current liabilities			
Loans from banks	8	2,803,975	*3,009,392
Long-term lease liabilities	18	54,052	-
Provision for dismantling and restoration		36,102	35,497
Deferred tax liabilities, net	12	170,676	122,803
Liabilities for employee benefits, net		160	160
Total non-current liabilities		3,064,965	3,167,852
Equity			
Share capital	14	11	11
Share premium		642,199	642,199
Capital reserve for activities with controlling shareholders		3,748	3,748
Retained earnings		576,356	415,032
Total equity		1,222,314	1,060,990
Total liabilities and equity		4,821,846	4,817,886
/s/ Shouky Oren		/s/ Eli Asulin	
Shouky Oren		Eli Asulin	
Chairman of the		Chief Executive Officer	
Board of Directors		/s/ David Bitton	
		David Bitton	
		Chief Financial Officer	

Date of approval of the financial statements February 27, 2020. The accompanying notes are an integral part of the financial statements. * reclassified

Statements of Profit or Loss

	Note	Year ended December 31,		
		2019	2018	2017
		NIS thousands	NIS thousands	NIS thousands
Revenues		2,700,766	2,628,607	2,523,263
Operating costs of the power plant				
Energy costs		708,662	687,431	616,221
Electricity purchase and infrastructure services		1,208,223	1,194,948	1,212,431
Depreciation and amortization		214,248	217,795	208,705
Other operating costs		151,116	136,705	122,345
Total cost of power plant		2,282,249	2,236,879	2,159,702
Profit from operating the power plant		418,517	391,728	363,561
General and administrative expenses	15	20,676	20,740	18,712
Operating profit		397,841	370,988	344,849
Financing income		4,237	24,650	3,195
Financing expenses		192,881	227,988	245,122
Financing expenses, net	16	188,644	203,338	241,927
Profit before taxes on income		209,197	167,650	102,922
Taxes on income	12	47,873	33,505	23,681
Profit for the year		161,324	134,145	79,241

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

Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for activities with controlling shareholders	Retained earnings	Total equity
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
For the year ended December 31, 2019					
Balance as at January 1, 2019	11	642,199	3,748	415,032	1,060,990
Profit for the year	-	-	-	161,324	161,324
Balance as at December 31, 2019	11	642,199	3,748	576,356	1,222,314
For the year ended December 31, 2018					
Balance as at January 1, 2018	11	642,199	3,748	280,887	926,845
Profit for the year	-	-	-	134,145	134,145
Balance as at December 31, 2018	11	642,199	3,748	415,032	1,060,990
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	11	642,199	3,748	280,887	926,845

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

Statements of Cash Flows

	Year ended December 31,		
	2019	2018	2017
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities:			
Profit for the year	161,324	134,145	79,241
Adjustments:			
Depreciation, amortization and fuel consumption	239,323	223,028	286,542
Taxes on income	47,873	33,505	23,681
Financing expenses, net	188,644	203,338	241,927
	<u>475,840</u>	<u>459,871</u>	<u>552,150</u>
Change in trade receivables	5,238	32,536	(35,465)
Change in other receivables	25,394	6,119	(84,857)
Change in trade payables	(57,719)	(81,273)	123,045
Change in other payables	4,543	304	(2,669)
	<u>(22,544)</u>	<u>(42,314)</u>	<u>54</u>
Net cash provided by operating activities	<u>614,620</u>	<u>551,702</u>	<u>631,445</u>
Cash flows from investing activities:			
Proceeds from (payment for) settlement of financial derivatives	(4,551)	9,957	(10,596)
Insurance proceeds in respect of damage to fixed asset	8,336	20,619	38,742
Investment in long-term restricted deposits	(14,000)	(12,158)	(34,000)
Release of long-term restricted deposit	-	-	25,790
Investment in fixed assets	(60,476)	(79,855)	(121,361)
Investment in intangible assets	(939)	(222)	(413)
Interest received	4,213	3,497	1,268
	<u>(67,417)</u>	<u>(58,162)</u>	<u>(100,570)</u>
Net cash used in investing activities	<u>(67,417)</u>	<u>(58,162)</u>	<u>(100,570)</u>
Cash flows from financing activities:			
Repayment of lease liability principal	(8,513)	-	-
Repayment of loans from related parties	(17,704)	(160,326)	(39,628)
Repayment of loans from banks	(189,893)	(181,970)	(161,668)
Interest paid	(182,435)	(220,765)	(227,530)
	<u>(398,545)</u>	<u>(563,061)</u>	<u>(428,826)</u>
Net cash used in financing activities	<u>(398,545)</u>	<u>(563,061)</u>	<u>(428,826)</u>
Net increase (decrease) in cash and cash equivalents	<u>148,658</u>	<u>(69,521)</u>	<u>102,049</u>
Effect of exchange rate fluctuations on cash and cash equivalents	143	2,559	1,166
Cash and cash equivalents at beginning of year	<u>117,220</u>	<u>184,182</u>	<u>80,967</u>
Cash and cash equivalents at end of year	<u>266,021</u>	<u>117,220</u>	<u>184,182</u>

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

Notes to the Financial Statements as at December 31, 2019

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, 2019

Note 1 – General (cont'd)**C. Licenses and legal environment (cont'd)**

2. On January 8, 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 3.3% from January 1, 2019 and will remain in effect to the end of 2019. On December 23, 2019, the PUA published a decision regarding "Annual Electricity Rate Update 2020", which, among other things, averaged a 7.9% decrease in the production component as of January 1, 2020, and will remain in effect to the end of 2020.

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 27, 2020.

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.

Notes to the Financial Statements as at December 31, 2019

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 based on past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate. The estimates and their underlying assumptions are reviewed regularly. Changes in accounting estimates are recognized in the period in which the estimates were revised and in each future period affected. Information on assumptions made by the Company regarding the future and other main causes of uncertainty with regard to estimates for which there is a significant risk that their result will be a substantial adjustment of the book values of assets and liabilities during 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.

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 makes provisions or eliminates provisions for contingent liabilities, among other things, based on the assumption that it is more likely than not that financial resources will be used for such liabilities.

Determination of the lease period

In order to determine the lease term, the Company takes into account the period in which the lease cannot be canceled, including extension options for which it is reasonably probable that they will be exercised and/or cancellation options for which it is reasonably probable that they will be exercised.

An increase or decrease in the initial measurement of a right-of-use lease asset and the lease liability and in the depreciation and financing expenses in subsequent periods. See Note 18 regarding leases.

Determining the discount rate of a lease liability

The Company discounts the lease payments using its incremental borrowing rate. An increase or decrease in the lease liability, right-of-use asset and depreciation and financing expenses recognized. See note 18 regarding lease.

Notes to the Financial Statements as at December 31, 2019

Note 2 - Basis of Preparation (cont'd)**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.

F. Initial implementation of new standards and interpretations**Initial application of IFRS 16, Leases**

As of January 1, 2019 (hereinafter: the "First Implementation Date"), the Company applies IFRS 16, Leases (hereinafter - "the Standard") which replaced IAS 17 Leases (in this paragraph: "IAS 17" or "the previous Standard").

The main effect of the implementation of the Standard is the cancellation of the existing requirement from lessees to classify the lease as operating (off-balance sheet) or as a financing and to present a uniform model for lessees for the accounting treatment of leases in a manner similar to that of financing leases in accordance with the previous Standard. Until the date of implementation of the Standard, the Company classified the leases in which it leases as operating leases, as it did not materially bear all the risks and returns of the assets.

In accordance with the Standard, For agreements where the Company is the Lessee, the Company recognizes a right to use asset and a lease liability at the inception of the lease contract for all leases in which the Company has the right to control the use of identified assets for a specified period of time, other than exceptions specified in the standard. Accordingly, the Company recognizes depreciation and amortization expenses in respect of a right to use asset, examines the need to record impairment in respect of a right of use asset in accordance with the provisions of IAS 36 and recognizes financing expenses in respect of a lease liability. Therefore, starting from the initial implementation date of the Standard, rental payments relating to assets leased under operating leases, which are presented mainly in the item "other operational costs" in the statement of profit or loss, are recognized as depreciation assets and depreciation expenses.

Starting from the date of initial application, the Company applies the Standard in retrospective adjusted application and without restating comparative figures. In respect of all the leases, the Company elected to apply the transitional provisions in such a manner that at the initial implementation date it recognized the liability according to the present value of the balance of the future lease payments discounted at its incremental interest rate to that date and concurrently recognized the asset as the right to use the lease at an amount equal to the liability. As a result, the adoption of the Standard had no effect on the Company equity at the date of initial implementation.

In addition, as part of the initial implementation, the Company chose to implement the lenience of maintaining the assessment of the existence of a lease according to the provisions of the previous regulations with respect to all existing agreements as at the date of initial implementation.

In measuring liabilities for leases, the company capitalized lease payments using the nominal incremental interest rate as of January 1, 2019. The range of capitalization rates used to measure lease liability ranges from 1.5% to 2.69% (weighted average of 2.41%). This range is affected by differences in the length of the lease period, differences in the company of assets, etc.

Notes to the Financial Statements as at December 31, 2019

Note 2 - Basis of Preparation (cont'd)**F. Initial implementation of new standards and interpretations (cont'd)****Effect of application of the Standard as of January 1, 2019 and for the reporting period**

As a result of the implementation of IFRS 16, in respect of leases classified as operating leases under IAS 17, the Company recognized the assets of the right to use assets and liabilities in respect of a lease as of January 1, 2019 in the amount of NIS 65,294 thousand and NIS 61,343 thousand respectively. In respect of prepaid lease payments, the Company reclassified these expenses from prepaid expenses to right to use assets in amount of NIS 2,484 thousand. In addition, in lieu of the recognition of rental expenses relating to such leases, the Company recognized in the period of one year ended December 31, 2019, additional depreciation expenses of approximately NIS 3,681 thousand and additional financing expenses of approximately NIS 1,631 thousand.

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these financial statements, except Initial application of IFRS 16, Leases as explained in Note L below.

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.

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.

Notes to the Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)

B. Financial instruments (cont'd)**1. Non-derivative financial assets (cont'd)****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.

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.

Loans and receivables include cash and cash equivalents and other 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.

Note 3 - Significant Accounting Policies (cont'd)**B. Financial instruments (cont'd)****2. Non-derivative financial liabilities**Initial 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.

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.

Note 3 - Significant Accounting Policies (cont'd)**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.

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 3c(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.

Notes to the Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)

C. Fixed assets (cont'd)

3. Depreciation (cont'd)

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
Leasehold improvements	10

Depreciation methods, useful lives and residual values are reviewed at each reporting period and adjusted when necessary.

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, 2019

Note 3 - Significant Accounting Policies (cont'd)**E. Impairment****1) 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 assets**Timing 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, 2019

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 company revenues mainly include revenues from selling electricity to end customers and to the IEC and from providing availability to the system manager.

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:

Identifying the contract

The company accounts for a contract with a customer only when the following conditions are met:

- (a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them.
- (b) The company can identify the rights of each party in relation to the goods or services that will be transferred.
- (c) The company can identify the payment terms for the goods or services that will be transferred.
- (d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract).
- (e) It is probable that the consideration, to which the company is entitled to in exchange for the goods or services transferred to the customer, will be collected.

Notes to the Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)**I. Revenues (cont'd)****Identifying performance obligations**

On the contract's inception date, the company assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

- (a) Goods or services (or a bundle of goods or services) that are distinct.
- (b) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The company identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the company promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract. In order to examine whether a promise to transfer goods or services is separately identifiable, the company examines whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into one integrated outcome that is the purpose of the contract.

As part of agreements with customers for electricity sales, the company recognized one commitment in each agreement.

Variable consideration

The transaction price includes fixed amounts and amounts that may change as a result of discounts, refunds, credits, price concessions, incentives, penalties, claims and disputes and contract modifications that the consideration in their respect has not yet been agreed by the parties.

The Company includes variable consideration, or part of it, in the transaction price only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. At the end of each reporting period and if necessary, the Company revises the amount of the variable consideration included in the transaction price.

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.

Identifying performance obligations

Revenue is recognized when the company identifies a performance obligation by transferring control over promised services to the customer. The Company transfers control of the services at a point in time, and accordingly recognizes in revenues at a point in time.

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.

Notes to the Financial Statements as at December 31, 2019

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. Lease

Policy applicable as from January 1, 2019

(1) Determining whether an arrangement contains a lease

On the inception date of the lease, the Company determines whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of an identified asset for a period in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Company assesses whether it has the following two rights throughout the lease term:

- (a) The right to obtain substantially all the economic benefits from use of the identified asset; and
- (b) The right to direct the identified asset's use.

For lease contracts that contain non-lease components, such as services or maintenance, that are related to a lease component, the Company elected to account for the contract as a single lease component without separating the components.

Notes to the Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)**L. Lease (cont'd)****(2) Leased assets and lease liabilities**

Contracts that award the Company control over the use of a leased asset for a period in exchange for consideration, are accounted for as leases. Upon initial recognition, the Company recognizes a liability at the present value of the balance of future lease payments (these payments do not include certain variable lease payments), and concurrently recognizes a right-of-use asset at the same amount of the lease liability, adjusted for any prepaid or accrued lease payments, plus initial direct costs incurred in respect of the lease.

Since the interest rate implicit in the Company's leases is not readily determinable, the incremental borrowing rate of the lessee is used. Subsequent to initial recognition, the right-of-use asset is accounted for using the cost model and depreciated over the shorter of the lease term or useful life of the asset. The Company has elected to apply the practical expedient by which short-term leases of up to one year and/or leases in which the underlying asset has a low value, are accounted for such that lease payments are recognized in profit or loss on a straight-line basis, over the lease term, without recognizing an asset and/or liability in the statement of financial position.

(3) The lease terms

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the lessee will or will not exercise the option, respectively.

(4) Variable lease payments

Variable lease payments that depend on an index or a rate, are initially measured using the index or rate existing at the commencement of the lease and are included in the measurement of the lease liability. When the cash flows of future lease payments change as the result of a change in an index or a rate, the balance of the liability is adjusted against the right-of-use asset. Other variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss in the period in which the event or condition that triggers payment occurs.

(5) Depreciation of right-of-use asset

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows: land 20.4 years, 11 years and offices 4 years.

(6) Reassessment of lease liability

Upon the occurrence of a significant event or a significant change in circumstances that is under the control of the Company and had an effect on the decision whether it is reasonably certain that the Company will exercise an option, which was not included before in the lease term, or will not exercise an option, which was previously included in the lease term, the Company re-measures the lease liability according to the revised leased payments using a new discount rate. The change in the carrying amount of the liability is recognized against the right-of-use asset or recognized in profit or loss if the carrying amount of the right-of-use asset was reduced to zero.

Notes to the Financial Statements as at December 31, 2019

Note 3 - Significant Accounting Policies (cont'd)**L. Lease (cont'd)***Policy applicable before January 1, 2019*

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.

M. Financing income and expenses

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 and derivative hedging instruments on financial assets and financial liabilities, 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, 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.

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.

Notes to the Financial Statements as at December 31, 2019

Note 4 - Cash and Cash Equivalents

	December 31	
	2019	2018
	NIS thousands	NIS thousands
Balance in banks	5	6
Deposits on demand	266,016	117,214
	<u>266,021</u>	<u>117,220</u>

Note 5 – Trade Receivables and Income receivable

	December 31	
	2019	2018
	NIS thousands	NIS thousands
Trade receivables	360	39,677
Income receivable	292,602	258,320
	<u>292,962</u>	<u>297,997</u>
Provision for doubtful debt	(203)	-
	<u>292,759</u>	<u>297,997</u>

Note 6 - Other Receivables

	December 31	
	2019	2018
	NIS thousands	NIS thousands
Government institutions	311	4,838
Receivables for insurance	3,555	13,819
Receivables for warranty	-	17,089
Advances to suppliers	272	298
Prepaid expenses	18,547	20,373
	<u>22,685</u>	<u>56,417</u>

Notes to the Financial Statements as at December 31, 2019

Note 7 - Fixed Assets

A. Composition

	Power plant	Furniture and equipment	Leasehold improvements	Total
	NIS thousands			
Cost				
Balance as at January 1, 2018	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
Additions	60,016	397	63	60,476
Disposals				
Balance as at December 31, 2019	4,938,061	3,119	807	4,941,987
Depreciation				
Balance as at January 1, 2018	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
Additions	231,349	132	79	231,560
Disposals				
Balance as at December 31, 2019	1,240,550	2,303	418	1,243,271
Carrying amounts				
As at January 1, 2018	4,008,048	489	471	4,009,008
As at December 31, 2018	3,868,844	551	405	3,869,800
As at December 31, 2019	3,697,511	816	389	3,698,716

B. Security

See Note 13C regarding a lien on the Company's assets that serves as security for the liabilities of the Company and the shareholders to the Financing Parties.

C. Provision for restoration and dismantling

Increase in the time value of the provision in the amount of about NIS 600 thousand was recognized within profit and loss as financing expenses.

Notes to the Financial Statements as at December 31, 2019

Note 8 - Loans from Banks

Presented hereunder are contractual terms of the bank loans of the company and it carrying amounts. For further information regarding the company's exposure to interest rate risks and liquidity risks see Note 17 – financial instruments.

Details regarding interest rates and linkage*

	Currency and linkage base	31.12.2019 Effective interest %	Carrying amount as at December 31	
			2019	2018
			NIS thousands	NIS thousands
Loans from banks	CPI-linked	5.1%	3,035,355	3,233,836
Less current maturities (including interest as at December 31)	NIS		231,380	**224,444
			2,803,975	**3,009,392

* See also Note 13A(1) regarding credit terms and financial covenants.

** reclassified

- 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 9 - Trade Payables

	December 31	
	2019	2018
	NIS thousands	NIS thousands
Open debts	24,744	144,819
Accrued expenses	263,383	196,009
	288,127	340,829

Note 10 - Other Payables

	December 31	
	2019	2018
	NIS thousands	NIS thousands
Accrued expenses (*)	2,801	5,100
Other payables	1,031	866
Institutions	6,677	-
	10,509	5,966
	1,151	733

(*) Including accrued expenses to related and interested parties

Notes to the Financial Statements as at December 31, 2019

Note 11 - Loans from Related Parties

	December 31	
	2019	2018
	NIS thousands	NIS thousands
Shareholders		
Eilat-Ashkelon Infrastructure Services Ltd.	-	7,568
Zorlu Enerji Elektrik Uretim A.S.	-	1,523
U. Dori Energy Infrastructure Ltd.	-	3,565
Edelcom Ltd.	-	5,149
	-	17,805
Less current maturities	-	17,805
	-	-

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. According to the financing agreements, two years after the date of commercial operation, compliance with financial covenants and other commitments, it will be possible to repay shareholders loans.

In 2018, the Company repaid a total of approx. NIS 190 million (of which approx. NIS 30 million was the repayment of interest and linkage differentials and the balance of approx. NIS 160 million was a partial repayment of the loan principal). In June 2019, the Company repaid the loan balance of approx. NIS 19 million (of which approx. NIS 18 million was the repayment of the loan principal and the balance of approx. NIS 1 million was the repayment of interest and linkage differentials).

Note 12 - 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 2017-2019:

2017 – 24%
 2018 – 23%
 2019 – 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, 2019 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.

Notes to the Financial Statements as at December 31, 2019

Note 12 - 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, 2019 NIS thousands	Year ended December 31, 2018 NIS thousands	Year ended December 31, 2017 NIS thousands
Deferred tax expense	47,873	33,505	23,681

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, 2018	(482,701)	9,382	384,021	(89,298)
Changes recognized in the profit and loss statements	(129,825)	(838)	97,158	(33,505)
Balance of deferred tax asset (liability) as at December 31, 2018	(612,526)	8,544	481,179	(122,803)
Changes recognized in the profit and loss statements	(35,797)	166	(12,242)	(47,873)
Balance of deferred tax asset (liability) as at December 31, 2019	(648,323)	8,710	468,937	(170,676)

Notes to the Financial Statements as at December 31, 2019

Note 12 - Income Tax (cont'd)

D. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense.

	Year ended December 31, 2019 NIS thousands	Year ended December 31, 2018 NIS thousands	Year ended December 31, 2017 NIS thousands
Profit before taxes on income	209,197	167,650	102,922
Statutory tax rate of the company	23%	23%	24%
Tax calculated according to the Company's statutory tax rate	48,115	38,559	24,701
creation of deferred taxes in respect of losses from previous years for which no deferred taxes were recorded in the past	(286)	(5,092)	-
Impact of decrease in tax rate	-	-	(1,030)
Non-deductible expenses and others	44	38	10
Income tax expense	47,873	33,505	23,681

E. Tax losses carried forward

The total amount of forward losses from business as at December 31, 2019 is about NIS 2,042 million (as of December 31, 2018 – NIS 2,092 million). The Company has recorded deferred taxes in respect of these losses up to the level of the commitment, 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 tax assessments that are considered as final up to and including the year 2014 (subject to the limitations prescribed by law).

Notes to the Financial Statements as at December 31, 2019

Note 13 - 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. Company 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 with the following debt coverage:

1. The Company is required to maintain a debt coverage ratio of 1.1:1 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 1.1:1.

As at December 31, 2019, in accordance with the expected Company cash flow, the Company is in compliance with the above coverage ratios

On July 2016 the Company withdrew 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.

Notes to the Financial Statements as at December 31, 2019

Note 13 - 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 11). 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, 2019, the deposits for the fund reserves sums to: NIS 202 million debt service reserve, NIS 134 million in the major maintenance fund, NIS 93 million in the distribution fund and NIS 9 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 the Israel Land Authority (the "ILA"). According to IFRS 16 the amortized cost has been classified from long-term prepaid expenses to right of use assets and 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 19.

The land lease is accounted for according to IFRS 16 (see note 18 lease).

Notes to the Financial Statements as at December 31, 2019

Note 13 - 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 agreement was signed between EAPPS 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 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 the Eilat Ashkelon Pipeline Company (hereinafter: "EAPC") for the storage of diesel fuel in its facilities. 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, estimated 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 19. On March 25, 2019, assignment of debt and right was made for a diesel storage agreement to the Europe Asia Pipeline Company Ltd. (hereinafter "the Operator") According to the assignment all duties and rights of the Company will now be with the Operator. Except for the assignment, there were no changes to the agreement.

Notes to the Financial Statements as at December 31, 2019

Note 13 - 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 will end in September 30, 2020. On April 2, 2019, the Company entered into an addendum to the agreement with the partners in the Tamar license ("Tamar") according to which the gas quantities specified in the addendum to the agreement that the Company purchase from Tamar will not be included for the purpose of calculating the quantities of gas at the time of the reduction of the purchases from Tamar, in accordance with the instructions of the agreement with Tamar and in accordance with the Layout Instructions for Increasing the Quantity of Natural Gas Produced from the Tamar Natural Gas Field and Rapid Development of Natural Gas Fields Leviathan, Karish and Tanin and Additional Natural Gas Fields, dated August 16, 2015 ("Gas layout"). The addendum to the agreement was subject to certain suspending conditions which were fulfilled in July 2019. Subsequent to the financial statements date, on January 22, 2020, the Company received notification from Tamar that the "Interim Period" will end on March 1, 2020. According to the notification and the terms of the agreement, Tamar will consider the Company as a permanent customer commencing from the end of the "Interim Period".

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

In 2014 The Company sign a settlement agreement with Ashkelon Municipality according to which the annual municipal tax rate until and including the year 2025 was determined.

Notes to the Financial Statements as at December 31, 2019

Note 13 - 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 was 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 (hereinafter- "The 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 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.

Notes to the Financial Statements as at December 31, 2019

Note 13 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

9. Claims by Dori Energy, Zorlu and Edelcom (cont'd)

a) *Petition to Approve a Derivative Claim filed by Dori 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, Dori Energy and Dori Group, according to which, to the extent Dori 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 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. Dori Construction Ltd. (hereinafter and together: "Dori") whose services were retained by the EPC contractor. According the letter of Zorlu, Dori 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 requested that the Company exercise its legal rights against Dori 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 Dori Group"), Dori 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 Dori Group, pursuant to which in consideration for the management and entrepreneurship services of the power station project the Dori 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, Dori Group holdings in the Company are through Dori Energy, which on November 25, 2010 entered into a triangular investment agreement between Dori Energy, Ellomay and the Dori Group (hereinafter: "the Dori Energy investment agreement"). In addition, according to Edelcom, when the Dori Energy investment .

Notes to the Financial Statements as at December 31, 2019

Note 13 - 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 Ellomay ("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 various declaratory remedies and an operative remedy which will enforce of the sanctions set forth in the shareholders agreement, an order directed to the Company 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 to suspend Mr. Menachem Raphael's role as a director of the Company as a representative of Dori Energy and prohibit Mr. Raphael presence or voting 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. On April 30, a preliminary meeting was scheduled with the newly selected arbitrator. During the year of the report and in 2020, several discussions were held by the new arbitrator.

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.

Notes to the Financial Statements as at December 31, 2019

Note 13 - Contingent Liabilities, Commitments and Guarantees (cont'd)**A. Commitments (cont'd)****9. Claims by Dori Energy, Zorlu and Edelcom (cont'd)**

- e) On April 8, 2019, Zorlu filed a motion against the Company and directors in the Company. The motion revolves around the issue of convening a shareholder meeting whose agenda is the planning and construction of the "Dorad 2" project. Zorlu claim that the court must issue an order instructing the Company to convene a special meeting of its shareholders, the agenda of which will be the planning and construction of the "Dorad 2" project. On April 16, 2019, Edelcom made an application to be joined as an additional respondent in the motion. On August 13, 2019, the Company responded to the motion. On December 8, 2019, an evidentiary hearing was held as part of the testimony of Zorlu and Edelcom representative. On January 12, 2020, the court ruled that Zorlu and Edelcom must submit written summaries within 45 days and that respondents must submit summaries 45 days thereafter.

In the Company estimation, based on the opinion of its legal advisor, at this stage cannot assess the result of the motion. In any case, the requested order is only declarative relief, which does not carry any monetary liability to the Company.

10. Faults in production units

In 2016 damages were discovered in two of the 12 gas turbines of the Company power plant and in 2017 damages were discovered in additional three gas turbines in a manner that these turbines were temporarily got out of service. Until the turbines are repaired, the Company leases, as necessary, alternative turbines in a manner that to the Company estimation, the operating activity is not expected to be a material affected. In 2016, 2017 and 2019 the Company recognized an indemnification property in the amount of NIS 15.4 million, NIS 73.2 million and NIS 6.7 million respectively. In 2017, 2018 and 2019 the Company received from the insurance Company an amount of NIS 42.4 million, NIS 32.9 million and NIS 20 million respectively regarding these indemnification properties. 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 a materially effect on the Company operations. In 2019, the Company recognized indemnification property in the amount of NIS 5.3 million (USD 1.5 million) for this failure which was payed partially during 2019. The balance of the indemnification property as of December 31, 2019 is NIS 3.8 million. In January and February 2020, the Company received approximately NIS 2.9 million regarding these indemnification properties. The Company estimates that it has an adequate insurance coverage for the consequences of the mentioned damages, and it is certain that the company will receive the full balance amount of NIS 900 thousand.

Notes to the Financial Statements as at December 31, 2019

Note 13 - Contingent Liabilities, Commitments and Guarantees (cont'd)**A. Commitments (cont'd)****11. Memorandum of understanding with Alon Energy Centers**

On March 6, 2019, the Company signed a memorandum of understanding with Alon Energy Centers Limited partnership ("Alon Gat"), which is constructing a private power plant for the production of electricity in Kiryat Gat with a capacity of approximately 73 megawatts.

On November 11, 2019, the Company signed an addition to the memorandum of understanding (the memorandum and the addition document) will be referred to as the "Detailed Agreement"). Under the Detailed Agreement, Alon Gat will serve as a producer who will provide the Company with the full availability of the power station and will sell the electricity produced at the power plant to the Company, which will serve as supplier. In accordance with the Detailed Agreement, Alon Gat, who holds the production license, will be responsible for operating the power plant and generating electricity at the station and will bear all costs related to operating the power plant, availability and power generation. The Company will be responsible for all activities related to the power supply and power plant sales to the customers and the electricity company. On November 12, 2019, commercial operation of the power plant and the implementation of the Detailed Agreement began. The implementation of the Detailed Agreement regarding the period after May 10, 2020 is subject to the approval of the Company's lenders (which was received on December 5, 2019) and to the approval of Alon Gat's lenders, that has not yet been received. The Company expects this approval is reasonably likely to be obtained during Q1 of 2020.

In addition, conditions have been set in the agreement which, when they exist, in advance notice each party may cancel, including for any case of regulatory change which materially impairs the implementation of the contract between the parties. Considering of the Company's existing right to effectively obtain all the financial benefits from the power plant and the right to direct the use of the power plant, the aforementioned transaction is within the scope of IFRS 16 for entry right of use asset on one hand and on the other hand entry lease liability for availability payments.

Following the August 2019 hearing and the PUA resolution as of January 2020 regarding the standards on consumption plan anomalies amendment, which may affect the financial feasibility of the agreement, the Company, in collaboration with Alon Gat, is examine the feasibility of the agreement and, therefore, as of the date of the report the conditions for recognition of a right of use asset and lease liability have not been fulfilled.

12. Acquisition of natural gas

On October 30, 2017, the Company signed an agreement with Energian Israel Ltd ("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 first half of 2021. The Company will purchase about half of the gas required to operate the Company's power plant and 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. In November 2018 all the suspending conditions included in the agreement were fulfilled. Subsequent to the reporting date, on February 5, 2020, Energian announced to the company that following the Corona virus, the Chinese government has issued restrictions on travel and transportation including an area where some of Energian gas production facilities are manufactured. Due to these limitations, Energian contractor announced an expected delay. As a result, Energian warned of an expected delay in the gas supply to the Company due to Force majeure. As the delay will occur as stated, the Company may purchase gas from Tamar at a higher price than the price set in the agreement with Energian.

Notes to the Financial Statements as at December 31, 2019

Note 13 - Contingent Liabilities, Commitments and Guarantees (cont'd)**A. Commitments (cont'd)****13. Agreement with the Construction Contractor**

On July 4, 2019, the Company signed an agreement with Wood Group Gas Turbine Services Holdings Ltd. ("the Construction Contractor"). Accordingly, in consideration for the settlement of all claims by the Company against the Construction Contractor for his responsibility in connection with the construction work of the power plant, the Construction Contractor will pay the Company a total of 5.85 million USD (including VAT). On July 12, 2019, the said amount was paid.

14. PUA Resolution

On August 2019, the PUA issued a hearing regarding the standard on Consumption plan anomalies. Subsequent to the reporting date, on January 27, 2020, the PUA issued a resolution regarding the aforesaid standard. These standards regulate the mechanism in cases where consumer consumption differs from the supply plan submitted by suppliers (electricity producers) and includes a mechanism that protects suppliers from random deviations in actual consumption volumes. According to the resolution, the PUA amends the standards and impose financial sanctions, in cases of certain exceptional events that may add up to significant sums. The Company is reviewing the aforesaid resolution and its implications on the Company, on its engagements and financial results, at the same time is preparing to reduce the implications of the proposed resolution. The resolution comes into effect as of September 1, 2020.

15. Dividend distribution

Subsequent to the reporting date, on February 27, 2020, the Company's Board of Directors decided to distribute a dividend of NIS 120 million.

Notes to the Financial Statements as at December 31, 2019

Note 13 - Contingent Liabilities, Commitments and Guarantees (cont'd)

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 to the Financing Agreements, bank guarantees to INGL, the 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 2019, there was an update to the amount of the guarantee provided to system manager whereas the total updated amount is NIS 171 million.

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 ILA with respect to the land.

Notes to the Financial Statements as at December 31, 2019

Note 14 - Share Capital

Composition of the share capital in nominal values:

	Number of shares		
	December 31		
	Authorized	Issued and	Issued and
		paid-in	paid-in
		2019	2018
Ordinary shares of NIS 1 par value	500,000	10,640	10,640

See Note 13A(1)(a) regarding an issuance of shares against a conversion of loans into equity.

Note 15 - General and Administrative Expenses

	For the year ended December 31		
	2019	2018	2017
	NIS thousands		
Wages and related expenses	10,835	11,141	9,562
Rental and office maintenance	2,748	2,971	2,805
Profession services	6,145	6,268	5,800
Depreciation	793	196	420
Other	155	164	125
	20,676	20,740	18,712

Note 16 - Financing Income and Expenses, Net

	Year ended December 31		
	2019	2018	2017
	NIS thousands		
Financing income			
Revaluation of derivatives	-	11,536	-
Net foreign exchange gain	-	9,753	-
Other	4,237	3,361	3,195
	4,237	24,650	3,195
Financing expenses			
Revaluation of derivatives	4,939	-	11,788
Interest expense and linkage on bank loans	171,962	212,367	200,883
Interest expense and linkage on loans from related parties	838	12,577	18,676
Net foreign exchange loss	11,935	-	12,452
Bank commissions	972	2,581	785
Lease financing expenses	1,631	-	-
Other financing expenses	604	463	538
	192,881	227,988	245,122
Net financing expenses	188,644	203,338	241,927

Notes to the Financial Statements as at December 31, 2019

Note 17 - 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	
	2019	2018
	NIS thousands	
Derivatives presented under current liability		
Forward exchange contracts used for economic hedge	-	387

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, 2019, the Company has cash and cash equivalents in the amount of NIS 266,021 thousand (December 31, 2018 - NIS 117,220 thousand). The Company's cash and cash equivalents are deposited with a financial institution having a high credit rating (international rating scale).

Pledged deposits

The Company doesn't hold pledged deposits.

Restricted deposits

As at December 31, 2019 the Company has deposits in the amount of NIS 438,032 thousand that are restricted according to the financing agreements (December 31, 2018 – NIS 431,096 thousand). The Company's restricted deposits are held with a financial institution having a high credit rating (international rating scale).

Notes to the Financial Statements as at December 31, 2019

Note 17 - 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. Customer collection is being carried out at the current.

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 13A(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 reputation.

The Company has contractual commitments due to the Financing Agreements, the O&M agreement, the Gas Purchase agreement and the Gas Pipeline agreement. For further information see Note 13.

Notes to the Financial Statements as at December 31, 2019

Note 17 - 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, 2019						
	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	288,127	288,127	-	-	-	-	-
Other payables	9,478	9,478	-	-	-	-	-
Loans from banks	3,035,355	3,874,688	184,207	170,813	356,987	1,089,365	2,073,316
	<u>3,332,960</u>	<u>4,172,293</u>	<u>184,207</u>	<u>170,813</u>	<u>356,987</u>	<u>1,089,365</u>	<u>2,073,316</u>

Notes to the Financial Statements as at December 31, 2019

Note 17 - Financial Instruments (cont'd)

D. Liquidity risk (cont'd)

	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>

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, 2019, 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, 2019

Note 17 - 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, the Maintenance Contractor and the gas suppliers, as described in Note 13, 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, 2019					
	Non-financial	Unlinked	CPI-linked	US Dollar	EURO	Total
			NIS thousand			
Financial assets and financial liabilities:						
Current assets:						
Cash and cash equivalents	-	195,082	-	70,931	8	266,021
Trade receivables and Income receivable	-	292,759	-	-	-	292,759
Other receivables	22,685	-	-	-	-	22,685
Non-current assets:						
Restricted deposits	-	303,263	-	134,769	-	438,032
Prepaid expenses	37,225	-	-	-	-	37,225
Fixed assets	3,698,716	-	-	-	-	3,698,716
Intangible assets	2,247	-	-	-	-	2,247
Right of use assets	64,161	-	-	-	-	64,161
Current liabilities:						
Current maturities of loans from banks	-	-	231,380	-	-	231,380
Current maturities of lease liabilities	-	-	4,551	-	-	4,551
Trade payables	-	247,464	-	40,663	-	288,127
Other accounts payable	1,031	9,478	-	-	-	10,509
Non-current liabilities:						
Loans from banks	-	-	2,803,975	-	-	2,803,975
Long-term lease liabilities	-	-	54,052	-	-	54,052
Provisions for dismantling and restoration	36,102	-	-	-	-	36,102
Deferred tax liabilities	170,676	-	-	-	-	170,676
Liabilities for employee benefits, net	160	-	-	-	-	160
Total exposure in statement of financial position in respect of financial assets and financial liabilities	3,617,065	534,162	(3,093,958)	165,037	8	1,222,314

Notes to the Financial Statements as at December 31, 2019

Note 17 - 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, 2018					Total
	Non-financial	Unlinked	CPI-linked NIS thousand	US Dollar	EURO	
Financial assets and financial liabilities:						
Current assets:						
Cash and cash equivalents	-	115,969	-	1,251	-	117,220
Trade receivables and Income receivable	-	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	-	-	*224,444	-	-	*224,444
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	-	-	*3,009,392	-	-	*3,009,392
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

* reclassified

Notes to the Financial Statements as at December 31, 2019

Note 17 - 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:

December 31, 2019				
	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		-
December 31, 2018				
	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

(b) Sensitivity analysis

A change as at December 31 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.

	December 31, 2019		December 31, 2018	
	Increase	Decrease	Increase	Decrease
	Profit or loss	Profit or loss	Profit or loss	Profit or loss
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Change in the exchange rate of:				
5% in the US dollar (1)	8,252	(8,252)	4,765	(4,750)
10% in the U.S. dollar (1)	16,504	(16,504)	9,523	(9,508)
1% change in CPI (2)	(30,354)	30,354	(32,516)	32,516
2% change in CPI (2)	(60,707)	60,707	(65,033)	65,033

- (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, 2019

Note 17 - 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			
	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Long-term loans from banks (*)	3,035,355	3,165,760	3,233,836	3,320,751

(*) 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	
	2019	2018
	%	%
Long-term loans from banks	3.9%	4.3%

(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, 2019			
	Level 1	Level 2	Level 3	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Derivatives used for hedging:				
Forward foreign currency contracts	-	-	-	-
	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

Notes to the Financial Statements as at December 31, 2019

Note 18 – Lease

The Company applies IFRS 16, *Leases*, as from January 1, 2019. The Company has lease agreements with respect to the following items:

- (1) Land
- (2) Offices

(1) Information regarding material lease agreements

- (a) The Company leases land from EAIS for a period of 25 years during which the Company established a power station. The total liability for the lease and the right of use assets recognized in the statement of financial position as of December 31, 2019 for the lease was approximately NIS 56,872 thousand and NIS 62,453 thousand respectively.

Following an agreement signed with the EAIS, regarding the land lease, the Company paid NIS 3,047 thousand for its share of the lease payments paid by the EAIS to the ILA. This amount was capitalized to the right of use assets and amortized during the lease period, see Note 13A (2).

- (b) The Company leases offices from Africa Israel for a period of 5 years with extension options for another 6 years, the ending date for the extension periods is December 8, 2022. The Company is in an option period to extend the agreement, under the same conditions as the original agreement. The total liability for the lease and the right of use assets recognized in the statement of financial position as of December 31, 2019 for the lease of the offices is approximately NIS 1,731 thousand and approximately NIS 1,708 thousand respectively.

(2) Right-of-use assets

- (a) Composition and changes

	Land *	offices	Total
	NIS thousands	NIS thousands	NIS thousands
Balance as at January 1, 2019	65,675	2,289	67,964
Depreciation on right-of-use assets	3,222	581	3,803
Balance as at December 31, 2019	62,453	1,708	64,161

* The balance of land includes the classification of prepayment of lease payments, see above in Note 18 (1) a.

Notes to the Financial Statements as at December 31, 2019

Note 18 – Lease (cont'd)

(3) Lease liability

Maturity analysis of the Company lease liabilities

	NIS thousands
Less than one year	4,551
One to five years	20,989
More than five years	33,063
Total	58,603
Current maturities of lease liability	4,551
Long-term lease liability	54,052
	58,603

(4) Additional information on leases to the year ended December 31,2019:

	NIS thousands
(a) Amounts recognized in profit or loss	
Interest expenses on lease liability	1,631
(b) Amounts recognized in the statement of cash flows	
Cash outflow for leases	8,513

Notes to the Financial Statements as at December 31, 2019

Note 19 - 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	
		2019	2018	2017	2019	2018
		Transactions amounts			Outstanding balance	
Parties having significant influence	In December 2017 the Company entered into an agreement with EZOM regarding operation and maintenance of the power station including the purchasing of spare parts	163,152	203,050	2,542	5,798	3,743
Parties having significant influence	The Company entered into an agreement with EAPSS regarding operation and maintenance of the power station including the purchasing of spare parts and repairs as from November 2012 see Note 13A(10). The payments will be made on a monthly basis throughout the period of the agreement. See Note 13A(3)) regarding a subcontracting agreement between EAPSS and Ezom Ltd. From December 2017, the agreement is directly with Ezom.	3,326	3,291	225,325	-	-
Parties having significant influence	The Company entered into an agreement with Eilat Ashkelon Pipeline Company Ltd. (EAPC) regarding petrol storage services as of July 2013. The payments will be paid on a quarterly basis (see Note 13A(5)).	918	4,312	4,000	-	-
Parties having significant influence	The Company entered into a lease agreement of the land for the power station (see Note 13A(2)).	3,951	3,892	3,881	-	-
Parties having significant influence	In March 2015, the Company entered into an agreement with EAPC for renting an operational area near to the power station	-	-	26	-	-

Notes to the Financial Statements as at December 31, 2019

Note 19 - 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			December 31	
		2019	2018	2017	2019	2018
		Transactions amounts			Outstanding balance	
Parties having significant influence	The Company has several agreements with related companies for the sale of electricity.	4,697	16,278	20,270	-	-
Related Party	The Company engage with Ramat Negev Energy for purchase electricity.	1,877	127	476	-	-
Key management personnel	CEO current salary and benefits	3,485	3,256	2,959	1,151	1,061

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	2019	2018
	NIS thousands		%		NIS thousands	
Loans from related parties (*)	-	(*)	10%	CPI	-	17,805

* Financial expenses for loans from related parties until the date of commercial operation incurred in the loan fund. As of December 31, 2019, the loans have been repaid in accordance with the Financing Agreements, see also Note 11.

Exhibit Index

<u>Number</u>	<u>Description</u>
<u>1.1</u>	<u>Memorandum of Association of the Registrant (translated from Hebrew), reflecting amendments through June 9, 2011⁽¹⁾</u>
<u>1.2</u>	<u>Second Amended and Restated Articles of the Registrant, reflecting amendments through June 21, 2018⁽²⁾</u>
<u>2.1</u>	<u>Specimen Certificate for ordinary shares⁽³⁾</u>
<u>2.2</u>	<u>Description of Rights of Securities Registered Under Section 12 of the Exchange Act</u>
<u>4.1</u>	<u>1998 Share Option Plan for Non-Employee Directors</u>
<u>4.2</u>	<u>2000 Stock Option Plan</u>
<u>4.3</u>	<u>Form of Indemnification Undertaking between the Registrant and its officers and directors, granted until June 21, 2018⁽¹⁾</u>
<u>4.4</u>	<u>Form of Indemnification Undertaking and Exemption between the Registrant and its officers and directors, granted following June 21, 2018⁽⁴⁾</u>
<u>4.5</u>	<u>Form of Registration Rights Agreement, dated September 12, 2005, among the Registrant, certain investors, Bank Hapoalim, Bank Leumi and Israel Discount Bank⁽⁵⁾</u>
<u>4.6</u>	<u>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⁾</u>
<u>4.7</u>	<u>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)*}</u>
<u>4.8</u>	<u>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)^{(2)*}</u>
<u>4.9</u>	<u>Rinconada II Building Right Agreement (summary of Spanish version)^{(3)*}</u>
<u>4.10</u>	<u>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⁾</u>
<u>4.11</u>	<u>Rodríguez I Lease Agreements (summary of Spanish version)^{(9)*}</u>
<u>4.12</u>	<u>Rodríguez II Lease Agreements (summary of Spanish version)^{(9)*}</u>
<u>4.13</u>	<u>Fuente Librilla Lease Agreement (summary of Spanish version)^{(9)*}</u>
<u>4.14</u>	<u>Updated Directors and Officers Compensation Policy, adopted July 5, 2016⁽¹⁰⁾</u>
<u>4.15</u>	<u>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)⁽¹¹⁾</u> *
<u>4.16</u>	<u>Talmei Yosef Lease Agreement (summary of Hebrew version)⁽¹⁰⁾</u>

Number	Description
4.17	Talasol Lease Agreements (summary of Spanish versions)*
4.18	Amendment No. 3 to Management Services Agreement, by and among the Registrant, Kanir Joint Investments (2005) Limited Partnership and Meisaf Blue & White Holdings Ltd., dated June 19, 2019
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)⁽¹²⁾
	*
4.20	Sale and Purchase Agreement between Ellomay Luxembourg Holdings S.a.r.l and Sonnedix San Davide S.r.l, executed on December 20, 2020
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, 2012 and incorporated by reference herein.
- (3) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2011 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, 2014 and incorporated by reference herein.
- (10) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2017 and incorporated by reference herein.
- (11) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
- (12) Included in the Registrant's Form 6-K dated September 25, 2019 and incorporated by reference herein.

Description of Securities Registered pursuant to Section 12 of the Securities Act of 1934

As of December 31, 2019, Ellomay Capital Ltd. (which may be referred to herein as the “Company”, “us” or “our”) had one class of securities registered under Section 12(b) of the Securities Exchange Act of 1934 – Ordinary Shares, par value NIS 10.00 per share.

Set forth below is a brief description of certain provisions contained in the Company’s Memorandum of Association, the Company’s Second Amended and Restated Articles, 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.

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.

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.

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.

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.

Limitations on the Rights to Own Securities in Our Company

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.

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.

ELLOMAY CAPITAL LTD. (FORMERLY NUR MACROPRINTERS LTD.)
1998 SHARE OPTION PLAN FOR NON-EMPLOYEE DIRECTORS
(AS AMENDED)

NUR Macroprinters Ltd. hereby adopts the 1998 Share Option Plan for Non-Employee Directors, as follows:

1. **Shareholder Approval and Purpose**

- 1.1. **Shareholder Approval.** At the Company's December 8, 1998 Annual Meeting of Shareholders, the Plan was ratified by an affirmative vote of the holders of a majority of the Shares which were present in person or by proxy and entitled to vote at the Meeting.
- 1.2. **Purpose of the Plan.** The Plan is intended to closely align the interests of the Non-Employee Directors with the interests of the Company's shareholders. This is achieved by making a significant portion of Non-Employee Director compensation directly related to the total return performance of the Shares. The Plan also is intended to encourage Share ownership on the part of Non-Employee Directors.

2. **Definitions**

The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

- 2.1. **"Award"** means, individually or collectively, a grant under the Plan of an Option.
 - 2.2. **"Board"** means the Board of Directors of the Company.
 - 2.3. **"Committee"** means the committee appointed pursuant to Section 3.1 to administer the Plan.
 - 2.4. **"Company"** means NUR Macroprinters Ltd., an Israeli corporation, or any successor thereto.
 - 2.5. **"Control"** shall have the meaning ascribed thereto in Section 102 of the Ordinance.
 - 2.6. **"Director"** means any individual who is a member of the Board.
 - 2.7. **"Disability"** means a permanent and total disability, as determined by the Committee (in its discretion) in accordance with uniform and non-discriminatory standards adopted by the Committee from time to time.
 - 2.8. **"Exercise Price"** means the price at which a Share may be purchased by a Participant pursuant to the exercise of an Option.
 - 2.9. **"Fair Market Value"** means the average closing bid and sale prices of the 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 Shares are then traded, or if not then traded as determined in good faith (using customary valuation methods) by resolution of the members of the Board of Directors of the Company, based on the best information available to it.
 - 2.10. **"Grant Date"** means, with respect to 1998, October 26, 1998 and, with respect to each subsequent calendar year, August 1. For example, for 1999, the Grant Date is August 1, 1999. With respect to a particular Award, "Grant Date" means the particular Grant Date on which the Award was granted. Notwithstanding the preceding, a Non-Employee Director who is first elected or appointed on other than December 8, 1998, shall have only an initial Grant Date coincident with the date of his or her commencement of service on the Board.
 - 2.11. **"Holding Period"** means the period in which the Options granted to an Israeli Participant or, upon exercise thereof the Shares underlying thereunder, are to be held by the Trustee on behalf of such Israeli Participant, in accordance with Section 102 of the Ordinance, and pursuant to the Tax Track which the Company selects.
-

- 2.12. **"Israeli Participants"** means Non-Employee Directors who do not Control the Company and who are subject to payment in Israel of tax on their income from the Company (other than withholding tax), as the Committee, in its discretion shall determine.
- 2.13. **"Non-Employee Director"** means a Director who is an employee of neither the Company nor of any Subsidiary.
- 2.14. **"Non-Israeli Participants"** means all Non-Employee Directors who are not Israeli Participants.
- 2.15. **"Option"** means an option to purchase Shares granted pursuant to Section 5
- 2.16. **"Option Agreement"** means the written agreement between the Company and a Participant setting forth the terms and provisions applicable to each Option granted under the Plan.
- 2.17. **"Ordinance"** means the Israeli Income Tax Ordinance [New Version], 1961, as amended and any regulations, rules, orders or procedures promulgated thereunder.
- 2.18. **"Participant"** means a Non-Employee Director who has an outstanding Award.
- 2.19. **"Plan"** means this 1998 Share Option Plan for Non-Employee Directors, as set forth in this instrument and as hereafter amended from time to time.
- 2.20. **"Shares"** means the Ordinary Shares of the Company, NIS 10.00 nominal value.
- 2.21. **"Subsidiary"** means any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns shares possessing fifty percent (50%) or more of the total combined voting power of all classes of shares in one of the other corporations in such chain.
- 2.22. **"Tax Track"** means one of the three tax tracks described under Section 102 of the Ordinance, specifically: (1) the "Capital Gains Track Through a Trustee"; (2) "Income Tax Track Through a Trustee"; or (3) the "Income Tax Track Without a Trustee"; each as defined respectively in Sections 6.2 and 6.3 of the Plan.
- 2.23. **"Termination of Service"** means a cessation of the Participant's service on the Board for any reason.
- 2.24. **"Trustee"** means the trustee appointed by the Company under the Trust Agreement as set forth in Section 6.5 of the Plan.

3. **Administration**

- 3.1. **The Committee.** The Plan shall be administered by the Committee. The Committee shall consist of one or more Directors who shall be appointed by, and serve at the pleasure of, members of the Company's Board who are not eligible to receive Awards under the Plan. The Committee shall be comprised solely of a Director or Directors who are not eligible to receive Awards under the Plan.
- 3.2. **Authority of the Committee.** It shall be the duty of the Committee to administer the Plan in accordance with the Plan's provisions. The Committee shall have all powers and discretion necessary or appropriate to administer the Plan and to control its operation, including, but not limited to, the power to (a) interpret the Plan and the Awards, (b) adopt rules for the administration, interpretation and application of the Plan as are consistent therewith, (c) interpret, amend or revoke any such rules, and (d) adopt such procedures and subplans as are necessary or appropriate to permit participation in the Plan by Non-Employee Directors who are non-Israeli nationals or employed outside of Israel.
- 3.3. **Decisions Binding.** Subject to the provisions of any applicable law, all determinations and decisions made by the Committee related to the Plan and its application shall be final, conclusive, and binding on all persons, and shall be given the maximum deference permitted by law.

4. **Shares Subject to the Plan**

- 4.1. **Number of Shares.** Subject to adjustment as provided in Section 4.3, the total number of Shares available and reserved for grant under the Plan shall not exceed 75,000. Shares granted under the Plan shall be taken from the Company's authorized but unissued Shares.
- 4.2. **Lapsed Awards.** If an Award terminates or expires for any reason, any Shares subject to such Award again shall be available to be the subject of an Award.
- 4.3. **Adjustments in Awards and Authorized Shares.** In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, share dividend, split-up, Share combination, or other change in the corporate structure of the Company affecting the Shares, the Committee shall adjust the number and class of Shares which may be delivered under the Plan, and the number, class, and Exercise Price of Shares subject to outstanding Awards and future grants, in such manner as the Committee (in its sole discretion) shall determine to be appropriate to prevent the dilution or diminution of such Awards. Notwithstanding the preceding, the number of Shares subject to any Award always shall be a whole number.

5. **Share Options**

5.1. **Granting of Options**

- 5.1.1. **Directors serving on the 1998 Grant Date.** Each Non-Employee Director who is such on the 1998 Grant Date, shall automatically receive, as of the 1998 Grant Date, an Option to purchase 10,000 Shares. Each Non-Employee who has received an Option pursuant to the preceding sentence shall also automatically receive, as of each subsequent Grant Date, an Option to purchase 10,000 Shares, provided that the individual shall receive an Option on any such subsequent Grant Date only if he or she both (a) is a Non-Employee Director on the Grant Date, and (b) has served as a Non-Employee Director for the entire period since the last Grant Date.
- 5.1.2. **Directors first elected or appointed after the 1998 Grant Date.** Each Non-Employee Director who first becomes such after the 1998 Grant Date, automatically shall receive on his or her initial Grant Date an option to purchase up to 10,000 Shares prorated based on the number of full months of service between the prior annual Grant Date and the next Grant Date. A Director joining the Board on or before the 15th day of the month will receive credit for service for the full month. For example, (a) if a Non-Employee Director joins the Company as such on June 15, 1999 such Director would be entitled to an initial grant of options to purchase 2,222 Shares and (b) if a Non-Employee Director joined the Company on June 15 of any subsequent year, such Director would be entitled to an initial grant of options to purchase 1,667 Shares. Each such Non-Employee Director also shall automatically receive, as of each subsequent Grant Date, an Option to purchase 10,000 Shares annually, provided that the individual shall receive an Option on any such Grant Date only if he or she both (y) is a Non-Employee Director on the Grant Date, and (z) has served as a Non-Employee Director for the entire period since the last Grant Date.

5.2. **Terms of Options**

- 5.2.1. **Option Agreement.** Each Option granted pursuant to this Section 5 shall be evidenced by a written Option Agreement (satisfactory to the Committee), which shall be executed by the Participant and the Company.
- 5.2.2. **Exercise Price.** The Exercise Price for the Shares subject to each Option shall be 100% of the Fair Market Value of such Shares on the applicable Grant Date.

- 5.2.3. Exercisability. Each Option granted pursuant to Section 5.1 shall become exercisable based on the vesting schedule determined in accordance with the requisite approvals under applicable law. Options not exercised before the applicable expiration periods designated in Section 5.2.4. below shall terminate upon the expiration thereof.
- 5.2.4. Expiration of Options. Each Option shall terminate upon the first to occur of the following events,
- (a) The expiration of ten (10) years from the applicable Grant Date;
 - (b) The expiration of three (3) months from the date of the Participant's Termination of Service prior to age 70 for any reason other than the Participant's death or Disability, provided that the Committee, subject to subsequent shareholder approval, may determine to extend such period to a maximum of five years;
 - (c) The expiration of two (2) years from the date of the Participant's Termination of Service by reason of Disability; or
 - (d) The expiration of one (1) year from the date of the Participant's Termination of Service at or after age 70 for any reason other than the Participant's death or Disability.
- 5.2.5. Death of Director. Notwithstanding Section 5.2.4, if a Director dies prior to the expiration of his or her Option(s) in accordance with Section 5.2.4, his or her Option(s), which are exercisable on the date of his or her death shall terminate one (1) year after the date of death.
- 5.3. Payment. Options shall be exercised by the Participant's delivery of a written notice of exercise (satisfactory to the Committee) to the Company in care of Chief Financial Officer, 12 Abba Hillel Silver Street, P.O. Box 1281, Lod 71111, Israel, or at such other address as Company may hereafter designate in writing, setting forth the number of Shares with respect to which the Option is to be exercised, and accompanied by full payment for the Shares. Upon the exercise of any Option, the Exercise Price shall be payable to the Company in full in cash. As soon as practicable after receipt of a written notification of exercise and full payment for the Shares purchased, the Company shall deliver to the Participant (or the Participant's designated broker), Share certificates (which may be in book-entry form) representing such Shares.
- 5.4. Options are not Incentive Share Options. Options are not intended to be incentive stock options within the meaning of Section 422 of the United States Internal Revenue Code.
- 5.5. Conditions Upon Issuance of Shares
- 5.5.1. Investment Representation. As a condition to the exercise of an Option, the Committee may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, upon the advice of counsel for the Company, such representation is required.
 - 5.5.2. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which requisite authority shall not have been obtained.

6. **Awards to Israeli Participants**

- 6.1. **Option Subject to Section 102 of the Ordinance.** Awards to Israeli Participants shall be made under the provisions of Section 102 of the Ordinance. Anything herein to the contrary notwithstanding, the Grant Date of Options to Israeli Participants and elected to have their Options issued under the Tax Track that the Company has selected, shall not be earlier than the date at which the Plan was approved by the Israeli Tax Authorities.
- 6.2. **Trustee Tax Tracks.** If the Company elects to grant Options through (i) the Capital Gains Tax Track Through a Trustee, or (ii) the Income Tax Track Through a Trustee, then, in accordance with the requirements of Section 102 of the Ordinance, the Company shall appoint a Trustee who will hold in trust on behalf of each Israeli Participant the Options and the Shares issued upon exercise of such Options.

The Holding Period for the Options will be as follows:

- (1) *The Capital Gains Tax Track Through a Trustee* – if the Company elects to Award the Options according to the provisions of this track, then the minimum Holding Period needed to benefit from that Capital Gain Tax Track will be twenty-four (24) months from the end of the tax year in which the Options were Awarded to the Trustee on behalf of the Israeli Participant, or such shorter period as may be approved by the Israeli Tax Authorities.
- (2) *Income Tax Track Through a Trustee* – if the Company elects to Award Options according to the provisions of this track, then the minimum Holding Period needed to benefit from that Income Tax Through a Trustee Track will be twelve (12) months from the end of the tax year in which the Options were Awarded to the Trustee on behalf of the Israeli Participant, or such shorter period as may be approved by the Israeli Tax Authorities.

Subject to Section 102 of the Ordinance, Israeli Participants who wish to benefit from the reduced tax shall not be able to receive from the Trustee, nor shall they be able to sell or dispose of Shares before the end of the applicable Holding Period. If an Israeli Participant sells or removes the Shares underlying an Award from the Trustee before the end of the applicable Holding Period (the "**Breach**"), such Israeli Participant shall pay all applicable taxes imposed on such Breach by the Ordinance.

In the event of a distribution of rights, including an issuance of bonus shares, in connection with Options originally granted (the "**Additional Rights**"), all such Additional Rights shall be allocated and/or issued to the Trustee for the benefit of Israeli Participant, and shall be held by the Trustee for the remainder of the Holding Period applicable to the Options originally Awarded. Such Additional Rights shall be treated in accordance with the provisions of the applicable Tax Track.

- 6.3. **Income Tax Track Without a Trustee.** If the Company elects to Award Options according to the provisions of this track, then the Options will not be subject to a Holding Period.
- 6.4. **Track Selection.** The Company, in its sole discretion, shall elect under which of the above three Tax Tracks, Awards to Israeli Participants shall be made and the Option Agreement will indicate the Tax Track under which the Options are being granted.
- 6.5. **Trust Agreement**
- 6.5.1. The terms and conditions applicable to the trust relating to Awards to Israeli Participants under the Tax Track selected by the Company shall be set forth in an agreement signed by the Company and the Trustee (the "**Trust Agreement**").
- 6.5.2. The Company shall cause the Trustee to exercise the Options by countersigning and delivering to the Company a notice of exercise, upon receipt of written instructions from the Participant thereof, provided, that the Israeli Participant has made appropriate arrangements for the payment of the Exercise Price of the Shares issuable upon such exercise.

6.6. Tax Matters

- 6.6.1. Awards to Israeli Participants shall be governed by, and shall conform with and be interpreted so as to comply with, the requirements of Section 102 of the Ordinance and any written approval from the Israeli Tax Authorities. All tax consequences under any applicable law (other than stamp duty) which may arise from the Award of Options, from the exercise thereof or from the holding or sale of underlying Shares (or other securities issued under the Plan) by or on behalf of an Israeli Participant, shall be borne solely on such Israeli Participant. An Israeli Participant shall indemnify the Company and hold it harmless against and from any liability for any such tax or any penalty, interest or indexing.
- 6.6.2. If the Company elects to Award Options according to the provisions of the Income Tax Track Without a Trustee (Section 6.3 of the Plan), and if prior to the exercise of any and/or all of these Options, an Israeli Participant ceases to be a director of the Company, such Israeli Participant shall deposit with the Company a guarantee or other security as required by law, in order to ensure the payment of applicable taxes upon the exercise of such Options.
- 6.6.3. Until all taxes relating to Awards to Israeli Participants have been paid in accordance with the Ordinance, Options and/or the Shares underlying thereunder may not be sold, transferred, assigned, pledged, encumbered, or otherwise willfully hypothecated or disposed of, and no power of attorney or deed of transfer, whether for immediate or future use may be validly given. Notwithstanding the foregoing, the Options and/or the Shares underlying thereunder may be validly transferred in a transfer made by will or laws of descent, provided that the transferee thereof shall be subject to the provisions of Section 102 of the Ordinance and the rules thereunder as would have been applicable to the deceased Israeli Participant were he or she to have survived.

7. Miscellaneous

- 7.1. No Effect on Service. Nothing in the Plan shall (a) create any obligation on the part of the Board to nominate any Participant for reelection by the Company's shareholders, or (b) interfere with or limit in any way the right of the Company to terminate any Participant's service.
- 7.2. Successors. All obligations of the Company under the Plan shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.
- 7.3. Beneficiary Designations. If permitted by the Committee, a Participant may name a beneficiary or beneficiaries to whom any vested but unpaid Award shall be paid in the event of the Participant's death. Each such designation shall revoke all prior designations by the Participant and shall be effective only if given in a form and manner acceptable to the Committee. In the absence of any such designation, any vested benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate and, subject to the terms of the Plan and of the applicable Option Agreement, any unexercised vested Award may be exercised by the administrator or executor of the Participant's estate.
- 7.4. Nontransferability of Awards. No Award granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will, by the laws of descent and distribution, or to the limited extent provided in Section 7.3. All rights with respect to an Award granted to a Participant shall be available during his or her lifetime only to the Participant.
- 7.5. No Rights as Shareholder. Except to the limited extent provided in Section 7.3, no Participant (nor any beneficiary) shall have any of the rights or privileges of a shareholder of the Company with respect to any Shares issuable pursuant to exercise of an Option, unless and until certificates representing such Shares shall have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Participant, beneficiary or Company (as escrow agent).
- 7.6. Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy governmental, federal, state, and local taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

8. **Amendment, Termination and Duration**

- 8.1. **Amendment or Termination.** The Board, in its sole discretion, may amend or terminate the Plan, or any part thereof, at any time and for any reason. The amendment, suspension, or termination of the Plan shall not, without the consent of the Participant, alter or impair any rights or obligations under any Award theretofore granted to such Participant.
- 8.2. **Duration of the Plan.** The Plan shall commence on the date specified herein, and subject to Section 8.1 (regarding the Board's right to amend or terminate the Plan), shall remain in effect thereafter until December 8, 2028, unless terminated earlier by the Board.

9. **Legal Construction**

- 9.1. **Gender and Number.** Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.
- 9.2. **Severability.** In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.
- 9.3. **Requirements of Law.** The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, whether of the State of Israel or of the United States or any other state having jurisdiction over the Company and the Participant, including the registration of the Shares under United States Securities Act of 1933, and to such approvals by any governmental agencies or national securities exchanges as may be required.
- 9.4. **Compliance with Rule 16b-3.** For the purpose of ensuring that transactions under the Plan do not subject Participants to liability under Section 16(b) the Securities Exchange Act of 1934, as amended (the "**1934 Act**"), if the Participants shall become subject thereto, all transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 promulgated under the 1934 Act, and any future regulation amending, supplementing or superseding such regulation. To the extent any provision of the Plan, Option Agreement or action by the Committee or a Participant fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.
- 9.5. **Governing Law.** The Plan and all Option Agreements shall be construed in accordance with and governed by the laws of the State of Israel without giving effect to any choice or conflict of law provision or rule (whether of Israeli or otherwise) which would cause the application of the laws of any jurisdiction other than Israel.
- 9.6. **Captions.** Captions provided herein are for convenience only, and shall not serve as a basis for interpretation or construction of the Plan.

Ellomay Capital Ltd.
(Previously, NUR Macroprinters Ltd. and NUR Advanced Technologies Ltd.)
2000 Stock Option Plan

1. Establishment, Purpose, and Definitions

- (a) This, the 2000 Stock Option Plan (the "**Plan**") of NUR Macroprinters Ltd. (the "**Company**"), has been adopted and approved by the Board of Directors of the Company (the "**Board**") on August 9, 2002 and amended on July 15, 2003, June 23, 2008, June 9, 2011 and June 21, 2018.
- (b) The purpose of the Plan is to provide a means whereby Eligible Individuals (as defined in paragraph 4, below) may acquire ordinary shares of the Company par value NIS 10.00 each (the "**Shares**") pursuant to the exercise of options granted under the Plan (respectively the "**Options**" and "**Grant**"). Options may be Granted on the basis of past or future services by employees of the Company or of Affiliates ("**Service Options**"), or on the basis of past or future services by non-employees of the Company or of Affiliates ("**Non-Employee Options**").
- (c) The term "**Affiliate**" or "**Affiliates**" as used in the Plan means a present or future company that either (i) Controls the Company or is Controlled by the Company; or (ii) is Controlled by the same person or entity that Controls the Company.
- (d) The term "**Control**" as used in the Plan shall have the meaning ascribed thereto in Section 102 of the Israeli Income Tax Ordinance [New Version], 1961, as amended, and any regulations, rules, orders or procedures promulgated thereunder (all referred to together as "**Section 102**").
- (e) The term "**Employee**" as used in this Plan means an employee, officer - "Nosei Misra" - as such term is defined in the Companies law 5759-1999 ("**Officers**" and the "**Companies law**" respectively), or director of the Company or any Affiliate, provided that such person does not Control the Company.
- (f) The term "**Non-Employees**" as used in this Plan means consultants or Employees if such Employees Control the Company.
- (g) The terms "**Participant**" Participant as used in this Plan shall mean any Employee or Non-Employee Granted Options under this Plan.

2. Administration of the Plan

- (a) The Plan shall be administered by the Board or by a committee elected by the Board (the "**Committee**"), under such terms and conditions, as the Board shall determine. Members of the Committee shall serve at the pleasure of the Board. At least one member of the Committee shall be an independent director, such that such person would be qualified to serve on the Committee under the provisions of paragraph 2(b)(ii) below. The Committee shall select one of its members as chairman, and the provisions of the Articles of Association of the Company as to committees of the Board shall apply to the meetings of the Committee, including the provisions relating to the convening of meetings, the adoption of resolutions, and the adoption of resolutions in writing. Until such time as the Board shall delegate the administration of the Plan to the Committee or if the Board chooses not to delegate the administration of the Plan to the Committee, each reference in this Plan to "the Committee" shall be construed to refer to the Board.
 - (b) In the event that the Company becomes subject to the requirements of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended ("**Rule 16b-3**"), then, notwithstanding the provisions of paragraph 2(a) above, (i) the Committee shall consist of two or more members of the board or such lesser number of members of the Board as permitted by Rule 16b-3, and (ii) none of the members of the Committee shall receive, while serving on the committee, or during the one-year period preceding appointment to the Committee, a grant or award of equity securities under (y) the plan, or (z) any other plan of the Company or its Affiliates under which the Participants are entitled to acquire Shares (including restricted Shares), stock, options, stock bonuses, related rights, or stock appreciation rights of the company or any of its Affiliates, other than pursuant to transactions in any such other plan which do not disqualify a director from being a disinterested person under Rule 16b-3. The limitations set forth in this paragraph 2(b) shall automatically incorporate any additional requirements that may in the future be necessary for the Plan to comply with Rule 16b-3.
-

- (c) None of the members of the Committee shall receive, while serving on the Committee, or during the one-year period preceding appointment to the Committee, a Grant or award of Options or Shares under the Plan.
- (d) The Committee shall determine, from time to time, which Eligible Individuals (as defined and detailed in paragraph 4, below) shall be granted Options under the Plan, the timing of such Grants, the terms thereof (including any restrictions on the Shares), and the number of Shares subject to such Options.
- (e) Subject to paragraph 13(b) below, the Committee may amend the terms of any outstanding Option Granted under this Plan, provided however that the Exercise Price (as defined in paragraph 5 below) of an outstanding Option may not be amended, and further provided that any amendment which would adversely affect the Participant's rights under an outstanding Option shall not be made without the Participant's written consent. The Committee may, with the Participant's written consent, cancel any outstanding Options or accept any outstanding Option in exchange for a new Option.
- (f) Subject to paragraph 13(b) below, the Committee shall have the sole authority, in its absolute discretion, to adopt, amend, and rescind such rules and regulations as, in its opinion, may be advisable in the administration of the Plan; to construe and interpret the Plan, the rules and regulations, and the instruments evidencing Options Granted under the Plan; and to make all other determinations deemed necessary or advisable for the administration of the Plan. All decisions, determinations, and interpretations of the Committee shall be binding on all Participants.

3. Shares Subject to the Plan

- (a) The aggregate number of Shares available through the Grant of Options under the Plan (the "**Option Shares**" or "**Underlying Shares**") shall be as provided for by the Board and approved by the Shareholders of the Company from time to time. The Option Shares shall be available through Service Options and/or Non-Employee Options.

If an Option is surrendered (except surrender for the exercise into Shares) or for any other reason ceases to be exercisable in whole or in part, the Underlying Shares which were subject to such Option but as to which the Option had not been exercised shall continue to be available under the Plan.

- (b) If there is any change in the Shares subject to the Plan, or the Shares subject to any Option Granted under the Plan, through merger, consolidation, reorganization, recapitalization, reincorporation share split, distribution of bonus shares, a rights offering, or other change in the corporate structure of the Company, appropriate adjustments shall be made by the Committee in order to preserve but not to increase the benefits to the individual, including adjustments to the aggregate number and kind of Shares subject to the Plan, and the number and kind of Shares and the Exercise Price, as defined in paragraph 5 below.

4. Eligible Individuals

- (a) Subject to paragraph 2(c) above: (i) Employees shall be eligible to receive Service Options; and (ii) Non Employees shall be eligible to receive Non-Employee Options, as the Committee, in its discretion, shall designate from time to time. Notwithstanding this paragraph 4(a) all Grant of Options to Officers of any Israeli Company, shall be authorized and implemented only in accordance with the provisions of the Companies Law, as in effect from time to time.
- (b) Employees of the Company or an Affiliate who are subject to payment in Israel of tax on their income from the Company or an Affiliate (other than withholding tax), as the Committee, in its discretion shall determine, shall be defined for the purpose of the Plan as "Israeli Employees". All other Employees of the Company or an Affiliate shall be defined for the purpose of the Plan as "**Non-Israeli Employees**". Israeli Employees who Control the Company, or are otherwise not entitled to the benefits granted pursuant to Section 102, shall be defined for the purpose of the Plan as "**Controlling Employees**".

5. **The Option Price**

- (a) The exercise price of the Shares covered by each Option (the "**Exercise Price**") shall be as determined by the 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 time of issuance of such Options. The "**Stock Value**" at any time shall be equal to the then current Fair Market Value of the Shares. For purposes hereof, the "**Fair Market Value**" shall mean, as of any date, the last closing price, on Date of Grant, of the Shares in respect of which options Granted under the Plan may then be exercised on the NASDAQ National Market System (or, in the event that the National Market System is not the principal securities exchange on which the Shares are then traded, on such other principal securities exchange), or, in the event that no sales of the Shares took place on such date, the last closing price of the Shares on such principal securities exchange on the most recent prior date on which a sale of the Shares took place; provided, however, that if the Shares are not publicly traded on the date on which the Fair Market Value is to be determined, then the "Fair Market Value" shall mean the per share Fair Market Value of the Company as determined by the Board of Directors. If the Committee is unable to agree on the Fair Market Value, then the Fair Market Value shall be determined by an independent valuation expert satisfactory to the Committee. The Fair Market Value as determined by such independent valuation expert shall be conclusive. The Exercise Price of an Option shall be subject to adjustment to the extent provided in paragraph 3(b) above.
- (b) Options Granted to Employees subject to US Tax: at an Exercise Price which is not less than the "fair market value" (as described in Section 422 of the Internal Revenue Code of 1986 (the "Code")) of the Shares on the grant date (110% of such fair market value in the case of an individual who owns more than 10% of the combined voting power of all classes of stock in the Company or an Affiliate (a "**10% Stockholder**")).

6. **Grant of Options: Dividends and Voting Rights**

- (a) The effective date of the Grant of an Option (the "**Date of Grant**") shall be the date specified by the Committee in its determination relating to the award of such Option. The Committee shall promptly give the Participant written notice (the "**Notice of Grant**") of the Grant of an Option. The terms of such Notice of Grant shall be determined by the Committee, subject to the terms of the Plan.
- (b) Subject to the vesting provisions of paragraph 9(c), each Option may be exercised, in whole or in part, at any time during the period (the "**Option Period**") set forth in the Notice of Grant. However, Underlying Shares derived from Options Granted under one of the Section 102 Trustee Tracks, may not be sold or transferred from the Trustee (as hereinafter defined) before the end of the applicable Holding Period as defined in Section 102 and paragraph 7 of this Plan. Options not exercised during the Option Period shall terminate upon the expiration thereof.
- (c) To the extent that any dividend is payable on the Shares under applicable law, or the Articles of Association of the Company, all Underlying Shares (whether or not held in Trust) shall entitle beneficial Participants ("**Beneficial Employees**") to receive dividends with respect thereto. For so long as such Shares are held in Trust, any and all dividends received by the Trustee on such Underlying Shares shall be paid by the Trustee to the Beneficial Employees thereof, subject to any required withholding of tax in respect thereof.
- (e) Except as provided in the immediately following sentence, in order to exercise an Option, the Participant shall complete and execute a notice of exercise ("**Notice of Exercise**") in such form as may be prescribed by the Committee from time to time and shall deliver the same to the Company together with the purchase price of the Shares pursuant to paragraph 13 hereof. In the case of any Beneficial Employee who's Options are held by the Trustee, such Beneficial Employee shall instruct the Trustee to countersign such Notice of Exercise (the same having been signed by such Beneficial Employee) and to deliver the same to the Company.
- (f) The Participant shall have no rights as a shareholder with respect to Shares under a Grant of Options until a share certificate has been delivered to the Participant and is fully paid for. No adjustment shall be made for dividends or other rights for which the record date is prior to the date such share certificate is issued

7. **Trust Arrangement and Holding Period**

- (a) Option Subject to Section 102: Grants to Israeli Employees shall be made under the provisions of Section 102. Grants to Non-Israeli Employees or Controlling Employees shall not be made under Section 102. Anything herein to the contrary notwithstanding, the Date of Grant of Options to Israeli Employees, who are not Controlling Employees, and elected to have their Options issued under the Trustee Track of Section 102 that the Company has selected, shall not be earlier than the date at which the Option Plan was approved by the Israeli Tax Authorities.
- (b) Trustee Tax Tracks: If the Company elects to Grant Options through (i) the Capital Gains Tax Track Through a Trustee, or (ii) the Income Tax Track Through a Trustee then, in accordance with the requirements of Section 102, the Company shall appoint a Trustee who will hold in trust on behalf of each Participant the Options and the Underlying Shares issued upon exercise of such Options in trust on behalf of each Participant. The Company shall allocate such Options to the Trustee on behalf of such Israeli Employees in a letter specifying all details required under Section 102 Rules ("**Allocation**").

The holding period for the Options will be as follows ("**Holding Period**"):

- (1) The Capital Gains Tax Track Through a Trustee – if the Company elects to Allocate the Options according to the provisions of this track, then the Holding Period will be 24 months from the end of the tax year in which the Options were Allocated to the Trustee on behalf of the Participant, or such shorter period as may be approved by the Israeli Tax Authorities.
- (2) Income Tax Track Through a Trustee – if the Company elects to Allocate Options according to the provisions of this track, then the Holding Period will be 12 months from the end of the tax year in which the Options were Allocated to the Trustee on behalf of the Participant, or such shorter period as may be approved by the Israeli Tax Authorities.

Subject to Section 102, Israeli Employees shall not be able to receive from the Trustee, nor shall they be able to sell or dispose of Underlying Shares before the end of the applicable Holding Period.

In the event of a distribution of rights, including an issuance of bonus shares, in connection with Options originally Granted (the "**Additional Rights**"), all such Additional Rights shall be Allocated and/or issued to the Trustee for the benefit of Israeli Employees, and shall be held by the Trustee for the remainder of the Holding Period applicable to the Options originally Allocated. Such Additional Rights shall be treated in accordance with the provisions of the applicable Tax Track.

- (c) Income Tax Track Without a Trustee: If the Company elects to Allocate Options according to the provisions of this track, then the Options will not be subject to a Holding Period.
- (d) Track Selection: The Company, in its sole discretion, shall elect under which (and if to Allocate Options under one) of the above three Tracks, Allocations to Israeli Employees shall be made.
- (e) Concurrent Conditions: The Holding Period, if any, is in addition to the vesting period as specified in paragraph 9 (c) of the Plan. The Holding Period and vesting period may run concurrently, but neither is a substitute for the other, and each are independent terms and conditions for Options Granted.

(f) Trust Agreement:

- (i) The terms and conditions applicable to the Trust relating to the Trustee Tax Track selected by the Company, as appropriate, shall be set forth in an agreement signed by the Company and the Trustee (the "**Trust Agreement**").
- (ii) The Company shall cause the Trustee (subject to the vesting provisions of paragraph 9(c) hereof) to exercise the Options by countersigning and delivering to the Company a Notice of Exercise, upon receipt of written instructions from the Beneficial Employee thereof, provided the Beneficial Employee has made appropriate arrangements for the payment of the Exercise Price of the Shares issuable upon such exercise.
- (iii) Subject to paragraph 9(a) of this Plan, Options and/or Underlying Shares held by the Trustee shall continue to be held by the Trustee, on behalf of the Beneficial Employee at least until the end of the later of the (a) applicable Holding Period and (b) Vesting Period ("**Release Date**"). At any time after the Release Date and upon the receipt of a written request of any Beneficial Employee, the Trustee shall release from the Trust the Underlying Shares, by executing and delivering to the Company such instrument(s) as the Company may require, giving due notice of such release to such Beneficial Employee, provided, however, that the Trustee shall not so release any such Shares to such Beneficial Employee unless the latter, prior to, or concurrently with, such release, provides the Trustee with evidence, satisfactory in form and substance to the Trustee, that all taxes, if any, required to be paid upon such release have, in fact, been paid.
- (iv) Alternatively, from and after the Release Date, upon the written instructions of the Beneficial Employee to sell any Shares issued upon exercise of Options, the Trustee shall take such steps as may be required to effect such sale and shall transfer such Shares to the purchaser concurrently with the receipt, or after having made suitable arrangements to secure the payment of the proceeds of the purchase price in such transaction. The Trustee shall withhold from such proceeds any and all taxes required to be paid in respect of such sale, shall remit the amount so withheld to the appropriate tax authorities and shall pay the balance thereof directly to the Beneficial Employee, reporting to such Beneficial Employee and to the Company the amount so withheld and paid to said tax authorities.

- (g) Option Subject to the Trustee Tax Track without a Trustee: If the Company determines to Allocate Options subject to a Trustee Tax Track without a Trustee, the Company shall Allocate all Options Granted under the Plan to Israeli Employees (and a copy of the Notice of Grant shall be given) to a trustee designated by the Board (who may be the Trustee). The Trustee shall hold each such Option in trust (the "**Trust**") for the Beneficial Employee. No Options shall be released from the Trust until the vesting of such Option pursuant to paragraph 9(c) hereof (the "**Vesting Date**"). From and after the Vesting Date, upon the written request of any Beneficial Employee, the Trustee shall release from the Trust the Options Allocated and exercise them on behalf of such Beneficial Employee, by executing and delivering to the Company such instrument(s) as the Company may require, giving due notice of such release to such Beneficial Employee, provided, however, that the Trustee shall not so release and exercise any such Options on behalf of the Beneficial Employee unless the latter, prior to, or concurrently with, such release and exercise, provides the Trustee with evidence, satisfactory in form and substance to the Trustee, that all taxes and/or compulsory payments, if any, required to be paid upon such release and exercise have, in fact, been paid.

If prior to the exercise of any and/or all of the Options Allocated under this Tax Track, such Israeli Employee ceases to be an employee, director, or Officer of the Company or Affiliate, the Israeli Employee shall deposit with the Company or Affiliate a guarantee or other security as required by law, in order to ensure the payment of applicable taxes upon the exercise of such Options.

8. **Option Subject to Section 3(i)**

All Options Granted under the Plan to Controlling Employees shall be Granted (and a copy of the Notice of Grant shall be given) under Section 3(i) to the Income Tax Ordinance. The Company shall Allocate the Options to a trustee designated by the Board (who may be the Trustee). The Trustee shall hold each such Option in trust (the "**Trust**") for the Beneficial Controlling Employee. No Options shall be released from the Trust until the vesting of such Option pursuant to paragraph 9(c) hereof (the "**Release Date**"). From and after the Release Date, upon the written request of any Beneficial Controlling Employee, the Trustee shall release from the Trust the Allocated Options and exercise them on behalf of such Beneficial Employee, by executing and delivering to the Company such instrument(s) as the Company may require, giving due notice of such release to such Beneficial Controlling Employee, provided, however, that the Trustee shall not so release and exercise any such Options on behalf of the Beneficial Controlling Employee unless the latter, prior to, or concurrently with, such release and exercise, provides the Trustee with evidence, satisfactory in form and substance to the Trustee, that all taxes and/or compulsory payments, if any, required to be paid upon such release and exercise have, in fact, been paid.

9. **Options Granted to Non-Israeli Employees**

- (a) All Options Granted under the Plan to Non Israeli Employees shall be Granted (and a copy of the Notice of Grant shall be given) subject to all applicable laws, rules and regulations, whether of Belgium, Hong Kong or of the United States of America, or of any other country or state having jurisdiction over the Company and the Participant. The Company shall Allocate the Options to a trustee designated by the Board (who may be the Trustee). The Trustee shall hold each such Option in trust (the "**Trust**") for the Non Israeli Employee. No Options shall be released from the Trust until the vesting of such Option pursuant to Section 10 hereof (the "**Release Date**"). From and after the Release Date, upon the written request of any Non Israeli Employee, the Trustee shall release from the Trust the Allocated Options and exercise them on behalf of such Non Israeli Employee, by executing and delivering to the Company such instrument(s) as the Company may require, giving due notice of such release to such Non Israeli Employee, provided, however, that the Trustee shall not so release and exercise any such Options on behalf of the Non Israeli Employee unless the latter, prior to, or concurrently with, such release and exercise, provides the Trustee with evidence, satisfactory in form and substance to the Trustee, that all taxes and/or compulsory payments, if any, required to be paid upon such release and exercise have, in fact, been paid.
- (b) The Options Granted subject to this Plan to Employees subject to payment in the US of tax on their income from the Company or an Affiliate are intended to be "incentive stock option" as described in Section 422 of the Code ("**ISOs**"). To the extent some or all of the Options subject to a certain Grant exceed the \$100,000 rule of Code Section 422(d), the certain Option Grant or the lesser excess part will be treated as a nonqualified stock option under the United States tax law. Notwithstanding any inconsistent or contrary provision of this Plan, if an Option Grant has not expired on the relevant date as provided for in section 10 below, the Options shall cease to be treated as ISOs 91 days after the Participant ceases to be a common law employee of the Company or an Affiliate corporation as defined in Code Sections 424(e) and 424(f) (a "**Common Law Employee**"), unless the Participant ceases to be a Common Law Employee by reason of death or disability (as defined in code Section 22(e)(3)), in which case the term "1 year and 1 day" shall replace the term "91 days" in this clause above.

10. **Terms and Conditions of Options**

- (a) The Committee shall determine the term of each Option Granted under the Plan; provided, however, that the term of an Option shall not be for more than ten (10) years.
- (b) Upon termination of employment (regardless of whether or not termination is by the employee or employer, due to death or disability), all unvested Options shall lapse, and within three (3) months from such termination all vested but not-exercised Options shall lapse.
- (c) Upon termination of the service contract with a Participant, which is not employed by the Company or an Affiliate, all unvested Options shall lapse, and within three months from such termination all vested but not exercised Options shall lapse. In the event that the termination is the result of a material breach of the service contract by the Participant, all unvested and vested but not exercised Options shall lapse immediately.

- (d) Upon termination of employment by employer for cause (as defined hereunder), all unvested and vested but not exercised Options shall lapse immediately.

Cause shall mean, henceforth and hereinafter, with respect to both Employees and Service Providers (i) conviction of any felony involving moral turpitude or affecting the Company; (ii) embezzlement of funds of the Company or its subsidiaries or its affiliates; (iii) any breach of the Participants fiduciary duties or duties of care of the Company or serious breach of trust, including without limitation disclosure of confidential information of the Company or its subsidiaries; (iv) engaging in business competitive with the business of the Company; and (v) any conduct (other than conduct in good faith) reasonably determined by the Board of Directors to be materially detrimental to the Company or its subsidiaries.

- (e) All Granted Service Options shall vest over a three or four- year period as detailed in the Notice of Grant. One-third of such Options will vest after the first or second anniversary of the Date of Grant, the second third will vest after the second or third anniversary of the Date of Grant, and the remaining Options will vest after the third or fourth anniversary of the Date of Grant. Notwithstanding the foregoing and subject to paragraph 2(f) above, the Committee may determine different vesting schedules for Service Options. Non-Employee Options shall vest at the discretion of the Committee.
- (f) Notwithstanding the aforesaid, if the Participant ceases to be a full-time Employee of the Company or any of its Affiliates and becomes a part-time Employee, such Options (to the extent exercisable at the time the Participant ceases to be a full-time Employee) shall be exercisable for a period of six (6) months following such cessation of the full-time employment, and shall thereafter terminate. All Options that are not vested at the time of cessation of the full-time employment shall ipso facto expire and be of no legal effect.
- (g) If a Participant should retire (as such term is defined by the Committee at its sole and absolute discretion), he shall, subject to the approval of the Committee, continue to enjoy such rights, if any, under the Plan and on such terms and conditions, with such limitations and subject to such requirements as the Committee in its discretion may determine.
- (h) Notwithstanding the foregoing provisions of Section 10, the Committee may provide, either at the time an Option is granted or thereafter, that such Option may be exercised after the periods provided for in Section 9 above, but in no event beyond the Option Period.
- (i) The Company or any of its Affiliates are not obligated by the Plan or by a Grant of Options to continue the Participant's employment or service engagement.

11. **Use of Proceeds**

Cash proceeds realized from the exercise Options Granted under the Plan shall constitute general funds of the Company.

12. **Amendment, Suspension, or Termination of the Plan**

- (a) The Board may at any time amend, extend, suspend, or terminate the Plan as it deems advisable; provided that such amendment, extension, suspension, or termination complies with all applicable legal requirements.
- (b) Notwithstanding anything herein to the contrary, the Board shall in no event amend the Plan in the following respects without the consent of shareholders then sufficient to approve the Plan in the first instance:
- (i) To increase the maximum number Shares subject to Options issued under the Plan; or
- (ii) To change the designation or class of persons eligible to receive Options under the Plan.
- (c) No Option may be Granted under the Plan during any suspension of, or after the termination of, the Plan, and no amendment, suspension, or termination of the Plan, shall without the affected individual's consent, alter or impair any rights or obligations under any Option previously Granted under the Plan.

The Plan shall terminate with respect to the Grant of Options on August 31, 2028 unless previously terminated or extended by the Board pursuant to this paragraph 12.

13. **Assignability**

No Option Granted pursuant to this Plan shall, whether fully paid or not, shall be assignable, transferable or given as collateral or any right with respect to them given to any third party whatsoever, and during the Participant's lifetime, each and all of the Participant's rights to purchase Option Shares hereunder shall be exercisable only by him or her or by his or her legal guardian, and neither the Option nor any right hereunder shall be transferable by Participant by operation of law or otherwise other than by will or the laws of descent and distribution. Any such action made directly or oblique, for an immediate validation or for a future one, shall be void.

14. **Payment Upon Exercise of Options**

Payment of the Exercise Price upon exercise of any Option Granted under this Plan shall be made in cash in such currency as the Committee shall specify in the applicable Share Option Agreement; provided, however that, subject to applicable Israeli laws (including, without limitation, currency control laws), the Committee, in its sole discretion, may permit a Participant to pay the Exercise Price in whole or in part (i) by delivery on a form prescribed by the Committee of an irrevocable direction to a securities broker approved by the Committee to sell Shares and deliver all or a portion of the proceeds to the Company in payment for the Shares; (ii) by delivery of the Participant's promissory note with such recourse, interest, security, and redemption provisions as the Committee in its discretion determines appropriate; (iii) in any combination of the foregoing.

15. **Restrictions on Transfer of Shares**

The Shares acquired pursuant to the Plan shall be subject to such restrictions and agreements regarding sale, assignment, encumbrances, or other transfer as are in effect among the Shareholders of the Company at the time such Share is acquired, as well as to such other restrictions as the Committee shall deem advisable.

16. **Tax Matters**

All tax consequences under any applicable law which may arise from the Grant of an Option, from the exercise thereof, from the sale of Underlying Share by the Participant or from any other act of the Company and/of Affiliate or such Participant in connection with any of the foregoing shall be borne solely by such Participant, and such Participant shall indemnify the Company and each Affiliate of the Company, and hold them harmless, against and from any liability for any such tax or any penalty, interest or indexation thereon or thereof.

Whenever an amount with respect to withholding tax relating to Options Granted to a Participant and/or Underlying Shares issued upon the exercise thereof is due from the Participant and/or the Company and/or an Affiliate, the Company and/or an Affiliate shall have the right to demand from a Participant such amount sufficient to satisfy any applicable withholding tax requirements related thereto, and whenever Shares or any other non-cash assets are to be delivered pursuant to the exercise of an Option, or transferred thereafter, the Company and/or an Affiliate shall have the right to require the Participant to remit to the Company and/or to the Affiliate, or to the Trustee an amount in cash sufficient to satisfy any applicable withholding tax requirements related thereto, and if such amount is not timely remitted, the Company and/or the Affiliate shall have the right to withhold or set-off (subject to Law) such Shares or any other non-cash assets pending payment by the Participant of such amounts.

Until all taxes have been paid in accordance with Rule 7 of the Section 102 rules, Options and/or Underlying Shares may not be sold, transferred, assigned, pledged, encumbered, or otherwise willfully hypothecated or disposed of, and no power of attorney or deed of transfer, whether for immediate or future use may be validly given. Notwithstanding the foregoing, the Options and/or Underlying Shares may be validly transferred in a transfer made by will or laws of descent, provided that the transferee thereof shall be subject to the provisions of Section 102 and the Section 102 Rules as would have been applicable to the deceased Participant were he or she to have survived.

17. **Miscellaneous**

- (a) Currency Control Provisions: For so long as, and to the extent that, the Israel Currency Control Law, 1978 (the "**Control Law**") shall so require, the following provisions shall apply:
 - (i) Certificates, if any, representing Shares issued hereunder shall be delivered to a bank in Israel which is an authorized dealer in foreign currency (within the meaning of the Control Law) ("**Authorized Dealer**") to hold the same for the benefit of the Participant pursuant to the terms of the Plan and any applicable Share Option Agreement, and in conformity with the applicable requirements of the Controller of Foreign Currency in the Bank of Israel;
 - (ii) All payments of the purchase price shall be effected by the Participants through an Authorized Dealer; and
 - (iii) The proceeds of any sale by the Participant (or by the Trustee at the discretion and on behalf of any Participant) of Shares which is effected in foreign currency shall be remitted to Israel, and deposited with an Authorized Dealer, immediately upon receipt thereof, and in all events not later than sixty (60) days after the date on which the certificate, if any, representing such Shares is received by the Trustee (on behalf of such Participant) for purposes of sale.
- (b) Governing Law: The Plan, and the Granting and exercise of the Options thereunder, and the Company's obligation to sell and deliver the Option Shares or cash under the Options, are subject to all applicable laws, rules and regulations, whether of Israel, Belgium, Hong Kong or of the United States of America, or of any other country or state having jurisdiction over the Company and the Participant, including the registration of the Option Shares under the United States Securities Act of 1933, and to such approvals by any governmental agencies or national securities exchanges as may be required.

18. **Participant Undertakings**

- (a) If the Options shall be Granted to a Participant under one of the Section 102 Tax Tracks, then in the Notice of Grant the Participant shall: (1) agree and acknowledge that he or she have received and read the Plan, and the Option Agreement and the Notice of Grant; (2) undertake all the provisions set forth in: Section 102 (including provisions regarding the applicable Tax Track under which the Options have been Granted), the 102 Rules, the Plan, the Notice of Grant and the Trust Agreement; and (3) subject to the provisions of Section 102 and the Section 102 Rules, undertake not to sell or release the Underlying Shares from Trust before the end of the applicable Holding Period (if any).
- (b) Agreement to Purchase for Investment. The Shares represented by the Options Granted under the terms of the Plan are subject to registration and prospectus requirements of the United States Securities Act of 1933, as amended ("**Unregistered Shares**"). By acceptance of Options, the Participant agrees that a purchase of Unregistered Shares under such Options will not be made with a view to their distribution, as that term is used in the aforesaid Act, unless in the opinion of counsel to the Company such distribution is in compliance with or exempt from the said registration and prospectus requirements, and the Participant agrees, if required by the Board at the time of exercise, to sign a certificate to such effect at the time or times he exercises the Options in respect of Unregistered Shares. The Participant further acknowledges and understands that the Unregistered Shares purchased upon exercise of these Options must be held indefinitely unless they are subsequently registered under the United States Securities Act or an exemption from such registration is available. The Participant understands that the certificate evidencing the Unregistered Shares will be imprinted with a legend in substantially the following form:

"The Shares represented by this Certificate have not been registered under the United States Securities Act of 1933. The Shares have been acquired for investment and may not be sold, transferred or assigned in the absence of an effective registration statement for these Shares under the United States Securities Act of 1933, or an opinion of NUR Macroprinters Ltd's counsel, that registration is not required under the said Act."
- (c) In the event Participant sells or otherwise disposes of Shares within one year of exercise or two years of Grant, Participant agrees to notify the Company in advance in writing of this action.

SOLAR PHOTOVOLTAIC PLANT TALASOL SOLAR (TALAVAN, CACERES, SPAIN)**LEASE AGREEMENTS**
ENGLISH SUMMARY OF THE SPANISH VERSION¹**1. PRELIMINARY NOTE**

The land on which the Plant is constructed is owned by the Municipality of Talaván (Cáceres). The Plant is located on several plots as follows: (i) in a place named “Camacho”, with a size of 750 Hectares, included in Polygon 14, located in a place named “Cuarto de la Peña del Hombre”, with a total size of 1,196.11 Hectares and with a Cadastral reference 10181A014000010000JD, or Plot 14, and (ii) in a place named “Camacho”, with a size of 250 Hctares, included in Polygon 15 and Plot 1 and 2, or Plot 15. Plot 14 and Plot 15 are registered in the Land Registry number 2 of Cáceres in the volume 1235, book 9, page 52, plot 42 and inscription 13^a.

2. MAIN CONTENT OF THE LEASE AGREEMENT FOR PLOT 14

1. Execution date	January 23, 2012, as amended on September 28, 2016 and November 15, 2018.
2. Parties	- Talavan Municipality - Talasol Solar, S.L.
3. Term	Forty (40) years from COD (Commercial Operation Date) of the plant.
4. Annual Rent	- During construction and until COD: EUR 100 per Hectare per annum calculated based on the area actually used by Talasol Solar S.L. - After COD: EUR 880 per Hectare per annum calculated based on the area actually used by Talasol Solar S.L. (paid in 4 equal quarterly installments). The area actually used by Talasol Solar S.L. will be fixed in the Minutes of Effective Occupation to be signed between the parties. At this time, the area actually used is 449.83 Hectares, but the Minutes have not been signed yet.

¹ The original language version is on file with the Registrant and is available upon request.

3. MAIN CONTENT OF THE LEASE AGREEMENT FOR PLOT 15

1. Execution date	June 13, 2013, as amended on November 15, 2018.
2. Parties	- Talavan Municipality - Talasol Solar, S.L.
3. Term	Forty (40) years from COD (Commercial Operation Date) of the plant.
4. Annual Rent	- During construction and until COD: EUR 100 per Hectare per annum calculated based on the area actually used by Talasol Solar S.L.. - After COD: EUR 1,000 per Hectare per annum calculated based on the area actually used by Talasol Solar S.L. (paid in 4 equal quarterly installments). The area actually used by Talasol Solar S.L. will be fixed in the Minutes of Effective Occupation to be signed between the parties. At this time, the area actually used is 163.98 Hectares, but the Minutes have not been signed yet.

AMENDMENT NO. 3 TO MANAGEMENT SERVICES AGREEMENT

This Amendment No. 3 to Management Services Agreement (this “**Amendment**”) is entered into effective as of June 19, 2019, by and among Ellomay Capital Ltd., a company registered under the laws of the State of Israel (the “**Company**”), Kanir Joint Investments (2005) Limited Partnership, a limited partnership registered under the laws of the State of Israel (“**Kanir**”) and Meisaf Blue & White Holdings Ltd., a company registered under the laws of the State of Israel (“**Meisaf**” and, together with Kanir, the “**Service Providers**”).

Whereas, the Company and the Service Providers entered into a Management Services Agreement effective as of March 31, 2008;

Whereas, on each of December 30, 2009, December 22, 2010 and December 20, 2011, the term of the Management Services Agreement was extended by the Company’s audit committee, board of directors and shareholders and by the Service Providers;

Whereas, on June 18, 2013 the terms of the Management Services Agreement were amended by the Company’s audit committee, board of directors and shareholders and by the Service Providers and on June 22, 2016 the term of the Agreement was extended further by an additional three year term (the Management Services Agreement, as amended and extended: the “**Agreement**”);

Whereas, the parties to the Agreement wish to extend and amend the Agreement as specifically set forth herein and such extension and amendments were approved by the Company’s compensation committee, audit committee, board of directors and, on June 19, 2019, by the Company’s shareholders and by the Service Providers.

Now, Therefore, in consideration of the foregoing and of the mutual promises herein contained, the parties hereby agree as follows:

1. **Amendment of Section 1.1.1**

Section 1.1.1 of the Agreement is hereby amended and restated to read as follows:

“The Service Providers, through their employees, officers and directors, will assist the Company in all aspects of the New Operations Process, including, but not limited to, any activities to be conducted in connection with the identification and evaluation of the business opportunities, the negotiations and the integration and management of any new operations and will conduct regular meetings and discussions with members of the Company’s management, to assist and advise them on such matters and on any other matters concerning the affairs and business of the Company and render such other management services and advise as may be agreed to from time to time by the Company and the Service Providers, including the services of Chief Executive Officer, currently provided by Mr. Ran Fridrich (together, the “**Management Services**”).

2. **Amendment of Section 4**

Section 4 of the Agreement is hereby amended and restated to read as follows:

“**TERM AND TERMINATION.** This Agreement shall be deemed effective as of March 31, 2008 (the “**Effective Date**”) and shall continue to remain in effect until the earlier of: (i) June 17, 2022, (ii) the termination of service of all of the Kanir and Nechama Investments nominees on our Board of Directors, (iii) a date that is six (6) months following the delivery of a written termination notice by Meisaf and Kanir to the Company or by the Company to Meisaf and Kanir, or (iv) the cessation of provision of Chairman and CEO services.”

3. **General**

- 3.1. Unless otherwise defined herein, capitalized terms used in this Amendment shall have the meaning ascribed to them under the Agreement.
- 3.2. Except as specifically modified and amended hereby, the Agreement shall remain in full force and effect. No provision of this Amendment may be modified or amended, nor shall any terms be waived, except expressly in a writing signed by the parties.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the parties have signed this Amendment as of the date first set forth above.

ELLOMAY CAPITAL LTD.

By: _____
Name: Ran Fridrich
Title: CEO and Director

By: _____
Name: Kalia Weintraub
Title: CFO

KANIR JOINT INVESTMENTS (2005) LIMITED PARTNERSHIP

By: Kanir Investments Ltd., its general partner

By: _____
Name: Menahem Raphael
Title: Director

By: _____
Name: Ran Fridrich
Title: Director

MEISAF BLUE & WHITE HOLDINGS LTD.

By: _____
Name: Shlomo Nehama
Title: Director

To:

Ellomay Luxembourg Holdings S.a.r.l.

7B, Rue de Bonnevoie

L-1260 Luxembourg

Attention: Ran Pinhas Fridrich and Laurent Teitgen

Milan, 19 December 2019

Dear Sirs,

Following our previous discussions, please find below our sale and purchase agreement proposal.

SALE AND PURCHASE AGREEMENT

BETWEEN

- (1) **Ellomay Luxembourg Holdings S.a.r.l.**, a company incorporated under the laws of Luxembourg, having its registered office at Luxembourg, 7B, Rue de Bonnevoie, L-1260, registration number with the Companies' Register of Luxembourg no. B 153319 (the "**Seller**"), represented by Ran Pinhas Fridrich and Laurent Teitgen, in their capacity as Classe B Gérant and, respectively, Classe A Gérant, duly empowered;

on one side

AND

- (2) **Sonnedix San Davide S.r.l.**, a company incorporated under the laws of Italy, having its registered offices at Via Ettore de Sonnaz no. 19, Turin, 10212, Italian tax code and VAT number 11920680011, registration number with Companies' Register of TO – 1250794 (the "**Purchaser**"), represented by Silvia Cazzola, in her capacity as empowered director;

on the other side

(the Seller and Purchaser are hereinafter collectively referred to as the "**Parties**" and each as a "**Party**").

1.	RECITALS AND SCHEDULES	5
2.	DEFINITIONS AND INTERPRETATIVE RULES	5
3.	THE TRANSACTION	17
4.	PURCHASE PRICE AND PAYMENT TERMS	17
5.	CLOSING	25
6.	WARRANTIES OF THE SELLER	29
7.	INDEMNIFICATION OBLIGATIONS OF THE SELLER	41
8.	PURCHASER REPRESENTATIONS AND WARRANTIES	46
9.	SPECIAL INDEMNITIES	47
10.	CONFIDENTIAL INFORMATION	52
11.	COSTS AND TAXES	53
12.	MISCELLANEOUS PROVISIONS	53
12.1.	<i>Entire Agreement</i>	53
12.2.	<i>Notices</i>	54
12.3.	<i>Assignment</i>	54
12.4.	<i>Changes in writing</i>	55
12.5.	<i>No waiver</i>	55
12.6.	<i>Negotiation</i>	55
12.7.	<i>Further Assurances</i>	55
12.8.	<i>No Third Party Beneficiaries</i>	55
12.9.	<i>Counterparts</i>	55
12.10.	<i>Severability</i>	56
13.	APPLICABLE LAW – EXCLUSIVE JURISDICTION	56
13.1.	<i>Applicable law</i>	56
13.2.	<i>Dispute resolution and jurisdiction</i>	56

WHEREAS:

- (A) The Purchaser is a company active in the renewable energy business and it is willing to further invest in photovoltaic plants in Italy.
- (B) The Seller owns, *inter alia*, the entire corporate capital of the following companies (each a “**SPV**” and, collectively, the “**SPVs**”):
- (i) 100% of the corporate capital of Ellomay PV One S.r.l., a company incorporated under the laws of Italy, having its registered offices at Via L. Galvani no. 33, 39100 Bolzano, Italian tax code and VAT number 04459950285, registration number with Companies' Register of Bolzano BZ – 214683 (“**Ellomay PV One**”);
 - (ii) 100% of the corporate capital of Ellomay PV Two S.r.l., a company incorporated under the laws of Italy, having its registered offices at Via L. Galvani no. 33, 39100 Bolzano, Italian tax code and VAT number 04482560283, registration number with Companies' Register of Bolzano BZ – 214684 (“**Ellomay PV Two**”);
 - (iii) 100% of the corporate capital of Ellomay PV Five S.r.l., a company incorporated under the laws of Italy, having its registered offices at Via L. Galvani no. 33, 39100 Bolzano, Italian tax code and VAT number 06879990726, registration number with Companies' Register of Bolzano BZ – 214810 (“**Ellomay PV Five**”);
 - (iv) 100% of the corporate capital of Ellomay PV Six S.r.l., a company incorporated under the laws of Italy, having its registered offices at Via L. Galvani no. 33, 39100 Bolzano, Italian tax code and VAT number 06657940729, registration number with Companies' Register of Bolzano BZ – 214809 (“**Ellomay PV Six**”);
 - (v) 100% of the corporate capital of Ellomay PV Seven S.r.l., a company incorporated under the laws of Italy, having its registered offices at Via L. Galvani no. 33, 39100 Bolzano, Italian tax code and VAT number 02488800422, registration number with Companies' Register of Bolzano BZ – 214811 (“**Ellomay PV Seven**”);
 - (vi) 100% of the corporate capital of Pedale S.r.l., a company incorporated under the laws of Italy, having its registered offices at Via L. Galvani no. 33, 39100 Bolzano, Italian tax code and VAT number 06819300960, registration number with Companies' Register of Bolzano BZ – 214817 (“**Pedale**”);
 - (vii) 100% of the corporate capital of Murgia Solar S.r.l., a company incorporated under the laws of Italy, having its registered offices at Via L. Galvani no. 33, 39100 Bolzano, Italian tax code and VAT number 07182230727, registration number with Companies' Register of Bolzano BZ – 214819 (“**Murgia Solar**”);
 - (viii) 100% of the corporate capital of Luma Solar S.r.l., a company incorporated under the laws of Italy, having its registered offices at Via L. Galvani no. 33, 39100 Bolzano, Italian tax code and VAT number 07182420724, registration number with Companies' Register of Bolzano BZ – 214818 (“**Luma Solar**”);
 - (ix) 100% of the corporate capital of Soleco S.r.l., a company incorporated under the laws of Italy, having its registered offices at Via L. Galvani no. 33, 39100 Bolzano, Italian tax code and VAT number 01387110297, registration number with Companies' Register of Bolzano BZ – 214815 (“**Soleco**”); and

- (x) 100% of the corporate capital of Tecnoenergy S.r.l., a company incorporated under the laws of Italy, having its registered offices at Via L. Galvani no. 33, 39100 Bolzano, Italian tax code and VAT number 01387130295, registration number with Companies' Register of Bolzano BZ – 214816 (“**Tecnoenergy**”).
- (C) The SPVs own a portfolio of photovoltaic plants in Italy composed as follows (each a “**Plant**” and, collectively, the “**Portfolio**”):
 - (i) Ellomay PV One owns:
 - (a) a photovoltaic plant having a capacity of 739.875 kWp located in the Municipality of Senigallia (AN) (the “**Costantini Plant**”); and
 - (b) a photovoltaic plant having a capacity of 734.40 kWp located in Cingoli (MC) (the “**Del Bianco Plant**”);
 - (ii) Ellomay PV Two owns:
 - (a) a photovoltaic plant having a capacity of 739.48 kWp located in the Municipality of Filottrano (AN) (the “**Giacchè Plant**”); and
 - (b) a photovoltaic plant having a capacity of 739.48 kWp located in Arcevia (AN) (the “**Massaccesi Plant**”);
 - (iii) Ellomay PV Five owns a photovoltaic plant having a capacity of 999.80 kWp located in the Municipality of Troia (FG) (the “**Troia 9 Plant**”);
 - (iv) Ellomay PV Six owns a photovoltaic plant having a capacity of 999.80 kWp located in the Municipality of Troia (FG) (the “**Troia 8 Plant**”);
 - (v) Ellomay PV Seven owns a photovoltaic plant having a capacity of 994.43 kWp located in the Municipality of Galatina (LE) (the “**Galatina Plant**”);
 - (vi) Pedale owns a photovoltaic plant having a capacity of 2993.60 kWp located in the Municipality of Corato (BA) (the “**Pedale Plant**”);
 - (vii) Murgia Solar owns a photovoltaic plant having a capacity of 947.60 kWp located in the Municipality of Minervino Murge (BA) (the “**Acquafresca Plant**”);
 - (viii) Luma Solar owns a photovoltaic plant having a capacity of 930.30 kWp located in the Minervino Murge (BA) (the “**D'Angella Plant**”);
 - (ix) Soleco owns a photovoltaic plant having a capacity of 5923.50 kWp located in the Canaro (RO) (the “**Soleco Plant**”);
 - (x) Tecnoenergy owns a photovoltaic plant having a capacity of 5899.52 kWp located in the Canaro (RO) (the “**Tecnoenergy Plant**”).

- (D) Prior to entering into this Agreement (as defined below), the Purchaser (also through its legal, financial, accounting, technical and tax advisor) has conducted and completed a thorough due diligence investigation of the SPVs and the Portfolio, through the review of information, documents, and matters included in the Due Diligence Documents (as defined below) that have been made available to them by the Seller or its Relevant Persons (as defined below) in relation to the SPVs and the Portfolio (all of the above, the **“Due Diligence”**).
- (E) The Purchaser wishes to acquire from the Seller a quota representing 100% of the corporate capital of each SPV (the **“Quotas”**) and the receivables arising out of (i) the Quotaholders Loans made available to each SPV by the Seller, together with any interest accrued thereon, and (ii) and the receivables for dividends not yet distributed by each SPV to the Seller (jointly, the **“Quotaholder Loans Receivables”**) and the Seller intends to sell the Quotas and the Quotaholder Loans Receivables to the Purchaser, in accordance with the terms and subject to the conditions set forth hereunder.

NOW, THEREFORE, on the basis of the foregoing, it is hereby agreed as follows:

1. RECITALS AND SCHEDULES

The above Recitals and the Schedules attached hereto form an integral and substantial part of this Agreement.

2. DEFINITIONS AND INTERPRETATIVE RULES

2.1. Definitions

In addition to any other term defined elsewhere in this Agreement, the following terms shall have, for the purposes of this Agreement, the meanings set forth below unless the context clearly requires otherwise:

- 2.1.1. **“Accounting Principles”** shall mean the principles provided by the Italian civil code, as applicable from time to time, in respect of the preparation of financial statements (*bilanci di esercizio*), integrated, to the extent applicable, by the accounting principles issued and generally accepted in Italy by the National Accountants Board (*Consiglio Nazionale dell’Ordine dei Dottori Commercialisti ed Esperti Contabili*), as amended by the Organismo Italiano di Contabilità as in force from time to time;
- 2.1.2. **“Acquafresca Plant”** shall have the meaning set forth in Recital (C)(vii);
- 2.1.3. **“Affiliate”** shall mean, in relation to any Party, any Person which, directly or indirectly, Controls, is Controlled by, or is under common Control with, such Party; with respect to the Purchaser, except for Clauses 10.3, 10.4 and 10.5, any reference to an “Affiliate” or a “Relevant Person” or a “Related Party” shall be deemed to exclude: (i) JPMorgan Chase Bank, N.A., J.P. Morgan Investment Management Inc. and their respective Affiliates, and any (a) pension fund or superannuation fund; (b) collective investment fund containing pension funds or superannuation funds; (c) separate account; (d) pooled or co-mingled fund; and (e) other fund or investor, in each case, for which JPMorgan Chase Bank, N.A. or J.P. Morgan Investment Management Inc. (or one of their respective Affiliates or subsidiaries) acts as trustee, agent, general partner, investment advisor, manager or responsible entity or person;

- 2.1.4. “**Agreement**” shall mean this quota sale and purchase agreement, including its Recitals and Schedules;
- 2.1.5. “**AML Laws**” shall have the meaning set forth in Clause 5.6.1;
- 2.1.6. “**Applicable Laws and Regulations**” shall mean all international, national, regional and local laws, statutes, codes, acts, ordinances, orders, judgments, decrees, injunctions, rules, regulations, permits, licenses, authorizations (including in respect of the incentive which has been granted to each Plant) of all governments, governmental and in general public authorities having jurisdiction over any Plant, any SPV or on the Transaction contemplated by this Agreement, in each case as in force from time to time;
- 2.1.7. “**ARERA**” shall mean Autorità di Regolazione per Energia Reti e Ambiente;
- 2.1.8. “**Authority**” shall mean any supranational, multinational, national, federal, state, provincial or local authority or entity or body, or any political subdivision thereof, including any agency, instrumentality, division, department, court, tribunal or other body thereof, including the Regions, the Provinces and the Municipality where the Plants are located, the GSE, the ARERA, the Agenzia delle Entrate and the Agenzia delle Dogane;
- 2.1.9. “**Business Day**” shall mean any calendar day (other than a Saturday or a Sunday) on which banking institutions are open for business in Italy and Luxembourg;
- 2.1.10. “**Claim**” shall mean a claim by the Purchaser the basis of which is (i) any breach of the Seller’s obligations and undertakings whatsoever under this Agreement or (ii) any other title, if any, pursuant to or in connection with this Agreement;
- 2.1.11. “**Closing**” shall mean, with respect to all the SPVs, the execution of the Transfer Deed and, in general, the execution and exchange of all documents and agreements and the performance and consummation of all obligations and transactions, respectively, required to be executed and exchanged and performed and consummated by the Parties on the Closing Date pursuant to this Agreement;
- 2.1.12. “**Closing Date**” shall mean the Date of Execution;
- 2.1.13. “**Closing Payment**” shall have the meaning set forth in Clause 4.2.1(i);
- 2.1.14. “**Confidential Information**” shall have the meaning set forth in Clause 10.2;
- 2.1.15. “**Control**”, “**Controlled**” or “**Controlling**” shall mean the possession, directly or indirectly, of the power to direct or cause the director of the management or policies of any Person whether through ownership of voting securities, by contract, or otherwise, including the meaning set forth in article 2359, paragraph 1, nos. 1 and 2, and paragraph 2, of the Italian civil code;
- 2.1.16. “**Costantini Plant**” shall have the meaning set forth in Recital (C)(a);

- 2.1.17. “**Current O&M Contracts**” shall mean the following operation & maintenance contracts:
- (i) the O&M agreement entered into by Ellomay PV One and Geotevere S.r.l. on 3 November 2016;
 - (ii) the O&M agreement entered into by Ellomay PV Two and Geotevere S.r.l. on 14 November 2016;
 - (iii) the O&M agreement entered into by Ellomay PV Five and Zaragoza Energy S.r.l. on 1 February 2017;
 - (iv) the O&M agreement entered into by Ellomay PV Six and Zaragoza Energy S.r.l. on 1 February 2017;
 - (v) the O&M agreement entered into by Ellomay PV Seven and Zaragoza Energy S.r.l. on 1 February 2017;
 - (vi) the O&M agreement entered into by Pedale and Zaragoza Energy S.r.l. on 1 February 2017;
 - (vii) the O&M agreement entered into by Murgia Solar and Zaragoza Energy S.r.l. on 1 February 2017;
 - (viii) the O&M agreement entered into by Luma Solar and Zaragoza Energy S.r.l. on 1 February 2017;
 - (ix) the O&M agreement entered into by Soleco and Zaragoza Energy S.r.l. on 1 February 2017;
 - (x) the O&M agreement entered into by Tecnoenergy and Zaragoza Energy S.r.l. on 1 February 2017;
- as included in the Due Diligence Documents;
- 2.1.18. “**D'Angella Plant**” shall have the meaning set forth in Recital (C)(viii);
- 2.1.19. “**Damages**” shall mean any and all actual direct damages within the meaning of article 1223 of the Italian civil code, including for the avoidance of doubt any loss or shortfall in profit, income or revenues;
- 2.1.20. “**Date of Execution**” shall mean the date on which this Agreement is signed, which will be the same date of the Closing Date;
- 2.1.21. “**Del Bianco Plant**” shall have the meaning set forth in Recital (C)(b);
- 2.1.22. “**Dispute**” shall have the meaning set forth in Clause 13.2;
- 2.1.23. “**Due Diligence**” shall have the meaning set forth in Recital (D);
- 2.1.24. “**Due Diligence Documents**” shall mean all of the documents and information made available to the Purchaser, its Affiliates and/or its Relevant Persons in a virtual data room from 19 June 2019 to 18 December 2019 including the Q&A process operated by the parties (as listed and reproduced in full in the DVD attached hereto as **Schedule 2.1.24**);
-

- 2.1.25. “**Ellomay PV Five**” shall have the meaning set forth in Recital (B)(iii);
- 2.1.26. “**Ellomay PV Five Price**” shall have the meaning set forth in Clause 4.1.1 (iii);
- 2.1.27. “**Ellomay PV Five QHL Receivables**” shall have the meaning set forth in Clause 1.1.1(a)(iii)(iii);
- 2.1.28. “**Ellomay PV Five QHL Receivables Price**” shall have the meaning set forth in Clause 4.1.2 (iii);
- 2.1.29. “**Ellomay PV Five Quota**” shall have the meaning set forth in Clause 4.1.1(iii);
- 2.1.30. “**Ellomay PV Five Quota Price**” shall have the meaning set forth in Clause 4.1.2(iii)(b);
- 2.1.31. “**Ellomay PV One**” shall have the meaning set forth in Recital (B)(i);
- 2.1.32. “**Ellomay PV One Price**” shall have the meaning set forth in Clause 4.1.1(i);
- 2.1.33. “**Ellomay PV One QHL Receivables**” shall have the meaning set forth in Clause 4.1.1(i);
- 2.1.34. “**Ellomay PV One QHL Receivables Price**” shall have the meaning set forth in Clause 4.1.2(i)(a);
- 2.1.35. “**Ellomay PV One Quota**” shall have the meaning set forth in Clause 4.1.1(i) ;
- 2.1.36. “**Ellomay PV One Quota Price**” shall have the meaning set forth in Clause 4.1.2(i)(b);
- 2.1.37. “**Ellomay PV Two**” shall have the meaning set forth in Recital (B)(ii);
- 2.1.38. “**Ellomay PV Two Price**” shall have the meaning set forth in Clause 4.1.1(ii);
- 2.1.39. “**Ellomay PV Two QHL Receivables**” shall have the meaning set forth in Clause 4.1.1(ii) ;
- 2.1.40. “**Ellomay PV Two QHL Receivables Price**” shall have the meaning set forth in Clause 4.1.2(ii)(a);
- 2.1.41. “**Ellomay PV Two Quota**” shall have the meaning set forth in Clause 4.1.1(ii);
- 2.1.42. “**Ellomay PV Two Quota Price**” shall have the meaning set forth in Clause 4.1.2(ii)(b);
- 2.1.43. “**Ellomay PV Seven**” shall have the meaning set forth in Recital (B)(v);
- 2.1.44. “**Ellomay PV Seven Price**” shall have the meaning set forth in Clause 4.1.1(v);

- 2.1.45. “**Ellomay PV Seven QHL Receivables**” shall have the meaning set forth in Clause 4.1.1(v);
- 2.1.46. “**Ellomay PV Seven QHL Receivables Price**” shall have the meaning set forth in Clause 4.1.2(v)(a);
- 2.1.47. “**Ellomay PV Seven Quota**” shall have the meaning set forth in Clause 4.1.1(v);
- 2.1.48. “**Ellomay PV Seven Quota Price**” shall have the meaning set forth in Clause 4.1.2(v) (b);
- 2.1.49. “**Ellomay PV Six**” shall have the meaning set forth in Recital (B)(vi);
- 2.1.50. “**Ellomay PV Six Price**” shall have the meaning set forth in Clause 4.1.1(iv);
- 2.1.51. “**Ellomay PV Six QHL Receivables**” shall have the meaning set forth in Clause 4.1.1(iv);
- 2.1.52. “**Ellomay PV Six QHL Receivables Price**” shall have the meaning set forth in Clause 4.1.2(iv)(a);
- 2.1.53. “**Ellomay PV Six Quota**” shall have the meaning set forth in Clause 4.1.1(iv);
- 2.1.54. “**Ellomay PV Six Quota Price**” shall have the meaning set forth in Clause 4.1.2(iv)(b);
- 2.1.55. “**Financing Agreements**” shall mean the following financing agreements, along with the security interests and other agreements connected thereto:
- (i) the financing agreement executed by Ellomay PV One and Centrobanca Banco di Credito Finanziario e Mobiliare S.p.A. on 17 February 2011;
 - (ii) the financing agreement executed by Ellomay PV Two, Ellomay PV Seven, Pedale, Soleco and Tecnoenergy and Mediocredito Italiano S.p.A. and Intesa Sanpaolo S.p.A. on 17 May 2018,
- as included in the Due Diligence Documents;
- 2.1.56. “**Galatina Indemnity**” shall have the meaning set forth in Clause 9.4.1;
- 2.1.57. “**Galatina Plant**” shall have the meaning set forth in Recital (C)(v);
- 2.1.58. “**Giacchè Plant**” shall have the meaning set forth in Recital (C)(ii)(a);
- 2.1.59. “**GSE**” shall mean Gestore dei Servizi Energetici S.p.A.;
- 2.1.60. “**GSE Verification**” shall mean the verification commenced by GSE in relation to the Pedale Plant by means of note GSE/P20170049412 22-06-2017 to the extent grounded on the basis of alleged non-compliance of the installed Conergy modules model PM 230P-5 installed with the applicable rules concerning CEI EN 61215 certifications under the Decree 10 May 2010 (*Third Conto Energia*).

- 2.1.61. “**Hazardous Materials**” shall mean any substance, chemical or waste that is designated or defined (either by inclusion in a list of materials or by reference to exhibited characteristics) as hazardous, toxic or dangerous, or as pollutant or contaminant, pursuant to any Applicable Law and Regulation;
- 2.1.62. “**Indemnities**” shall have the meaning set forth in Clause 9.1;
- 2.1.63. “**Independent Auditor**” shall mean an auditor of primary standing independent from the Parties and jointly appointed by the Parties, fit for the purposes of the tasks set forth in Clause 4.4. In case of failure to reach an agreement in 5 Business Days, the Independent Auditor will be designated by the President of the Courts of Milan at the request of either Party;
- 2.1.64. “**Insurer**” shall mean a reputable insurance company providing the Warranty and Indemnity Policy;
- 2.1.65. “**JPMC**” shall have the meaning set forth in Clause 10.2;
- 2.1.66. “**Land**” shall mean, with respect to a Plant, the areas where it is located;
- 2.1.67. “**Land Agreements**” shall mean the agreements entered into with the relevant landowners and constituting Land Rights in favour of each SPV, as included in the Due Diligence Documents;
- 2.1.68. “**Land Rights**” shall mean all ownership, surface, easement rights and other titles to land on the Land created pursuant to the Land Agreements to build, own, operate, maintain, connect to the grid and despatch the power produced by the Portfolio;
- 2.1.69. “**Leakages**” shall mean, with respect to a SPV, in the period between the Reference Date (excluded) and the Closing Date (included):
- (i) any payment of any dividend (in cash or in kind) or other distribution of profits or assets, or any payments in lieu of any dividend or other distribution, paid or made, or agreed to be declared, or any repurchase or redemption of quota (including any reduction of capital or repurchase of securities) of that SPV paid or agreed to be paid by such SPV to the Seller and/or its Affiliates or any of their Related Parties (other than the SPVs);
 - (ii) any payment or repayment or transfer of assets in payment or repayment of principal of interest or principal amount by such SPV to or for the benefit of the Seller and/or its Affiliates or any of their Related Parties (other than the SPVs);
 - (iii) any other payment or cash extraction of whatever nature, other than those set forth above, made or agreed to be made by that SPV to the Seller and/or its Affiliates or any of their Related Parties (other than the SPVs) by whatsoever form or means (including reimbursement of quotaholders’ loans (either for capital or for interests) or of any other kind of contribution made to that SPV);

- (iv) the waiver, or agreement to waive, of any amount owed to that SPV by the Seller and/or its Affiliates or any of their Related Parties (other than the SPVs);
- (v) any payments (including by way of set-off), indemnities or guarantees incurred or granted or any liabilities assumed, indemnified or incurred or agreed to be assumed, indemnified or incurred (including under any guarantee, indemnity or other security) by or on behalf of such SPV to or for the benefit of the Seller and/or its Affiliates or any of their Related Parties (other than the SPVs);
- (vi) any fee or bonus (whether in cash or in kind) paid, or present or future benefit granted by that SPV payable, to the Seller and/or its Affiliates or any of their Related Parties made or becoming payable, other than those provided in the agreements included in the Due Diligence Documents;
- (vii) any payment (whether in cash or in kind) by that SPV to the Seller and/or its Affiliates or any of their Related Parties in relation to expenses strictly related to the Transaction provided herein (including, for the sake of clarity, any professional advisor fees and expenses paid and incurred by such SPV in connection with the Transaction, such as fees paid in connection with any investment banking fees, legal fees or Due Diligence costs);
- (viii) the creation of any third-party rights over any assets or rights of that SPV for the benefit of the Seller and/or its Affiliates or any of their Related Parties (other than the SPVs);
- (ix) any cost or Tax incurred by that SPV as a consequence of any of the foregoing;
- (x) the incurring by that SPV in any obligation to effect any of the matters or actions listed above
- (xi) any cost and expense related to the consent of the Lenders with respect to Financing Agreements up to the maximum amount provided under Clause 5.3.2;

but does not include, for the avoidance of doubt, (A) any of the above actions if carried out amongst the SPVs, (B) any Permitted Leakage, (C) any remuneration payable to directors of any SPVs for their office, on the basis of the applicable remuneration agreements in force as of the Reference Date and included in the Due Diligence Documents, (D) any fees to consultants and/or advisors for handling any matter relevant to the business and/or to the management of the assets of any of the SPVs other than for the exclusive purpose of effecting the completion of the Transaction contemplated in this Agreement;

2.1.70. “**Lenders**” shall mean the lenders under the Financing Agreements;

2.1.71. “**Lien**” shall mean (i) any private constraint (“*vincoli privatistici*”) (pledge, mortgage, seizure, privilege, usufruct, charge, lien, trust, right of set-off, or other third party right or interest including any right of pre-emption, assignment by way of security, reservation of title or any other security interest of any kind however created or arising or any other agreement or arrangement having similar effect) or (ii) any public constraint (“*vincoli publicistici*”) (environmental, urban constraints – hydrogeological, geomorphological, archeological, biogeographical, landscape, forest, water protection, cultural goods, building ban, usi civici, public domain, livelli, emphyteusis), in each case, other than the Permitted Liens;

- 2.1.72. “**Luma Solar**” shall have the meaning set forth in Recital (B)(viii);
- 2.1.73. “**Luma Solar Price**” shall have the meaning set forth in Clause 4.1.1(viii);
- 2.1.74. “**Luma Solar QHL Receivables**” shall have the meaning set forth in Clause 4.1.1(viii);
- 2.1.75. “**Luma Solar QHL Receivables Price**” shall have the meaning set forth in Clause 4.1.2(viii)(a);
- 2.1.76. “**Luma Solar Quota**” shall have the meaning set forth in Clause 4.1.1(viii);
- 2.1.77. “**Luma Solar Quota Price**” shall have the meaning set forth in Clause 4.1.2(viii)(b);
- 2.1.78. “**Massaccesi Plant**” shall have the meaning set forth in Recital (C)(ii)(b);
- 2.1.79. “**Murgia Solar**” shall have the meaning set forth in Recital (B)(vi);
- 2.1.80. “**Murgia Solar Price**” shall have the meaning set forth in Clause 4.1.1(vii);
- 2.1.81. “**Murgia Solar QHL Receivables**” shall have the meaning set forth in Clause 4.1.1(vii);
- 2.1.82. “**Murgia Solar QHL Receivables Price**” shall have the meaning set forth in Clause 4.1.2(vii)(a);
- 2.1.83. “**Murgia Solar Quota**” shall have the meaning set forth in Clause 4.1.1(vii);
- 2.1.84. “**Murgia Solar Quota Price**” shall have the meaning set forth in Clause 4.1.2(vii)(b);
- 2.1.85. “**NDA**” shall have the meaning set forth in Clause 10.1;
- 2.1.86. “**Notice of Claim**” shall have the meaning set forth in Clause 7.4.1;
- 2.1.87. “**Parties**” shall have the meaning set forth in the preamble of this Agreement;
- 2.1.88. “**Pedale**” shall have the meaning set forth in Recital (B)(vi);
- 2.1.89. “**Pedale Indemnity**” shall have the meaning set forth in Clause 9.3.1;
- 2.1.90. “**Pedale Plant**” shall have the meaning set forth in Recital (C)(vi);

- 2.1.91. “**Pedale Price**” shall have the meaning set forth in Clause 4.1.1(vi);
- 2.1.92. “**Pedale QHL Receivables**” shall have the meaning set forth in Clause 4.1.1(vi);
- 2.1.93. “**Pedale QHL Receivables Price**” shall have the meaning set forth in Clause 4.1.2(vi)(a);
- 2.1.94. “**Pedale Quota**” shall have the meaning set forth in Clause 4.1.1(vi);
- 2.1.95. “**Pedale Quota Price**” shall have the meaning set forth in Clause 4.1.2(vi)(b);
- 2.1.96. “**Permits**” shall mean, with respect to each Plant, all and any permits, licenses, authorizations, approvals, consent, clearance, notice of no-objection (*nulla osta*), environmental assessments, regulations (*disciplinare*), agreements with any authority (including, inter alia, the “*autorizzazione unica*” and any written prescription from the Authority, connection regulations, connection agreements with the grid operator and incentives granted by the GSE), or similar documents and authorizations however named, as issued or required to be issued for the full and proper operation of the Plant, pursuant to the Applicable Laws and Regulations;
- 2.1.97. “**Permitted Leakages**” shall mean the Leakages set out in **Schedule 2.1.97**;
- 2.1.98. “**Permitted Liens**” shall mean the pledges and mortgages and any other Lien, included in the Due Diligence Documents, existing as of the Date of Execution pursuant to the Financing Agreements;
- 2.1.99. “**Person**” shall mean any natural person, company, firm, partnership, joint-venture, corporation, association, government or political subdivision, agency or institution of a government, or any other organization or entity;
- 2.1.100. “**Plant**” shall have the meaning set forth in Recital (C);
- 2.1.101. “**Portfolio**” shall have the meaning set forth in Recital (C);
- 2.1.102. “**Potential Tax Liabilities**” shall have the meaning set forth in Clause 9.2.1;
- 2.1.103. “**Potential Tax Liabilities Indemnity**” shall have the meaning set forth in Clause 9.2.1;
- 2.1.104. “**Purchase Price**” shall have the meaning set forth in Clause 4.1;
- 2.1.105. “**Purchaser**” shall have the meaning set forth in the preamble of this Agreement;
- 2.1.106. “**Purchaser’s Notice**” shall have the meaning set forth in Clause 4.4.3;
- 2.1.107. “**Quota Price**” shall have the meaning set forth in Clause 4.1.2;
- 2.1.108. “**Quotas**” shall have the meaning set forth in Recital (E);
- 2.1.109. “**Quotaholder Loans**” shall mean all the quotaholder loans made available by the Seller to the relevant SPV;

- 2.1.110. “**Quotaholder Loans Receivables**” shall have the meaning set forth in Recital (E);
- 2.1.111. “**Quotaholder Loans Receivables Price**” shall have the meaning set forth in Clause 4.1.2;
- 2.1.112. “**Reference Date**” shall mean 31 December 2018;
- 2.1.113. “**Reference Financial Statements**” shall mean the financial statements of the SPVs, as at the Reference Date, included in the Due Diligence Documents;
- 2.1.114. “**Related Parties**”: means, with respect to a Person, all the relevant Persons identified under the accounting principle IAS no. 24 (other than the SPVs);
- 2.1.115. “**Relevant Person**” shall mean, with respect to a Person, its former or current: shareholders, directors, officer, counsel, and financial, accounting and legal advisors except as otherwise stated in Clause 2.1.3;
- 2.1.116. “**Sanctions**” shall have the meaning set forth in Clause 6.17.4;
- 2.1.117. “**Seller**” shall have the meaning set forth in the preamble of this Agreement;
- 2.1.118. “**Seller Guarantees**” shall mean (i) the parent company guarantee of Ellomay Capital Limited LTD dated 17 May 2018 to Mediocredito Italiano S.p.A. and Intesa San Paolo S.p.A and to the benefit of Ellomay PV Two, with respect to “*Ecoware Potential Liability and Withholding Potential Liability*” and (ii) the parent company guarantee of Ellomay Capital Limited LTD dated 17 May 2018 to Mediocredito Italiano S.p.A. and Intesa San Paolo S.p.A and to the benefit of Ellomay PV Two, Ellomay PV Seven, Pedale, Soleco, Tecnoenergy with respect to “*Ecoware Potential Liability and Withholding Potential Liability*”, in both cases in relation to the relevant Financing Agreements;
- 2.1.119. “**Seller’s Knowledge**” shall mean the actual knowledge of a fact, circumstance or event of the directors, managers (*dirigenti*) of the Seller, the SPVs and the other Persons listed in Schedule 2.1.119;
- 2.1.120. “**Soleco**” shall have the meaning set forth in Recital (B)(ix);
- 2.1.121. “**Soleco Plant**” shall have the meaning set forth in Recital (C)(ix);
- 2.1.122. “**Soleco Price**” shall have the meaning set forth in Clause 4.1.1(ix);
- 2.1.123. “**Soleco QHL Receivables**” shall have the meaning set forth in Clause 4.1.1(ix);
- 2.1.124. “**Soleco QHL Receivables Price**” shall have the meaning set forth in Clause 4.1.2(ix)(a);
- 2.1.125. “**Soleco Quota**” shall have the meaning set forth in Clause 4.1.1(ix);
- 2.1.126. “**Soleco Quota Price**” shall have the meaning set forth in Clause 4.1.2(ix)(b);
- 2.1.127. “**SPVs**” shall have the meaning set forth in Recital (B);

- 2.1.128. “**Tax**” or “**Taxes**” shall mean any Italian state or local tax, including registration tax, cadastral tax, mortgage tax, stamp duties, corporate income tax (“IRES”), regional tax (“IRAP”), trade, wealth, value-added tax (“VAT”), sales, property or transfer tax, salary/wage tax, any other withholding tax, excise taxes, customs, duties, social security contributions, real estate municipality taxes (“ICI”, “IMU”, “TASI”, “TARI”) or any other tax, as well as any tax and social security contributions, wherever and whenever imposed, in each case together with any interest, penalty, fine, addition to tax or other ancillary duties or any other such charges within the meaning of any laws of foreign jurisdictions;
- 2.1.129. “**Tax Returns**” shall have the meaning set forth in Clause 6.19.1;
- 2.1.130. “**Tecnoenergy**” shall have the meaning set forth in Recital (B)(x);
- 2.1.131. “**Tecnoenergy Plant**” shall have the meaning set forth in Recital (C)(x);
- 2.1.132. “**Tecnoenergy Price**” shall have the meaning set forth in Clause 4.1.1(x);
- 2.1.133. “**Tecnoenergy QHL Receivables**” shall have the meaning set forth in Clause 4.1.1(x);
- 2.1.134. “**Tecnoenergy QHL Receivables Price**” shall have the meaning set forth in Clause 4.1.2(x)(a);
- 2.1.135. “**Tecnoenergy Quota**” shall have the meaning set forth in Clause 4.1.1(x);
- 2.1.136. “**Tecnoenergy Quota Price**” shall have the meaning set forth in Clause 4.1.2(x)(b);
- 2.1.137. “**Third Parties Claim**” shall have the meaning set forth in Clause 7.5.1;
- 2.1.138. “**Transaction**” shall mean the overall transaction contemplated by this Agreement, as better described in Clause 3;
- 2.1.139. “**Transfer Deed**” shall mean, with respect to all SPVs, the agreement which shall be executed for the sole purposes of article 2470 of the Italian civil code on the Closing Date for the purposes of implementing this Agreement by transferring at the same time the Quotas of all SPVs from the Seller to the Purchaser;
- 2.1.140. “**Tremonti Claims**” shall mean the reimbursement claims filed by Tecnoenergy, Soleco, Pedale, Luma Solar, and Murgia Solar with the Italian Tax Authority according to the application of Law 388/2000 (so-called “*Tremonti Ambiente*”) to the relevant Plants benefitting from incentives under the so called Third *Conto Energia* or the so called Fourth *Conto Energia* feed-in laws, as detailed in Schedule 2.1.140 attached hereto;
- 2.1.141. “**Tremonti Earn-out**” shall have the meaning set forth in Clause 4.3.2;
- 2.1.142. “**Troia 8 Plant**” shall have the meaning set forth in Recital (C)(iv);
- 2.1.143. “**Troia 9 Plant**” shall have the meaning set forth in Recital (C)(iii);

2.1.144. “**Warranties**” shall have the meaning set forth in Clause 6.1;

2.1.145. “**Warranty and Indemnity Policy**” shall mean the warranty and indemnity liability policy for the Purchaser underwritten by the Insurer, to be entered into by the Purchaser and paid for by the Purchaser.

2.2. **Interpretative Rules**

Unless otherwise expressly provided for in this Agreement, for purposes of this Agreement:

- 2.2.1. all terms used in the singular shall be deemed to include the plural, and vice versa, as the context may require;
- 2.2.2. the word “including” and any variation thereof shall mean “including without limitation” and shall not be construed to limit any general statement to the specific or similar items or matters following it;
- 2.2.3. the words “hereof”, “herein”, “hereto” and “hereunder” refer to this Agreement as a whole (including the Recitals and the Schedules), and not to any subdivision of this Agreement;
- 2.2.4. when calculating the period of days before which, by which, or following which any act is to be done or any step is to be taken pursuant to this Agreement, the day that is the reference date in calculating such period shall be excluded. If the last day of such period is not a Business Day, the relevant period shall end on the next following Business Day. Unless otherwise expressly provided for, any period of time expressed in months shall be calculated as provided for in article 2963, paragraphs 4 and 5 of the Italian civil code;
- 2.2.5. references to “Articles”, “Clauses”, “Recitals” and “Schedules” are to the articles, clauses, recitals and schedules of this Agreement, unless specified differently;
- 2.2.6. in case of discrepancies between the body of the Agreement and the Schedules, the former will prevail;
- 2.2.7. the division of this Agreement into Articles, Clauses and other subdivisions and the insertion of headings are for convenience of reference only and shall not affect or be utilized in construing or interpreting this Agreement;
- 2.2.8. the obligation of a Party to cause any other Person (including a corporate body of any such Person) to undertake or to do something, or to procure that any other Person (including a corporate body of any such Person) undertakes or does something, shall be construed as a “*promessa dell’obbligazione o del fatto del terzo*” for the purpose of article 1381 of the Italian civil code;
- 2.2.9. the obligation of a Party to use best efforts to accomplish an objective shall be construed as an “*obbligazione di mezzi*” and not as an “*obbligazione di risultato*”;
- 2.2.10. the governing language of this Agreement is English. Except as otherwise required by the Applicable Laws and Regulations, all notices, correspondence, information and other documents required under this Agreement shall be in the English language. However, where in this Agreement an Italian term is given in italics or in italics in brackets after an English term and there is any inconsistency between the Italian and the English, the meaning of the Italian term shall prevail;
- 2.2.11. the Parties have jointly participated in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

3. THE TRANSACTION

Pursuant to the terms and subject to the conditions of this Agreement, the Seller shall sell the Quotas and the Quotaholder Loans Receivables, free and clear of any Lien except for the Permitted Liens, to the Purchaser, and the Purchaser shall purchase the Quotas and the Quotaholder Loans Receivables at Closing Date, free and clear of any Lien except for the Permitted Liens, from the Seller, against the payment of the Purchase Price (the “**Transaction**”).

4. PURCHASE PRICE AND PAYMENT TERMS

4.1. *Purchase Price*

4.1.1. Upon the terms and subject to the conditions of this Agreement and without prejudice to Clauses 4.3 and 4.4, the aggregate amount to be paid by the Purchaser to the Seller as consideration for the purchase of the Quotas and the Quotaholder Loan Receivables is equal to Euro 38,692,072.00 (thirty-eight million six-hundred-ninety-two thousand seventy-two/00) (the “**Purchase Price**”), allocated as follows:

- (i) an amount equal to Euro 2,899,933.00 as consideration for the transfer of 100% of the corporate capital of Ellomay PV One (the “**Ellomay PV One Quota**”) and the quotaholder loans receivables arising out of the Quotaholder Loans made available by the Seller to Ellomay PV One outstanding as of the Closing Date (respectively, the “**Ellomay PV One QHL Receivables**” and the “**Ellomay PV One Price**”);
- (ii) an amount equal to Euro 2,565,293.00 as consideration for the transfer of 100% of the corporate capital of Ellomay PV Two (the “**Ellomay PV Two Quota**”) and the quotaholder loans receivables arising out of the Quotaholder Loans made available by the Seller to Ellomay PV Two outstanding as of the Closing Date (respectively, the “**Ellomay PV Two QHL Receivables**” and the “**Ellomay PV Two Price**”);
- (iii) an amount equal to Euro 3,120,985.00 as consideration for the transfer of 100% of the corporate capital of Ellomay PV Five (the “**Ellomay PV Five Quota**”) and the quotaholder loans receivables arising out of the Quotaholder Loans made available by the Seller to Ellomay PV Five outstanding as of the Closing Date (respectively, the “**Ellomay PV Five QHL Receivables**” and the “**Ellomay PV Five Price**”);

- (iv) an amount equal to Euro 3,852,307.00 as consideration for the transfer of 100% of the corporate capital of Ellomay PV Six (the “**Ellomay PV Six Quota**”) and the quotaholder loans receivables arising out of the Quotaholder Loans made available by the Seller to Ellomay PV Six outstanding as of the Closing Date (respectively, the “**Ellomay PV Six QHL Receivables**” and the “**Ellomay PV Six Price**”);
- (v) an amount equal to Euro 1,873,089.00 as consideration for the transfer of 100% of the corporate capital of Ellomay PV Seven (the “**Ellomay PV Seven Quota**”) and the quotaholder loans receivables arising out of the Quotaholder Loans made available by the Seller to Ellomay PV Seven outstanding as of the Closing Date (respectively, the “**Ellomay PV Seven QHL Receivables**” and the “**Ellomay PV Seven Price**”);
- (vi) an amount equal to Euro 4,824,446.00 as consideration for the transfer of 100% of the corporate capital of Pedale (the “**Pedale Quota**”) and the quotaholder loans receivables arising out of the Quotaholder Loans made available by the Seller to Pedale outstanding as of the Closing Date (respectively, the “**Pedale QHL Receivables**” and the “**Pedale Price**”);
- (vii) an amount equal to Euro 3,086,459.00 as consideration for the transfer of 100% of the corporate capital of Murgia Solar (the “**Murgia Solar Quota**”) and the quotaholder loans receivables arising out of the Quotaholder Loans made available by the Seller to Murgia Solar outstanding as of the Closing Date (respectively, the “**Murgia Solar QHL Receivables**” and the “**Murgia Solar Price**”);
- (viii) an amount equal to Euro 3,000,677.00 as consideration for the transfer of 100% of the corporate capital of Luma Solar (the “**Luma Solar Quota**”) and the quotaholder loans receivables arising out of the Quotaholder Loans made available by the Seller to Luma Solar outstanding as of the Closing Date (respectively, the “**Luma Solar QHL Receivables**” and the “**Luma Solar Price**”);
- (ix) an amount equal to Euro 7,021,641.00 as consideration for the transfer of 100% of the corporate capital of Soleco (the “**Soleco Quota**”) and the quotaholder loans receivables arising out of the Quotaholder Loans made available by the Seller to Soleco outstanding as of the Closing Date (respectively, the “**Soleco QHL Receivables**” and the “**Soleco Price**”);
- (x) an amount equal to Euro 6,447,240.00 as consideration for the transfer of 100% of the corporate capital of Tecnoenergy (the “**Tecnoenergy Quota**”) and the quotaholder loans receivables arising out of the Quotaholder Loans made available by the Seller to Tecnoenergy outstanding as of the Closing Date (respectively, the “**Tecnoenergy QHL Receivables**” and the “**Tecnoenergy Price**”).

4.1.2. The Purchase Price shall be split as follows:

- (i) as to the Ellomay PV One Price,
 - (a) an amount equal to the Ellomay PV One QHL Receivables outstanding as of the Closing Date (including, for the avoidance of doubt, any interest accrued thereon), as consideration for the purchase of the Ellomay PV One QHL Receivables (the “**Ellomay PV One QHL Receivables Price**”); and
 - (b) the balance, as consideration for the purchase of the Ellomay PV One Quota (the “**Ellomay PV One Quota Price**”);
- (ii) as to the Ellomay PV Two Price,
 - (a) an amount equal to the Ellomay PV Two QHL Receivables outstanding as of the Closing Date (including, for the avoidance of doubt, any interest accrued thereon), as consideration for the purchase of the Ellomay PV Two QHL Receivables (the “**Ellomay PV Two QHL Receivables Price**”); and
 - (b) the balance, as consideration for the purchase of the Ellomay PV Two Quota (the “**Ellomay PV Two Quota Price**”);
- (iii) as to the Ellomay PV Five Price,
 - (a) an amount equal to the Ellomay PV Five QHL Receivables outstanding as of the Closing Date (including, for the avoidance of doubt, any interest accrued thereon), as consideration for the purchase of the Ellomay PV Five QHL Receivables (the “**Ellomay PV Five QHL Receivables Price**”); and
 - (b) the balance, as consideration for the purchase of the Ellomay PV Five Quota (the “**Ellomay PV Five Quota Price**”);
- (iv) as to the Ellomay PV Six Price,
 - (a) an amount equal to the Ellomay PV Six QHL Receivables outstanding as of the Closing Date (including, for the avoidance of doubt, any interest accrued thereon), as consideration for the purchase of the Ellomay PV Six QHL Receivables (the “**Ellomay PV Six QHL Receivables Price**”); and

- (b) the balance, as consideration for the purchase of the Ellomay PV Six Quota (the “**Ellomay PV Six Quota Price**”);
- (v) as to the Ellomay PV Seven Price,
 - (a) an amount equal to the Ellomay PV Seven QHL Receivables outstanding as of the Closing Date (including, for the avoidance of doubt, any interest accrued thereon), as consideration for the purchase of the Ellomay PV Seven QHL Receivables (the “**Ellomay PV Seven QHL Receivables Price**”); and
 - (b) the balance, as consideration for the purchase of the Ellomay PV Seven Quota (the “**Ellomay PV Seven Quota Price**”);
- (vi) as to the Pedale Price,
 - (a) an amount equal to the Pedale QHL Receivables outstanding as of the Closing Date (including, for the avoidance of doubt, any interest accrued thereon), as consideration for the purchase of the Pedale QHL Receivables (the “**Pedale QHL Receivables Price**”); and
 - (b) the balance, as consideration for the purchase of the Pedale Quota (the “**Pedale Quota Price**”);
- (vii) as to the Murgia Solar Price,
 - (a) an amount equal to the Murgia Solar QHL Receivables outstanding as of the Closing Date (including, for the avoidance of doubt, any interest accrued thereon), as consideration for the purchase of the Murgia Solar QHL Receivables (the “**Murgia Solar QHL Receivables Price**”); and
 - (b) the balance, as consideration for the purchase of the Murgia Solar Quota (the “**Murgia Solar Quota Price**”);
- (viii) as to the Luma Solar Price,
 - (a) an amount equal to the Luma Solar QHL Receivables outstanding as of the Closing Date (including, for the avoidance of doubt, any interest accrued thereon), as consideration for the purchase of the Luma Solar QHL Receivables (the “**Luma Solar QHL Receivables Price**”); and
 - (b) the balance, as consideration for the purchase of the Luma Solar Quota (the “**Luma Solar Quota Price**”);
- (ix) as to the Soleco Price,
 - (a) an amount equal to the Soleco QHL Receivables outstanding as of the Closing Date (including, for the avoidance of doubt, any interest accrued thereon), as consideration for the purchase of the Soleco QHL Receivables (the “**Soleco QHL Receivables Price**”); and
 - (b) the balance, as consideration for the purchase of the Soleco Quota (the “**Soleco Quota Price**”);
- (x) as to the Tecnoenergy Price,
 - (a) an amount equal to the Tecnoenergy QHL Receivables outstanding as of the Closing Date (including, for the avoidance of doubt, any interest accrued thereon), as consideration for the purchase of the Tecnoenergy QHL Receivables (the “**Tecnoenergy QHL Receivables Price**”); and

(b) the balance, as consideration for the purchase of the Tecnoenergy Quota (the “**Tecnoenergy Quota Price**”).

- 4.1.3. Save only as otherwise expressly provided in this Agreement, the Parties acknowledge and expressly accept that the Purchase Price is not subject to any modification or adjustment, on any basis whatsoever.
- 4.1.4. For the sake of clarity and without limitation to the generality of Clause 4.1.3 above, the Parties further acknowledge and agree that all expenses, costs and liabilities whatsoever of the SPVs, including, but not limited to, those as from 1 January 2019 (included), have been already taken into account in the evaluation of the Purchase Price and - without prejudice to what expressly provided under Clause 4.3 (*Tremonti Earn-out*), Clause 4.4 (*Locked box*) and Clause 9 (*Special Indemnities*) as well as to the Warranty and Indemnity Policy - shall be allocated to the Purchaser.

4.2. **Payment Terms**

- 4.2.1. Without prejudice to Clauses 4.3 and 4.4, the Parties agree that the Purchaser shall pay the entire Purchase Price to the Seller at Closing Date, by way of wire transfer of immediately available funds, free and clear of any counterclaim, withholding or condition, on the bank account notified in writing by the Seller.

4.3. **Tremonti Earn-out**

- 4.3.1. The Parties acknowledge that certain SPVs (Tecnoenergy, Soleco, Pedale, Luma Solar, and Murgia Solar) have filed the Tremonti Claims with the competent Tax Authorities.
- 4.3.2. In the event that, within 5 (five) years after the Closing Date, following a final and enforceable order, injunction, judgment, decision, law, regulation, decree, determination, ruling, writ, assessment or other award of the competent Authority(ies), any of the SPVs becomes entitled to any cash refund, benefits, payments, additional incentives, deduction or compensation right as a consequence of or in connection with any of the Tremonti Claims and/or the facts and circumstances related to or underlying such Tremonti Claims without prejudicing the current feed-in tariff benefitted from such SPV(s) as a direct consequence thereof (hereinafter the “**Tremonti Benefits**”), the Purchaser shall promptly pay to the Seller, as additional consideration to the Purchase Price, (i) the 90% (ninety per cent) of the amount actually received (for the sake of clarity, without any netting of any costs or expenses (including attorney’s fees) borne by the relevant SPV(s); plus (ii) an amount equal to, on a Euro per Euro basis, 90% (ninety per cent) of the amounts calculated as per Schedule 4.3.2 attached hereto (for the sake of clarity, without any netting of any costs or expenses (including attorney’s fees) borne by the relevant SPV(s) (hereinafter (i) and (ii) above, the “**Tremonti Earn-out**”).
- 4.3.3. Seller will be entitled – but will have not the obligation - to handle, manage and decide upon any action related to or underlying any of the Tremonti Claims, and shall keep the Purchaser duly and timely informed and updated, it being understood, for the sake of clarity, that the Seller shall have final decision making authority with regard to all aspects of the conduct and handling of said dispute, defense, compromise or appeal, and the Purchaser shall cause the relevant SPVs to duly and promptly comply with the foregoing provisions. The Purchaser shall not, and shall ensure that the relevant SPVs shall not, make any exchanges, filing, admission, waiver in relation to any facts and circumstances which may delay, prejudice, limit or jeopardize the Tremonti Claims and/or the Tremonti Earn-out, nor compromise, dispose of, waive or settle any of the may Tremonti Claims without the prior written consent of the Seller.

It is however agreed that the Seller shall not request the relevant SPV(s) and/or the Purchaser to carry out any action or transaction with respect to the Tremonti Claims and/or the Tremonti Earn-out that:

- a) is in violation of any Applicable Laws and Regulations; or
- b) causes acceleration of or events of default under the financing agreements in place at the time of the action/transaction, it being understood that such financing agreements shall not provide terms and conditions that may trigger such acceleration or events of default strictly related to the Tremonti Claims; or
- c) jeopardize the feed-in tariff benefitted from such SPV(s); or
- d) intentionally causes a material Damage to the relevant SPV(s) (taking into account also Seller's interest to the Tremonti Earn-out).

- 4.3.4. Should the Seller elect not to handle, manage and decide upon any action related to or underlying one or more Tremonti Claims, the Purchaser will be entitled to do so, it being understood that: (i) the Purchaser shall keep the Seller duly and timely informed and updated (including, without limitation, promptly informing the Seller of any notices, communications and/or requests received by the relevant Authorities) and the Seller will be entitled to participate (at its cost and expense) in any dispute, defense, compromise or appeal relating thereto; and (ii) the Purchaser shall, and shall cause the relevant SPVs to, duly and diligently defend against the facts and circumstances which may delay, prejudice, limit or jeopardize the Tremonti Claims.
- 4.3.5. Following the Closing, the Purchaser shall promptly provide and shall cause the relevant SPVs to promptly provide, (i) all necessary documents, information and communications that the Seller (including its advisors) may require, as the case may be, and (ii) all the cooperation and assistance which the Purchaser (including its advisors) may require, as it may be required for the full comprehension of any subject matters of the Tremonti Earn-Out and/or for the determination of said Tremonti Earn-Out.
- 4.3.6. Without prejudice to the provisions set forth in Clause 4.3.5 above, the value of any Tremonti Earn-out, if any, shall be notified by the Purchaser to the Seller (or its permitted assignee or successor in title) by written notice (hereinafter the "**Tremonti Benefits Notice**"). If, within 20 (twenty) Business Days following the delivery of a Tremonti Benefits Notice, the Seller has not notified the Purchaser of a written notice of objection thereto, then the amount of the Tremonti Earn-out provided in the Tremonti Benefits Notice will be final and binding on the Purchaser and the Seller not having so objected.

- 4.3.7. If the Seller (or its permitted assignee or successor in title) timely notifies the Purchaser of said notice of objection, the provisions set forth in Clause 4.4.4 and Clause 4.4.5 below shall apply *mutatis mutandis*.
- 4.3.8. Without prejudice to Clause 4.3.2 above but without duplication, in the event that, following the Closing, any of relevant SPVs enter into an assignment agreement with a third party by virtue of which it assigns to such third party on a non-recourse basis (*cessione del credito pro soluto*) the receivables arising from any of the Tremonti Claims, then the Purchaser shall pay to the Seller, as consideration additional to the Purchase Price, within 10 (ten) Business Days from the execution date of such assignment agreement, an amount equal to 90% (ninety per cent) of the assignment price provided under said agreement (hereinafter the “**Assignment Benefits**”), (for the sake of clarity, without any netting of any costs or expenses (including attorney’s fees) borne by the relevant SPV(s) (hereinafter the “**Tremonti Assignment Benefits Earn-Out**”), if the Seller, at its discretion, opts for said Tremonti Assignment Benefits Earn-Out in lieu of the Tremonti Earn-Out.
- 4.3.9. The Parties agree that all costs and expenses (including attorney’s fees) for handling the relevant Tremonti Claims shall be borne by the relevant SPV(s), and therefore, after Closing, by the Purchaser, it being understood that the Seller shall not request the SPVs to bear unreasonable advisory fees.

4.4. **Locked box**

- 4.4.1. The Quotas shall be transferred free from any Lien except for the Permitted Liens with all rights and entitlements relating thereto and enjoyment including dividends, which shall be for the benefit of the Purchaser as from 1 January 2019 (included).
- 4.4.2. The Seller hereby undertakes to notify the Purchaser in writing, on Closing Date, of the occurrence of any Leakages and the amount of such Leakages. The Parties agree that the amount of any Leakages regarding a SPV so notified by the Seller shall be deducted on a Euro per Euro basis from the relevant portion of the Purchase Price, provided that the Closing has occurred. The Purchaser shall have the right to challenge the determination of the Leakages notified by the Seller only after the relevant Closing, in accordance with Clauses 4.4.3 and 4.4.4.
- 4.4.3. Without any prejudice to any Representation and Warranty (but, for the sake of clarity, without any duplication in respect thereof), the Purchaser will have 70 (seventy) Business Days after the Closing Date to verify, under penalty of forfeiture (*a pena di decadenza*), the Seller’s compliance with Clause 4.4.2 and to provide the Seller with its request for the repayment of any Leakages, along with its calculation of the relevant amount and supporting documentation (the “**Purchaser’s Notice**”). The Seller shall pay the amounts requested by the Purchaser in the Purchaser’s Notice on a Euro per Euro basis within 30 (thirty) Business Days from its receipt, unless the Seller rejects in writing the Purchaser’s Notice within 30 (thirty) Business Days from its receipt, under penalty of forfeiture (*a pena di decadenza*).

- 4.4.4. If the Seller rejects the Purchaser's Notice, during a period of 15 (fifteen) Business Days following the receipt of such Seller's rejection notice the Parties will attempt to resolve any differences which they may have. If, at the end of such period, the Parties fail to reach an agreement in writing with respect to any matter, then all the disputed items, and only such items (the "**Disputed Items**"), will be submitted to the Independent Auditor, in accordance with the following procedure:
- (i) the Independent Auditor will: (i) act as an arbitrator (*arbitratore*) pursuant to articles 1349, paragraph 1, and 1473, paragraph 1, of the Italian civil code, and will make a decision in the interest of the Parties in a diligent and fair manner and in good faith (*con equo apprezzamento e non con mero arbitrio*); (ii) render its determination within 20 (twenty) Business Days of its acceptance of the appointment; and (iii) determine the amount of any Leakage in accordance with the terms of this Agreement;
 - (ii) any examination or discussion with the Independent Auditor may take place only in the presence of both Parties (or advisors of both Parties), which will be afforded the opportunity to present to the Independent Auditor any document relating to the Disputed Items and to discuss such Disputed Items with the Independent Auditor;
 - (iii) the assessment of the Independent Auditor will be limited to the Disputed Items; with respect to any Disputed Item submitted to the Independent Auditor for resolution, the determination of the Independent Auditor may not fall beyond the maximum and minimum values set by the Parties;
 - (iv) the Parties will cooperate with the Independent Auditor and make available all the information, data and documents required by it for the purpose of rendering its determination;
 - (v) the Independent Auditor will have reasonable access to any information which it may deem necessary or appropriate for the purposes of its determination under this Clause;
 - (vi) the determination rendered by the Independent Auditor shall be given on the basis of the calculation rules set forth in this Agreement and shall be binding upon the Parties, except in the event of a evident error or evident iniquity or fraud; and
- 4.4.5. the costs for the services rendered by the Independent Auditor will be paid by the Parties on a 50-50 basis.

- 4.4.6. If the Independent Auditor determines that the Seller has to reimburse a Leakage, the payment shall be executed within 10 Business Days of receipt of such determination.
- 4.4.7. The Parties agree that the Seller's obligation to reimburse any Leakage due under this Clause 4.4 is independent from the Seller's indemnification obligations under Clause 7, it being understood that in no event shall there be a duplication of remedies. Any amount reimbursed by the Seller pursuant to this Clause 4.4 shall be deemed as an adjustment of the Purchase Price to the maximum extent permitted under the Applicable Laws and Regulations.

It is understood and agreed that the rights, obligations and remedies provided in this Clause 4.4 shall be the sole and exclusive remedy available to the Purchaser in respect of the occurrence of any Leakage (if any), and, for the avoidance of doubt, in no event the Purchaser shall be entitled to delay or refuse the completion of Closing due to any Leakages.

5. CLOSING

5.1. General

Subject to and in accordance with the terms and conditions under this Agreement, the Parties agree that the Quotas and the Quotaholder Loan Receivables with respect to the SPVs shall be transferred and assigned to the Purchaser at the Closing Date.

5.2. Pre-Closing/Closing Covenant

- 5.2.1. The Parties acknowledge that on or prior to the Date of Execution the Seller has caused the Ellomay PV Two to deliver to the relevant contractor termination notice pursuant to the relevant Current O&M Contract. In agreeing the Purchase Price, the Parties have duly taken into account, inter alia and without limitations, the costs and disbursements associated or deriving from termination of the Current O&M Contracts.
- 5.2.2. The Parties further acknowledge that on the Closing Date the Purchaser shall pay to Ellomay Capital Ltd on behalf of Ellomay PV One an amount equal to Euro 84,986.00 in relation to the invoices no. 15258, 15224 and 15189, related to administrative services in favor of Ellomay PV One.

5.3. Lenders

- 5.3.1. The Parties acknowledge that on or prior to the Date of Execution the relevant Lenders have granted their written consent to the Transaction in accordance with the provisions of the relevant Financing Agreements and (a) without requiring, or threatening in writing to require, vis-à-vis the Seller and/or any SPV the termination, acceleration or renegotiation of any such Financing Agreements, (b) with full and unconditional release and discharge of the Seller and any Seller's Affiliates and their Related Parties from the Financing Agreements and any document, commitment, obligation or undertaking connected thereto, excluding only the Seller Guarantees (without prejudice to Clause 5.3.3 below), at Closing, (c) without requiring any costs or expenses upon the Seller and/or any of its Affiliates (save as provided in Clause 5.3.2 below).

It is understood and agreed that the Purchaser shall accede to and enter into any agreement or deed required to cause release of the Seller and Sellers's Affiliates above as requested by the Lenders and appropriate.

5.3.2. Costs and expenses related to the consent of the Lenders, if any, shall be entirely borne by the Seller up to the maximum aggregate amount of Euro 65,000.00 (sixty-five thousand/00) (including for the sake of clarity any amount deducted from the Purchase Price as Leakages pursuant to point (xi) of definition of "Leakages"), while the exceeding costs and expenses shall be borne by the Seller and the Purchaser on a 50-50 basis.

5.3.3. The Parties agree that:

- (1) the Purchaser shall procure that the Seller and its Affiliates are fully, definitively and unconditionally released and discharged from each and all Seller Guarantees as soon as possible after the Closing Date and in any case within and not later than 30 June 2020,
- (2) the Purchaser shall hold and keep the Seller and its Affiliates harmless and indemnified from and against all actions, claims, proceedings, losses, damages, prejudices and all payments, costs or expenses possibly incurred by them arising out of any of such Seller Guarantees,
- (3) without prejudice to point (1) above, if, for whatever reason, the Seller and its Affiliates are not fully, definitively and unconditionally released and discharged in writing from each and all Seller Guarantees within and not later than 30 June 2020, then the Purchaser shall pay to the Seller, within and not later than 15 July 2020, as liquidated damages pursuant to article 1382 of the Italian civil code or in any case as indemnification, an amount equal to Euro 1,000,000.00 (one million) - amount that the Purchaser considers fair and not subject to any reduction and that shall be paid to the Seller free and clear of any set-off, objections and counterclaims – without prejudice to (i) the persisting obligation of the Purchaser to achieve full, definitive and unconditional released and discharged of each and all Seller Guarantees and (ii) point (2) above including Seller's right to claim for further damages, provided that such indemnification shall be net of the amount already paid,
- (4) notwithstanding anything to the contrary set forth in this Agreement or in the Applicable Law and Regulations, the Seller and its Affiliates shall have no liability, on any basis whatsoever, towards the Purchaser, its Affiliates and/or the SPVs for any damages, losses or prejudices suffered or incurred by the Purchaser, any of its Affiliates and/or the SPVs as a consequence of, or in connection with, the Seller Guarantees.

5.4. ***Date and place of the Closing***

The Closing will take place before an Italian notary public designated by the Purchaser on the Closing Date.

5.5. ***Deliveries at Closing***

- 5.5.1. On the Closing Date, the Parties shall perform the following actions, which (regardless of their time sequence) shall be deemed to occur simultaneously and to constitute one single transaction (provided further that in respect of any action to be performed by the SPVs the Seller shall procure that each SPV performs such action):
- (i) the Purchaser shall pay to the Seller the entire Purchase Price for the purchase of the Quotas of all SPVs (net of the Leakages notified for each SPV by the Seller under Clause 4.4.2, if any, and without prejudice to Clause 4.3) as per Clause 4.2, into the bank account(s) that will be indicated to the Purchaser;
 - (ii) the Seller and the Purchaser shall execute the Transfer Deed for the purposes of transferring the Quotas to the Purchaser;
 - (iii) the Seller and the Purchaser shall enter into agreements (in the form attached hereto as Schedule 5.5.1(iii)) whereby the relevant Quotaholder Loans Receivables shall be assigned by the Seller to the Purchaser, and the Purchaser shall pay to the Seller the relevant consideration (the “**Quotaholder Loans Assignment Agreements**”);
 - (iv) the Seller shall procure that the relevant directors of each SPV resign, and confirm in their written resignation (in the form attached hereto as Schedule 5.5.1(iv)) that they have no claim towards the relevant SPV;
 - (v) the Purchaser shall deliver to the Seller an indemnity and hold harmless letter for the benefit of each of the resigning directors of each SPV providing the release and discharge, to the maximum extent permitted by the Law, of the relevant resigning director from and against any and all liabilities, except for gross negligence (*colpa grave*) or willful misconduct (*dolo*), arising out of or in connection with their activities and functions carried out or the entire period of their office up to (and including) the Closing Date (in the form attached hereto as Schedule 5.5.1(v));
 - (vi) the Seller shall cause, in relation to each SPV, that the relevant quotaholders’ meeting is validly held, in order to resolve upon (i) the acceptance of the resignation of the respective previous directors confirming that they have no claims for termination, loss of office, unpaid remuneration or otherwise vis-à-vis that SPV and with full release and discharge, to the maximum extent permitted by the Law, the relevant resigning directors from and against any and all liabilities except for gross negligence (*colpa grave*) or willful misconduct (*dolo*), arising out of or in connection with their activities and functions carried out as directors for the entire period of their office up to (and including) the Closing Date, and (ii) the appointment of the new directors/sole director to be designated by the Purchaser and communicated to the Seller prior to the Closing Date;

- (vii) the Seller shall procure the revocation effective as of the relevant Closing Date of each and all the powers of attorney and proxies granted by each SPV (if any) and it shall deliver to the Purchaser a copy of the letters from the persons holding such power of attorney and proxies, if any, confirming that they have no claims for the revocation of their powers of attorney and proxies;
- (viii) the Seller shall make available (as applicable and to the extent not already provided before Closing) to the Purchaser the documents, data and information listed below:
 - (a) each SPV's certified email account (PEC) credentials;
 - (b) each Plant's gates and cabins keys;
 - (c) each Plant's monitoring system credentials (if applicable);
 - (d) each Plant's DVR/ccTV IP and related ports addresses;
 - (e) each Plant's video surveillance system access credentials;
 - (f) each Plant's security service system identification password;
 - (g) each Plant's Gaudi portal;
 - (h) each SPV's antimafia declarations ("Dichiarazioni antimafia").
- (ix) the Purchaser shall accede to and enter into any agreement or deed required to cause release of the Seller and, if applicable, Seller's Affiliates under Clause 5.3.1 above as requested by the Lenders and/or appropriate, including Seller Guarantees (without prejudice to the provision set forth under Clause 5.3.7. above);
- (x) the Parties shall execute and deliver (and the Seller shall procure that each SPV executes and delivers) such other instruments as may be necessary under Applicable Laws and Regulations to complete the transfer of the Quotas and the Quotaholder Loans Receivables to the Purchaser.

5.5.2. The Parties mutually acknowledge and agree that the actions and transactions constituting the Closing pursuant to Clause 5.5.1 shall be regarded as one single transaction, so that, at the option of the Party having interest in the performance of the relevant specific action or transaction, no action or transaction constituting the Closing shall be deemed to have taken place if and until all other actions and transactions referred above shall have been properly taken or performed. At the option of the non-defaulting Party any and all actions and transactions performed by the defaulting Party in light of Closing shall be unwound and reversed back so as to reconstitute the original status quo. This shall be without prejudice to the right of the non-defaulting Party to take any action in respect of the non-performance by the defaulting Party. The Parties acknowledge the essential nature of this provision.

5.5.3. The Transfer Deed, shall not affect, be deemed a waiver of or to, amend or have any novative effect (*effetto novativo*) upon, the provisions of this Agreement.

5.6. **Post-Closing Obligations**

5.6.1. The Parties shall mutually provide any available information or documentation reasonably requested by the other Party required to comply with anti-money laundering laws and regulations (the “**AML Laws**”), including to the Bank Secrecy Act and the U.S. PATRIOT Act, so long as permitted by the Applicable Laws and Regulations.

6. **WARRANTIES OF THE SELLER**

6.1. **General**

For the purpose of the Warranty and Indemnity Insurance only, and not to the Purchaser and therefore with express exclusion of any responsibility and liabilities, on any basis whatsoever, of the Seller and of its Relevant Persons in respect thereof (save only as provided in Clause 7.3.1(b)), the Seller warrants that each of the facts and circumstances set out under Clauses from 6.6 to 6.25 below (the “**Warranties**”) are true and correct, as of the Date of Execution and shall be in any case true and correct at the Closing Date, except for those Warranties expressed to be made as of a specified date or for a specified period before Closing Date, which shall be true and correct only and exclusively as of such specified date or for such specified period (the “**Other Reference Date**”).

6.2. **No Indemnification for breach of Warranties**

The Parties acknowledge and agree that:

- a) the Warranty and Indemnity Insurance shall provide the express exclusion of any Seller's and its relevant Persons' responsibility and liabilities, on any basis whatsoever, in respect of the Warranties provided thereunder, with the sole exception of the case of fraud (*frode*);
- b) the Purchaser and the Insurer shall enter, on the Date of Execution, into the Warranty and Indemnity Insurance. On the Date of Execution, the Purchaser shall give evidence to the Seller of the execution by the Purchaser of the Warranty and Indemnity Insurance, under which the Insurer has no right of recourse against the Seller, with the sole exception of the case of fraud (*frode*) and waives and undertakes not to exercise against the Seller, its Affiliates, directors, officers and SVPs' directors on office before the Closing Date any right of subrogation or other remedy acquired under, or in connection with, the Insurance or Applicable Laws and Regulation, with the sole exception, as to Seller, of the case of fraud (*frode*);
- c) notwithstanding any other provision set forth in this Agreement and/or of the Applicable Law and Regulation to the contrary, the Purchaser's exclusive and only recourse in respect of any damage, loss, detriment and prejudice however incurred or suffered by the Purchaser or any of its Affiliates (which, after the Closing, will also include the SPVs) as to any Warranties shall be only under the Warranty and Indemnity Insurance;

- d) the Seller (and its Affiliates, directors, officers and SPVs' directors on office before the Closing Date) shall have no responsibility or liability whatsoever in respect of any damage, loss, detriment or prejudice however incurred or suffered by the Purchaser or any of its Affiliates (which, after the Closing, will include the SPVs) as a result of any Warranties, including for the avoidance of any doubt in any circumstance where the Purchaser is not able for any reason whatsoever to subscribe the Warranty and Indemnity Insurance or to obtain indemnity under the Warranty and Indemnity Insurance (including any refusal by the Insurer to indemnify for invalidity or ineffectiveness of the Warranty and Indemnity Insurance, breaches by the Purchaser of provisions of the Warranty and Indemnity Insurance, wrong submission by the Purchaser of claims under the Warranty and Indemnity Insurance, application of limitations such as de minimis, thresholds and/or caps, duration, exclusions, qualifications or any other reason);
- e) the Purchaser represents and warrants that the Warranty and Indemnity Insurance shall provide, for its entire duration, the Insurer's right of recourse against third parties (including the Seller) only in case of such third parties' fraud (*frode*); the Insurer shall have no action, claim and right of recourse (i) vis-à-vis the Seller, its Affiliates, directors, officers and SVPs' directors on office before the Closing Date (A) with respect to any sum or indemnification paid or to be paid by the Insurer to the Purchaser and/or any other beneficiary under the Warranty and Indemnity Insurer and (B) excluding, as to actions, claims and rights of recourse, if any, against the Seller, only the cases of fraud (*frode*) of the Seller, it being understood that in any case the Purchaser, also pursuant to article 1411 of the Italian civil code, shall indemnify and hold harmless the persons and entities above from any recourse of the Insurer in cases other than, as to the Seller, fraud (*frode*);
- f) on the Closing Date, the Purchaser shall provide to the Seller evidence of the payment of the relevant premium under the Warranty and Indemnity Insurance to the Insurer; and
- g) the Purchaser expressly considered the foregoing when agreeing the Purchase Price and the terms of this Agreement.

6.3. ***No other representations or warranties***

Without prejudice to Clause 6.2 above, the Parties acknowledge and agree that the Warranties are in lieu of any other warranties however provided under Applicable Law and Regulation or otherwise (including without limitation under articles from 1482 through 1497 of the Italian civil code) and constitute all of the representations and warranties made in connection with the purchase and sale of the Quotas and any other transactions contemplated by this Agreement. Without prejudice to the Warranties, but subject to Clause 6.2 above, the Purchaser acknowledges and accepts that the Seller (and, for the avoidance of doubt, its directors, officers or employees) makes no representation and gives no warranty, express or implied, other than the Warranties.

Without limiting the generality of the foregoing and for the sake of clarity, the Seller (and, for the avoidance of doubt, its directors, officers or employees) does not make any representation nor gives any warranty as to the accuracy or completeness of any estimate, evaluation, projection, business plan, budget, forecast, forward looking statement provided, whether orally or in writing, by it, its representatives or others to the Purchaser or its representatives in connection with any investigation of the SPVs.

6.4. ***No recourse against third Persons***

Without prejudice to Clause 6.2 above, the Purchaser acknowledges and agrees, also pursuant to article 1411 of the Italian civil code, that the Purchaser shall have no action, claim and right of recourse against (i) the directors, officers or employees of the Seller or (ii) the directors, officers or employees of any Seller's Affiliate or (iii) directors, officers or employees of any SPV appointed by the Seller or by the Seller's Affiliates before the Closing Date, on the grounds of breach of any Representations and Warranties or of any Seller's obligations or undertakings set forth or arising from this Agreement.

6.5. ***Accuracy of the Warranties***

The truthfulness, correctness and accuracy of the Warranties as of the Date of Execution, the Closing Date or as of any Other Reference Date are in any case subject to and qualified by any matter which is fairly disclosed or referred to in this Agreement (including its Schedules), in the Due Diligence Documents, it being understood that the foregoing qualification and exclusion shall apply to each and all the Warranties, irrespective of whether the foregoing qualification and exclusion are expressly repeated in any of the Warranties below or not.

6.6. ***Incorporation and existence of the Seller***

6.6.1. The Seller is a company duly organized and validly existing under the laws of Luxembourg.

6.6.2. The Seller (a) is not under dissolution (*liquidazione*), nor has it passed any resolution for its voluntary winding up (*scioglimento*), merger, dissolution or liquidation; or (b) is not insolvent or subject to any bankruptcy or insolvency proceeding nor has it ever filed any application for admittance to any bankruptcy or insolvency procedure or similar proceedings.

6.7. ***Authority, Consents, No Conflicts***

6.7.1. The Seller has full legal right, power and the authority to enter into this Agreement and the other documents to be executed pursuant to this Agreement and to perform the Transaction provided for herein and the performance of this Agreement without the necessity for the Seller of obtaining any prior consent, approval or authorization, except for the consent provided for under Clause 5.4.1 (Lenders' consent). The execution and delivery of this Agreement and the completion of the Transaction provided for hereunder do not violate the Seller's by-laws or constitute a breach by the Seller or give rise to a right of termination, cancellation, acceleration or amendments of any contract or other commitment undertaken by it, or violate any Permits, judgement, order, injunction, award, decree or Applicable Law and Regulation applicable to the Seller, nor will result in the creation or imposition of any Lien on the Quotas.

6.7.2. This Agreement has been duly executed and contains valid and binding obligations on the Seller enforceable against it in accordance with its terms.

6.8. **No Brokers**

There is no Person that is entitled to a finder's fee or any type of brokerage commission from the Purchaser and/or any of the SPVs in relation to, or in connection with, the Transaction contemplated herein as a result of any agreement or understanding with the Seller, nor has the Seller had any dealings related to the Transaction contemplated herein with any Person that may claim a brokerage or other commission from the Purchaser and/or any of the SPVs.

6.9. **Incorporation and good standing of the SPVs**

6.9.1. Each SPV is a limited liability company (*società a responsabilità limitata*) duly organized and validly existing in good standing under Italian law.

6.9.2. Each SPV is not insolvent or involved in any insolvency, bankruptcy or liquidation (*liquidazione*) proceedings, reorganization, nor has it ever filed any application for admittance to any bankruptcy or insolvency procedure or similar proceedings, nor has it passed any resolution for its voluntary winding up (*scioglimento*), merger, dissolution or liquidation, nor is it incurred in any of the circumstances provided under articles 2482-bis and 2482-ter of the Italian civil code and there are not proceedings or legal actions of that kind by any creditors, quotaholders, receivers or public authorities pending or threatened in writing in respect thereto. No voluntary arrangement, compromise or similar arrangements with creditors has been proposed, agreed or sanctioned.

6.10. **SPVs' Quotas**

6.10.1. The entire corporate capital of each SPV is duly authorized, validly issued, fully subscribed and paid-in and it is owned by the Seller, with good and valid title thereto. No SPV nor the Seller are a party to any agreement which would permit any third party Person to control such SPVs or obligate any such SPVs to transfer its profits to such third party Person.

6.10.2. There are no Liens on the Quotas other than the Permitted Liens and there are no options, warrants or conversion, exchange, subscription or pre-emption rights or other agreements, contracts or commitments of any kind, or outstanding resolutions of the relevant corporate bodies obligating the SPVs to issue to any third party quotas, options, warrants or other securities, or entitling any other Person to purchase or exercise the voting rights or other rights of control in respect of the Quotas.

- 6.10.3. Subject to the Closing having occurred, at the relevant Closing Date, the Purchaser shall be the sole owner of the Quotas which shall be transferred with all rights and entitlements relating thereto, including the right to receive dividends and other distributions.
- 6.10.4. The SPVs are not the owners (or the holders under any other title), directly or indirectly, of any equity interest in any corporation, partnership, other association, entity or undertaking (wherever incorporated or formed).
- 6.10.5. Each and all acts, contracts and transactions relevant to each SPV and performed or entered into by each SPV, to the Seller's Knowledge, have been carried out in accordance with market value, and are not subject to being declared null and void, annulled, rescinded, terminated, or clawed back.
- 6.10.6. There is no outstanding indebtedness, except for the Quotaholder Loans Receivables and no outstanding contract, commitment or arrangement of any SPV vis-à-vis the Seller or any Seller's Affiliate nor any outstanding credit or contract of any such SPV vis-à-vis the Seller or any Seller's Affiliate.
- 6.10.7. To the Seller's Knowledge the direct acquisition of the Quotas and any of the assets composing the Portfolio by the Seller and/or its relevant Affiliates from all the relevant predecessors in title is not subject to being declared null and void, annulled, rescinded, terminated or revoked for any reason whatsoever, including in the event of insolvency of any of such predecessors in title. The consideration for the Quotas by the Seller and/or its relevant Affiliates from all the relevant predecessors have been paid in full.
- 6.10.8. Since the incorporation date of each SPV, the relevant quotaholders' and directors' meetings have been validly held and the relevant minutes reflect all of the matters, in all material respects, dealt with and the relevant resolutions adopted, and have been properly signed by all of the persons legally entitled to do so and duly recorded into each respective corporate book.

6.11. ***Quotaholder Loans Receivables***

- 6.11.1. The Quotaholder Loans Receivables are free from any Lien excepting the Permitted Liens.
- 6.11.2. Subject to the Permitted Liens, the Seller has valid legal and marketable title on the Quotaholder Loans Receivables and the right, power and authority to sell, assign, transfer and deliver valid and marketable title on the Quotaholder Loans Receivables, upon the terms and subject to the conditions of this Agreement and of the Quotaholder Loans Assignment Agreements.
- 6.11.3. Pursuant to the terms and conditions of this Agreement, subject to the Closing having occurred, the Purchaser will acquire ownership of, and good and marketable title to, the Quotaholder Loans Receivables, free and clear of any Lien excepting the Permitted Liens.

6.11.4. The Seller has not entered into any agreement or commitment to give or create any Lien in respect of the Quotaholder Loans Receivables excepting the Permitted Liens.

6.11.5. No Person has any right, contingent or otherwise, to acquire the Quotaholder Loans Receivables excepting the Permitted Liens.

6.12. ***No Conflict***

To the Seller's Knowledge, the execution and delivery of this Agreement and the completion of the Transaction do not conflict with, or result in the material breach of, or constitute a material default under, or give rise to a right of termination, cancellation or acceleration of any material agreement or instrument to which each SPV is bound, or violate any judgment, order, injunction, award, decree or Applicable Law or Regulation applicable to each SPV or violate the articles of incorporation or the by-laws of each SPV nor will result in the creation or imposition of any Lien on the Quotas.

6.13. ***Reference Financial Statements, accounting and corporate books***

6.13.1. The Reference Financial Statements have been prepared in accordance with the Applicable Laws and Regulations and the Accounting Principles, consistently applied by each SPV according with their relevant past practice actually adopted by each SPV, and such Reference Financial Statements present a reasonably accurate view of and materially reflect, in accordance with such Accounting Principles, the assets, liabilities, quotaholders' equity and financial position of each SPV as at the Reference Date and of their relevant revenues and expenses, the result of their operations and the changes in their relevant financial position for the 12 (twelve) month period then ended, taking into account the purpose for which they have been prepared.

6.13.2. There has been no extraordinary cost which has been incurred by any SPV between the Reference Date and the Date of Execution for the extraordinary replacement of any part of any Plant or extraordinary interventions on any Plant, which in aggregate for each SPV does not exceed Euro 100,000.00.

6.13.3. Each SPV's accounting books, corporate books and records are up-to-date as of the latest quarterly closing of September 30, 2019 and have been kept in compliance with the Accounting Principles and the Applicable Laws and Regulations and accurately reflect, in accordance with such Applicable Laws and Regulations and with the Accounting Principles (applied consistently with the accounting policies, bases and practice actually adopted in the past by each SPV), all facts and transactions required to be recorded therein.

6.13.4. Since the Reference Date through the Date of Execution, to the Seller's Knowledge each SPV has been conducted in accordance with the Applicable Laws and Regulations and with its ordinary course and consistently with past practice

6.14. **Finance Documents**

- 6.14.1. Each SPV has not entered into any financial lease agreement, loan agreement, hedging agreement or other hedging transaction with third parties other than the Financing Agreements.
- 6.14.2. Except for the Permitted Liens, no SPV has created or granted any security interest or guarantee, and no security interests or guarantees have been created or granted by third parties in the interest of any such SPV and/or of the Seller.
- 6.14.3. The Financing Agreements and the relevant Permitted Liens created thereunder are in full force and effect.
- 6.14.4. Subject to Clause 5.2.1, the transfer of ownership of the relevant portion of the Quotas does not constitute and will not constitute at the relevant Closing Date an event of default under any Financing Agreement and the relevant Permitted Liens created thereunder.
- 6.14.5. No SPV nor, to the Seller's Knowledge, other parties to the relevant Financing Agreement is in breach thereunder in any material respect and none of the security interests or guarantees has been enforced, nor any written notice of alleged default or enforcement has been received under any Financing Agreement by or to any SPV. To the Seller's Knowledge no relevant events and/or distribution block is outstanding and, within the meaning of the relevant Financing Agreement, no termination or acceleration has taken place.

6.15. **Permits; Incentives; Portfolio; Land**

- 6.15.1. All the Permits needed to construct, own, run and operate each Plant composing the Portfolio have been obtained in accordance with the Applicable Laws and Regulations and are in full force and effect. No SPV is in breach of any provision of Applicable Laws and Regulations with respect to any Permit, including payment of fees to the relevant Authorities, in any material respect.
- 6.15.2. Each Plant has been constructed **in compliance with the authorised final design and has all the requirements and/or have legitimately obtained, as the case may be, the incentives granted by the GSE**, in accordance with the Applicable Laws and Regulations and based on valid and legitimate Permits and procedures. No claims have been notified by the GSE in relation to the entitlement of any SPV to the incentives.
- 6.15.3. The variation and replacement of the Plant's components which were necessary to be communicated, has been communicated to the GSE, as well the serial number and/or registration number of modules or other components has been updated in the GSE web portal. With respect to the authorized project of each PV Plant, no substantial variation (variante sostanziale) has been implemented without approval of the Authority. No variation or replacement of modules or other components has ever triggered a variation of the features/configuration of any such Plant.
- 6.15.4. Each SPV, as far it is concerned, is the sole and legitimate owner of the relevant Plant(s) and it holds, by virtue of valid and enforceable instruments, the relevant Land Rights. The Land Rights owned or otherwise held by the relevant SPV are regularly registered (*registrati e trascritti*) where required pursuant to Applicable Laws and Regulations. The Land Rights are those necessary for the construction, connection to the grid, operation, maintenance, ownership and commercial exploitation of the relevant Plant as currently constructed, connected to the grid, operated, maintained, owned and commercially exploited. No Liens exist on the Lands, other than the Permitted Liens, which may materially jeopardize the construction, connection to the grid, operation, maintenance, ownership and commercial exploitation of any Plant and/or the legitimacy of the Permits, as currently constructed, connected to the grid, operated, maintained, owned and commercially exploited.

- 6.15.5. The Land Agreements are valid and effective according to their terms and conditions.
- 6.15.6. No SPV has received any written notice of any revocation, termination or invalidity of any of the relevant Land Agreements.
- 6.15.7. The grid operator has been granted all the easement rights (*diritti di servitù*) and other applicable rights necessary for the connection of each Plant to the grid.
- 6.15.8. No claim has been notified in writing by any third party or authority to any SPV in relation to any Permit, the incentives granted by the GSE and the Land Rights as to title, validity, enforceability or otherwise.
- 6.15.9. To the Seller's Knowledge, there are no circumstances, facts, events, breaches or omissions which (a) could give rise to the termination (*risoluzione/recesso*), revocation (*revoca*), annulment (*annullamento*), forfeiture (*decadenza*) of any Permit and/or seizure of any Plant on lawful ground or (b) could give right to any authority to issue, any regulation, ordinance, decree, rule, directive, order, injunction or other legally binding provision to the effect of, temporarily or permanently, in whole or in part, prevent or otherwise disrupt the occupation of the Land by the relevant SPV on lawful ground or (c) may lawfully ground the revocation, suspension or reduction of any incentive granted to any Plant, and neither the Seller nor any SPV has received no written notice to that effect.

6.16. ***Litigations***

- 6.16.1. To the Seller's Knowledge no SPV:
- (i) is involved whether as a claimant or as a defendant (whether or not before a Court, an arbitration tribunal or any other authority or otherwise) in any pending litigations, including mediation, whether of a civil, criminal, labour, social security, administrative proceedings or other nature;
 - (ii) has threatened to any Person to bring against this Person any claim, nor has it received any written notice to that effect from a third party.
- 6.16.2. There is no pending order, decree, decision or judgment of any EU, national or local governmental or regulatory authority notified in writing against any SPV and relating to non-compliance with Applicable Laws and Regulations.

6.16.3. To the Seller's Knowledge there is no pending or threatened claim or litigation of a civil, criminal or administrative nature, by or before any authority, against any of the Seller's or SPVs' Relevant Persons which is of such nature as to be capable of resulting in Damages to any SPV.

6.17. ***Compliance with the anti-bribery and anti-corruption Applicable Laws and Regulations***

6.17.1. The Seller, each SPV and, to the Seller's Knowledge, their respective officers, employees, Relevant Persons or any other individual or any agents or consultants acting for or on behalf of the foregoing, directly or indirectly, have not violated and are not in violation of any Applicable Laws and Regulations regarding anti-bribery and anti-corruption, AML Laws, and Legislative Decree no. 231 of 8 June 2001, as further amended. There is not and has not been any governmental or other investigation, enquiry or action (including any suspension, fine, penalty or citation) against the Seller or any SPV and notified to the Seller or any SPV, and, to the Seller's Knowledge, their respective Relevant Persons or any other individuals or companies acting for or on behalf of the Seller or each SPV concerning non-compliance with the before mentioned Applicable Laws and Regulations and none is pending or threatened in connection with any SPV and their relevant business. To the Seller's knowledge, no fact, matter or circumstance exists which might give rise to an investigation, enquiry, proceeding or action of such type.

6.17.2. None of the Seller or the SPVs, and, to the Seller's Knowledge, any of their respective officers, employees, Relevant Persons or any other individual or, to their knowledge, any agents or consultants acting on behalf of any of the foregoing, directly or indirectly, has, in relation to any SPV and/or the Portfolio: (i) engaged in any activity, practice or conduct that would constitute a violation or breach, or otherwise violated or is in violation of any, anti-corruption law, applicable to them, including but not limited to Legislative Decree no. 231 of 8 June 2001, as further amended, the Foreign Corrupt Practices Act of 1977 of the United States of America (as further integrated and amended) and the UK Bribery Act of 2010; (ii) made, offered or promised to make, or authorized the payment or giving of money, or anything else of value, to a governmental official, or to any other person, while knowing or believing that all or some portion of the money or value will be offered, given, or promised to a governmental official or other person for the purposes of obtaining or retaining business of securing any improper advantage or in other circumstances when such offer, payment, or promise would be unlawful; or (iii) has been subject to any investigation by any governmental authority with regard to any actual or alleged breach of any anti-corruption law.

6.17.3. The Seller, any beneficial owner of it, any Person Controlling or Controlled by the Seller and the SPVs are in compliance with all AML Laws related to the prevention of money laundering and terrorist financing in the jurisdictions in which the Seller and/or the SPVs operate.

- 6.17.4. Neither the Seller or the SPVs are a Person that is, or is owned or controlled by Persons that are: (a) the subject of any sanctions administered or enforced by the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC), the U.S. Department of State, the United Nations Security Council, the European Union, Her Majesty's Treasury, or other relevant sanctions authority (collectively, the "**Sanctions**"), or (b) located, organized or resident in a country or territory which is, or whose government is, the subject of the Sanctions.
- 6.17.5. Neither the Seller, any beneficial owners of the Seller, any Person Controlling or Controlled by the Seller, nor the any of the SPVs is a Senior Foreign Political Figure ("**SFPF**"), an immediate family member of a SFPF, or a close associate of a SFPF.
- 6.17.6. Neither the Seller, any beneficial owners of the Seller, any Person Controlling or Controlled by the Seller or the SPVs is a shell bank.
- 6.18. **Environment**
- 6.18.1. To the Seller's Knowledge, each SPV has complied with, and the business, operations, assets, equipment (including the relevant Plant), the Lands, without limitation, are in compliance with, the provisions of Applicable Laws and Regulations regarding environmental, health and safety. Each SPV has been granted with all the Permits required under any Applicable Laws and Regulations regarding environmental and health and safety matters.
- 6.18.2. No SPV has received any written notice of violation(s) of any Applicable Laws and Regulations regarding environmental, health or safety matters.
- 6.18.3. To the Seller's Knowledge, no SPV has received any written notice, of any event, which, due to issues connected to any non-compliance with Applicable Laws and Regulations regarding environmental and health and safety, might reasonably be expected to (a) give rise to the revocation, termination or invalidity of the Permits; or (b) otherwise prevent, materially adversely affect, restrict or interfere with the normal operation of the business of any SPV.
- 6.19. **Taxes**
- 6.19.1. Each SPV has duly and timely filed returns and reports relating to Taxes and any other documents for all Taxes ("**Tax Returns**") that must be filed pursuant to the Applicable Laws and Regulations. Such Tax Returns are true, complete, correct, accurate in any material respect, pursuant to the Applicable Laws and Regulations.
- 6.19.2. Each SPV has made all due payments, deductions, and/or withholding to be made with respect to Taxes, including those resulting from the filed Tax Returns and any undisputed written notice, assessment or injunction received from any competent Tax authority.
- 6.19.3. Each SPV has applied exemptions from withholdings to the payments made to the shareholder or to any foreign Affiliates, including but not limited to the exemptions under the Parent – Subsidiary EU Directive, in compliance with any applicable law provision.

- 6.19.4. There are no pending or threatened (in writing) notices of assessments for Taxes due, audits, written Tax claims or proceedings before any judicial or administrative authority in connection with the assessment of Taxes against any SPV.
- 6.19.5. The U.S. federal tax classification of each SPV was not relevant (for the purposes of Section 301.7701-3 of Title 26 of the U.S. Code of Federal Regulations) within the 60 (sixty) months prior to the Closing Date.
- 6.20. **Employment**
- 6.20.1. Each SPV has never employed any employee and to the Seller's Knowledge there is not and there has not been any: (i) Person (e.g. consultant, self-employee, *collaboratore a progetto*, temporary worker, employee employed by any subcontractor of any SPV etc.) entitled to be qualified, reinstated, or anyhow treated as employee of the SPVs; or (ii) Person and/or authority entitled to claim against any SPV in connection with the payment of any salary, salary items, including deferred salaries, salary differences, any employment-related indemnities.
- 6.20.2. Each SPV has complied with the rules set forth in Legislative Decree No. 81 dated 9 April 2008, as further amended, regarding the safety of the working places.
- 6.20.3. There is no litigation pending or threatened in writing by any Person concerning employment and/or the right to be qualified, reinstated, or anyhow treated as employee on the payroll of any SPV.
- 6.21. **Intellectual property rights**
- 6.21.1. Each SPV is not in breach of any third party's right in respect of any intellectual or industrial property right used for the conduct of the business as conducted by each SPV as of the relevant Closing Date.
- 6.21.2. Each SPV does not own any intellectual or industrial property right nor any intellectual or industrial property right is registered in the name of such SPV.
- 6.22. **Contracts**
- 6.22.1. No SPV is party to any agreement or other contractual arrangement (including any unilateral commitment) other than those included in the Due Diligence Documents and whose value exceed Euro 10,000.00 per single agreement or contract.
- 6.22.2. All contracts entered into by each SPV whose final term is not expired yet (a) are valid and binding according to their terms and the Applicable Laws and Regulations and (b) have not been threatened in writing to be cancelled by the relevant SPV or by the relevant counterparties.
- 6.22.3. To the Seller's Knowledge, there are no outstanding obligations under the engineering procurement and construction contracts to which the relevant SPV was a party to and the relevant contractors have duly performed all their obligations thereunder.

- 6.22.4. Each SPV and the relevant contractors have duly and timely performed all their material obligations under the Current O&M Contracts according with the terms and conditions provided therein and there are no outstanding obligations under such Current O&M Contracts (other than the payments of performed activities provided thereunder).
- 6.22.5. No written notice of alleged default has been received or sent under any contract to which any of the SPVs is a party by or to the relevant SPV.
- 6.22.6. No contract, other than those included in the Due Diligence Documents, to which any of the SPVs is a party to and which is material for the conduct of business of the relevant SPV, provides for the right of the other party/ies thereto to terminate the contract, or to renegotiate its terms and conditions or the right to any penalty in case of change of control of the relevant SPV.
- 6.22.7. There are no pending claims or claims threatened in writing either by or against the SPVs with respect to any of the contracts to which such SPVs are a party.

6.23. ***Insurances***

- 6.23.1. To the Seller's Knowledge, each SPV has entered into and maintains in full force and effect fire, casualties and the other insurance policies provided for under any Applicable Laws and Regulations.
- 6.23.2. All insurance premiums due and payable under such insurance policies have been duly and timely paid by each SPV or, in case such premiums have not been timely paid, any related charge, payment and/or liability has been entirely paid and/or discharged, however, no SPV is in breach of any existing and in force insurance policies.
- 6.23.3. There are no pending claims or claims threatened in writing by the relevant insurers to terminate the insurance policies to which the SPVs are parties.

6.24. ***Attorneys-in-fact***

As of the Closing Date, each SPV will not have appointed, and granted the relevant powers to, any attorneys-in-facts or other Person (other than the SPVs' directors) having the powers to act in the name and on behalf of the relevant SPV.

6.25. ***Completeness and accuracy of information***

- 6.25.1. To the Seller's Knowledge all the documents (including the Data Room Documents), information and data provided as of the Date of Execution, to the Purchaser, any of its Affiliates and/or Relevant Persons in respect of the Transaction by the Seller, any of its Affiliates and/or Relevant Persons are complete in all their material aspects and not misleading in any material respect.

6.25.2. The Seller has not knowingly omitted to transparently provide as part of the Data Room Documents any document or information which may be relevant for the business, operations or prospects of any SPV.

6.25.3. All the documents provided in copy or draft only are conforming to the respective originals or executed version.

7. INDEMNIFICATION OBLIGATIONS OF THE SELLER

7.1. *Seller's responsibility for breach of Seller's obligations and undertakings – indemnifiable Damages*

Without prejudice to Clause 6.2 above, and without duplication of any other remedy under this Agreement, including the remedies set forth in Clauses 4.4 and 9, the Seller hereby undertakes to indemnify the Purchaser (or, upon request of the Purchaser and without duplication, the relevant SPVs that suffered the relevant Damage), in accordance with the terms and within the limits set forth in this Clause 7, only and exclusively with respect to Damages incurred or suffered by the Purchaser and/or, but without duplication, the SPVs, as a direct consequence of (i) breach or failure by the Seller to perform (or to cause, prior to the Closing Date, the relevant SPVs to perform) any of the obligations and undertakings of the Seller under this Agreement and (ii) the facts and circumstances under Clause 6.17 (*Compliance with the anti-bribery and anti-corruption Applicable Laws and Regulations*) being not correct or not true.

7.2. *Exclusive Remedy*

Without prejudice to Clause 7.3 below, the right to obtain indemnification pursuant to Clause 7.1 shall exclude any other right, action, remedy, defence, exception, claim or means of protection available to the Purchaser under any Applicable Law and Regulations, provided that the Closing has occurred.

7.3. *Restrictions and limitations*

7.3.1. General Limitation

The Parties agree that the provisions of Clause 6.2 shall not apply in the event the facts and circumstances under Clause 6.17 (*Compliance with the anti-bribery and anti-corruption Applicable Laws and Regulations*) are not correct or not true.

7.3.2. Time Limitation for Claims

- (a) Without prejudice to Clauses 4.4.3, 6.2, 7.1, 7.2 and 9, the Seller shall not be liable unless a notice of the relevant Claim is given by the Purchaser to the Seller, in accordance with Clause 7.4 below, within 18 (eighteen) months following the Closing Date.
- (b) The Parties acknowledge and agree that the time limits set forth in this Clause 7.3.1 are provided under penalty of forfeiture (*a pena di decadenza*) and that such time limits are, by mutual agreement of the Parties, adequate to allow the Purchaser to exercise its rights under this Agreement.

7.3.3. Minimum Claims

The Seller shall not be liable in respect of any individual Claim where the actual amount for which the Seller is liable in accordance with this Agreement (and therefore applying the exclusions, deductions and limitations set forth hereunder), in respect of any such individual Claim, is equal to or lower than Euro 20,000.00 (twenty thousand/00) (hereinafter the “**De Minimis**”).

7.3.4. Aggregate Minimum Claims

- (a) The Seller shall not be liable in respect of any Claim unless the aggregate actual amount of all Claims brought by the Purchaser for which the Seller is liable in accordance with this Agreement (and therefore applying the exclusions, deductions and limitations set forth hereunder) exceeds Euro 200,000.00 (two-hundred thousand/00) (hereinafter the “Basket”).
- (b) Where the aggregate actual amount of all Claims brought by the Purchaser for which the Seller would be liable in accordance with this Agreement (and therefore applying the exclusions, deductions and limitations set forth hereunder) exceeds the Basket, the liability of the Seller shall be limited to the amount in excess of the Basket.

7.3.5. Maximum Liability

To the maximum extent permitted under Italian Law, the aggregate liability of the Seller in respect of any and all Claims shall not exceed an amount equal to the 5% (five per cent) of the Purchase Price, as decreased by application of any Leakage (hereinafter the “Cap”).

7.3.6. Changes following the Date of Execution

The Seller shall not be liable in respect of any Claim to the extent that any matters giving rise to any such Claim and/or any Damage arising therefrom, including the aggravation of any such matters and Damage, would not have occurred but for a change in any Applicable Laws and Regulations, interpretation by any Authority or general accounting practice that occurs after the Date of Execution.

7.3.7. Seller's Disclosures

Subject to Clause 7.3.15, the Seller shall not be liable under this Agreement in respect of any Claim to the extent that the matters giving rise to any such Claim are fairly disclosed, in the Due Diligence Documents, and/or in this Agreement (including the Schedules hereto).

7.3.8. Contingent Liabilities

- (a) The Seller shall not be liable in respect of any Claim to the extent that any such Claim relates to any Damage suffered by the Purchaser and/or the SPVs which is contingent or potential.
- (b) The Seller shall be liable (i) in case of a Third Party Claim, upon the liability of the Purchaser and/or the relevant SPV(s) becoming actual under an enforceable (*esecutivo/a*) decision of the competent Authorities (it being understood that if thereafter a final decision revokes, amends, annuls or cancels, also partially, such enforceable decision then the Purchaser shall promptly pay back the amounts received from the Seller accordingly) or under a settlement agreement entered into in accordance with Clause 7.5; or (ii) in all other cases, upon the Purchaser and/or the relevant SPV(s) having actually suffered the Damage.

7.3.9. Insurance and Recovery from Third Parties

The Seller shall not be liable under this Agreement in respect of any Claim to the extent of any amount:

- (a) which the Purchaser and/or the relevant SPV cashed-in pursuant to insurance policies (including the Warranty and Indemnity Policy) covering the facts or circumstances underlying said Claim, it being understood that, subject to Closing (i) the Purchaser shall diligently pursue, and shall cause the SPVs to diligently pursue, all available indemnification under relevant insurance policies and (ii) in the event the Seller pays any amount pursuant to a Claim and thereafter the Purchaser and/or any of the SPVs cashes-in any indemnification under any relevant insurance policies for the same fact or circumstance, then the Purchaser shall reimburse to the Seller any such indemnification within 10 Business Days from such receipt; and/or
- (b) which the Purchaser and/or the relevant SPVs cashed-in from any third party in connection with the matters giving rise to any such Claim and any Damages arising therefrom, it being understood that the provisions set out in points (i) and (ii) of preceding letter (a) shall apply *mutatis mutandis*.

7.3.10. Reference Financial Statements

The amount of the Damage to be indemnified by the Seller to the Purchaser in respect of any Claim will be reduced by the amount of any specific provisions or cash reserves accounted for in the Reference Financial Statements of the SPVs for the subject matter that caused such Damage.

7.3.11. Tax Benefit – Tax Detriment

The Seller shall not be liable in respect of any Damage which, for Tax purposes, are deductible by the Purchaser and/or any of the SPVs (whether in the current or in any subsequent fiscal year).

The liability of the Seller shall be increased by the amount of any Tax detriment suffered by the Purchaser and/or the SPVs in respect of Losses which arise from any Claim.

7.3.12. Double Claims

- (a) In no event shall there be a duplication of indemnification with respect to any breach of any of the Seller's obligations, representations, covenants and undertakings under this Agreement.

- (a) For the avoidance of doubt, the Seller's indemnification obligation set out in Clause 7 shall be without duplication with any liabilities related to Leakages, if any, or other indemnifications received by the Purchaser and/or by any of the SPVs for the same fact or circumstance which caused the breach of any Seller's obligations, representations, covenants and undertakings set out in the Agreement.

7.3.13. Mitigation of Losses – Voluntary act

The Purchaser shall ensure that all reasonable steps are taken to avoid or mitigate any Damage which might give rise to a liability on the part of the Seller in respect of any Claim.

The Seller shall not be liable under this Agreement in respect of any Damage connected with any Claim to the extent that the relevant Damage was directly caused by an act, decision or omission of the Purchaser and/or, after the Closing, any of the SPVs other than mandatorily required under Applicable Laws and Regulations, and that would have not arisen without such act, decision or omission of the Purchaser and/or, after the Closing, any of the SPVs.

7.3.14. Payments

Any amount payable by the Seller to the Purchaser under Clause 7 shall be treated to the maximum extent possible under the Law as an adjustment to the Purchase Price.

7.3.15. Exclusions

For the sake of clarity, the Parties agree that the provisions set forth under this Clause 7.3 shall not apply to Leakages (other than Permitted Leakages), if any, and, to the extent provided under Clause 9.1.2, to Indemnities.

7.4. ***Handling of Claims***

- 7.4.1. If the Purchaser intends to seek indemnification from the Seller pursuant to Clause 7.1, the Purchaser shall provide the Seller with written notice of any fact which may result in the Purchaser's and/or any of the SPVs suffering a Damage for indemnification of which the Seller may be held liable under this Agreement (the "**Notice of Claim**"), setting forth (i) the Claim which the Purchaser intends to make (ii) such information as it is available to the Purchaser and/or to the SPVs and is reasonably necessary to enable the Seller to assess the merits of the Claim.
- 7.4.2. Without prejudice to Clause 7.4.3, each Notice of Claim shall be dispatched promptly after knowledge of the relevant underlying facts and no later than 30 Business Days of the date on which the Purchaser becomes aware thereof under penalty of forfeiture (*a pena di decadenza*).
- 7.4.3. Failure by the Seller to reply in writing to a Notice of Claim within 20 Business Days of receipt thereof shall be deemed as rejection by the Seller of the Claim set forth in the Notice of Claim.

- 7.4.4. In case the Seller rejects a Claim made in a Notice of Claim or does not provide a reply in writing pursuant to Clause 7.4.3 above, the Seller and the Purchaser shall attempt to resolve any differences that they may have with respect to the matters constituting the subject matter of such Notice of Claim during a period of 20 Business Days starting from the date of rejection. If, by the end of such period, the Seller and the Purchaser have failed to reach an agreement in writing with respect to all of such matters, all matters as to which an agreement has not been so reached may be submitted to Court pursuant to Clause 13.2 by either Party.

7.5. ***Handling of Third Parties Claims***

- 7.5.1. In case a matter or circumstance that may give rise to a Claim against the Seller under this Agreement is a result of, or is in connection with, a claim by a third party (a “**Third Parties Claim**”), without prejudice to Clause 7.4.3, the Purchaser shall notify the Seller of the existence and content of such Third Parties Claim, either by the relevant SPV(s) or by the Purchaser, except that, in the event that the deadline for filing an appeal, opposition or to take any other action in respect of such Third Parties Claim is less than 20 (twenty) Business Days, the aforesaid Purchaser’s notice shall be given to the Seller within such shorter term as may be appropriate in the circumstances to allow the filing of such an appeal, opposition or to take such action. The aforesaid Purchaser’s notice shall also include a copy of all the available documentation regarding the Third Parties Claim and contain all factual information sufficiently describing the object of the Third Parties Claim in reasonable detail, as available to Purchaser and/or the relevant SPV(s) at that stage. The Parties shall mutually cooperate for the exchanges and sharing of any information related to such Third Parties Claim.
- 7.5.2. The Purchaser shall properly and diligently defend, and shall cause the relevant SPV(s) to properly and diligently defend, against such Third Parties Claim and the Seller shall be entitled to participate and join, at its costs and expenses, and with counsels of its own choosing, in the defence of such Third Parties Claim and in the related negotiations (provided for the avoidance of doubt that the Seller and its Relevant Persons shall not have any power to represent the relevant SPV(s)). In all cases, the Purchaser shall keep the Seller informed of all material developments in relation to such Third Parties Claim.
- 7.5.3. The Purchaser shall not, and shall ensure that the SPVs shall not, make any admission in relation to the Third Party Claim and shall not compromise, dispose of or settle the Third Party Claim without the prior written consent of the Seller, which shall not be unreasonably denied or withheld, it being understood that under no circumstance such consent shall imply or be regarded as an admission or acknowledgment of responsibility by the Seller.
- 7.5.4. If the Purchaser and/or any of the SPVs receive an offer to settle any Third Party Claim but, notwithstanding the Seller’s consent to such proposed settlement, the Purchaser elects to not so settle, and/or does not procure that the SPVs so settle such Third Party Claim, the Seller, without prejudice to any other exclusion, deduction and/or limitation of the Seller’s liability under this Agreement, shall not be liable in respect of any Damage exceeding the amount of the proposed settlement.

- 7.5.5. If the Seller acknowledges its full liability in writing with respect to the indemnification relevant to a Third Party Claim, the strategy on, handling of and all decisions on such Third Party Claim shall be taken by the Seller only. In this case, the Purchaser may, at any time before any final compromise, agreement, expert determination or non-appealable decision of a court or tribunal of competent jurisdiction is made in respect of the Third Party Claim, participate and, to the maximum extent permitted by the Applicable Law, join by counsels of its choice and at its costs, in the defence of the Third-Party Claim and in any related negotiations, it being understood that in any case the strategy on, handling of and all decisions on such Third Party Claim shall be taken by the Seller only.
- 7.5.6. For the sake of clarity, the obligations of the Purchaser under this Clause 7.5 for Damages insured under the Warranty and Indemnity Policy shall only apply to the extent they are not prohibited by any terms thereunder taken out by the Purchaser on the date of this Agreement and, to the extent of any conflict, the conduct rights of the Insurer under the Warranty and Indemnity Policy shall prevail over the rights of the Seller under this Clause 7.5, it being understood that (i) the Purchaser shall make all best efforts to protect the rights of the Seller under this Clause 7.5 and (ii) the Seller shall not be liable to the Purchaser and/or to third parties to the extent the Seller was not in the position to properly exercise its rights under this Clause 7.5 as a consequence of the provisions of this Clause 7.5.6.

8. PURCHASER REPRESENTATIONS AND WARRANTIES

The Purchaser hereby makes the following representations and gives the following warranties to the Seller, which are true, correct and accurate as of the Date of Execution and shall be true, correct and accurate as of the relevant Closing Date (except for those representations and warranties that are given as of a specific date, which shall be true, complete and accurate on such date only, regardless of whether they are true, correct and accurate at any other time).

8.1. *Incorporation, existence and authority of the Purchaser*

- 8.1.1. The Purchaser is a company duly organized and validly existing under the laws of Italy.
- 8.1.2. The Purchaser (a) is not under dissolution (*liquidazione*), nor has it passed any resolution for its voluntary winding up (*scioglimento*), merger, dissolution or liquidation; or (b) is not insolvent or subject to any bankruptcy or insolvency proceeding nor has it ever filed any application for admittance to any bankruptcy or insolvency procedure or similar proceedings.

8.2. *Authority, Consents, No Conflicts*

- 8.2.1. The Purchaser has full legal right, power and the authority to enter into this Agreement and the other documents to be executed pursuant to this Agreement and to perform the Transaction provided for herein and the performance of this Agreement without the necessity for the Purchaser of obtaining any prior consent, approval or authorization, except for the consent provided for under Clause 5.4.10 (Lenders' consent). The execution and delivery of this Agreement and the completion of the Transaction provided for hereunder do not violate the Purchaser's by-laws or constitute a breach by the Purchaser or give rise to a right of termination, cancellation, acceleration or amendments of any contract or other commitment undertaken by it, or violate any authorizations or permits, judgement, order, injunction, award, decree or Applicable Law and Regulation applicable to the Purchaser.

8.2.2. This Agreement has been duly executed and constitutes the valid and binding obligations on the Purchaser enforceable against it in accordance with its terms.

8.3. ***No Broker***

There is no Person that is entitled to a finder's fee or any type of brokerage commission from the Seller and/or any of the SPVs in relation to, or in connection with, the transactions contemplated herein as a result of any agreement or understanding with the Purchaser, nor has the Purchaser had any dealings related to the transactions contemplated herein with any Person that may claim a brokerage or other commission from the Seller and/or any of the SPVs.

8.4. ***Availability of funds***

The Purchaser has sufficient funds to perform, in a timely manner, the Purchaser's obligations of payment under this Agreement.

8.5. ***Indemnity***

The Purchaser undertakes to indemnify and hold the Seller harmless from and against any Damages suffered by the Seller arising out of any inaccuracy or breach of one or more of the representations and warranties of the Purchaser set forth in Clause 8.

8.6. ***Purchaser's responsibility restrictions***

Same limitations as those provided under Clause 7.3 will apply also to the Purchaser's indemnification obligations in case of a breach of the representations and warranties under this Clause 8, *mutatis mutandis*.

9. **SPECIAL INDEMNITIES**

9.1. ***General provisions applicable to the Indemnities***

9.1.1. Subject to (i) the terms and conditions provided herein, and (ii) the Purchaser and, after Closing, the relevant SPVs complying with the terms and conditions provided herein, the Seller shall indemnify and hold the Purchaser (and/or the relevant SPV(s), as the case may be depending upon request of the Purchaser, but without duplication of recovery) harmless from, and shall pay to the Purchaser (and/or to the relevant SPV(s), depending upon request of the Purchaser, but without duplication of recovery), the amount of any Damage suffered or incurred by the SPVs in direct and exclusive connection with any of the circumstances provided in this Clause 9 (hereinafter collectively the "**Indemnities**").

The Purchaser acknowledges and agrees on the essential nature for the Seller of each and all the provisions set forth in this Clause 9, having the Seller agreed to consent on the Indemnities and related terms and conditions set forth in this Clause 9 on the basis of and subject to full, exact and entire compliance of the Purchaser and, after Closing, of the relevant SPV with each and all the provisions set forth in this Clause 9.

- 9.1.2. The Parties agree that the Clauses 7.3.1 to 7.3.5, and Clauses 7.3.9 and 7.3.11 shall not apply to the Indemnities, while all other limitations and exclusion's set forth in Clause 7.3 shall apply *mutatis mutandis* to all Indemnities.
- 9.1.3. The Purchaser shall be entitled to deliver a Notice of Claim in relation to any Indemnity only if, and subject to, an order or decision of the competent Authority which is directly related to the facts and circumstance underlying such Indemnity and which may trigger such Indemnity, has been notified in writing to the relevant SPV after the Date of Execution, and shall be considered valid for the purposes of this Clause 9 only if such Notice of Claim attaches the relevant order or decision of the competent Authority.
- 9.1.4. The Seller shall be liable in respect of any Indemnity upon the related liability of the relevant SPV(s) becoming actual under a final and unchallengeable decision of the competent Authorities or, but without prejudice to Clause 9.1.7, under a settlement agreement entered into with the prior consent of the Seller, which shall not be unreasonably denied or withheld.
- 9.1.5. For the sake of clarity:
- (i) the maximum aggregate amounts indicated in Clauses 9.2.2, 9.3.2 and 9.4.2 are alternative and not cumulative and shall apply without duplication. For the sake of clarity, the maximum aggregate amount indicated for an Indemnity shall not cover nor be used for any other Indemnity;
 - (ii) the Indemnities are the sole remedy available to the Purchaser in relation to the facts and circumstance underlying such Indemnity, and shall apply without any duplication with other actions and remedies that the Purchaser may have under this Agreement or the Applicable Law and Regulations.
- 9.1.6. With respect to Indemnity under Clause 9.2:
- (i) the Seller will be entitled – but will have not the obligation – to handle, manage and decide upon any action related to or underlying such Indemnity, provided that Seller shall bear all costs associated thereto, and shall keep the Purchaser duly and timely informed and updated, and the Purchaser will be entitled to participate (at its cost and expense) in any such dispute, defense, compromise or appeal, it being understood, for the sake of clarity, that the Seller shall have final decision making authority with regard to all aspects of the conduct and handling of said dispute, defense, compromise or appeal, and the Purchaser shall cause the relevant SPVs to duly and promptly comply with the foregoing provisions;

- (ii) it is however agreed that the Seller shall not request the relevant SPV(s) and/or the Purchaser to carry out any action or transaction with respect to such Indemnity that:
 - (a) is in violation of any Applicable Laws and Regulations; or
 - (b) causes acceleration of or events of default under the financing agreements in place at the time of the action/transaction, it being understood that if the Purchaser and/or the relevant SPVs do not comply with requests or decisions of the Seller on the ground of this letter (b), then the Seller shall have no liability for such Indemnity to the extent it has been proved according with the Law and Regulations that such Indemnity would have not been triggered had the requests or decisions of the Seller been complied with; or
 - (c) intentionally causes a material Damage to the relevant SPV(s) (taking into account also Seller's interest);
- (iii) should the Seller elect not to handle, manage and decide upon any action related to or underlying one or more Indemnities, the Purchaser will be entitled to do so, it being understood that: (i) the Purchaser shall keep the Seller duly and timely informed and updated and the Seller will be entitled to participate (at its cost and expense) in any dispute, defense, compromise or appeal relating thereto; (ii) the Purchaser shall, and shall cause the relevant SPVs to, duly and diligently defend against the facts and circumstances which may cause any such Indemnity; (iii) the Purchaser shall not, and shall ensure that the relevant SPVs shall not, make any admission, exchanges, filing, request or waiver in relation to any facts and circumstances which may cause any such Indemnity, nor compromise, dispose of, waive or settle any facts and circumstances which may cause any such Indemnities without the prior written consent of the Seller.

9.1.7. With respect to Indemnities under Clauses 9.3 and 9.4:

- (i) the Parties shall jointly manage and decide upon any action related to or underlying such Indemnities, provided that:
 - (d) within 15 Business Days from the receipt of the Notice of Claim under Clause 9.1.3 the Parties shall jointly appoint a consultant who will diligently defend the relevant SPV against the relevant GSE verification;
 - (e) all costs associated thereto shall be equally borne by the Parties;

- (f) each Party shall keep the other Party duly and timely informed and updated with respect to the dispute and/or strategy of the appointed consultant;
- (g) none of the Parties shall have final decision making authority with regard to any aspect of the conduct and handling of said dispute, defense, compromise or appeal, without the written consent of the other Party, it being understood that any such decision shall be only made jointly by the Parties;
- (h) if a binding offer is made to settle any matter giving rise to the Seller's liability under Clauses 9.3 and 9.4 which the Seller, but not the Purchaser, is willing to accept, then the Purchaser and/or the relevant SPV shall be free not to enter into such settlement and to commence or continue litigation at their own expense, but the possible Seller's liability for the relevant matter(s) under Clauses 9.3 and 9.4 shall be in any case limited to the lower of (i) the amount of the proposed settlement and (ii) the maximum aggregate amounts indicated in Clauses 9.3.2b) and 9.4.2b)).
- (ii) for the sake of clarity, the co-management of the claim under this Clause 9.1.7 shall not per se prejudice the right to be indemnified of the Purchaser and/or the relevant SPV(s) under Clauses 9.3, in any case without prejudice and subject to Clause 9.1.1.

9.1.8. Without prejudice to Clause 9.1.7(i)(e), the Purchaser shall not, and shall ensure that the relevant SPVs and/or their respective representatives and advisors shall not, make any exchange, communication, notice, filing, admission, request, waiver, in whatever form, in relation to any facts and/or circumstances related to or underlying any Indemnity, without the prior written consent of the Seller.

9.2. **Tax**

9.2.1. Subject to and according with Clause 9.1 above, the Seller undertakes to the Purchaser the Indemnity for the tax matters (collectively, the "**Potential Tax Liabilities**") detailed in Schedule 9 hereto (hereinafter the "**Potential Tax Liabilities Indemnity**").

9.2.2. The Parties agree that:

- a) the Seller shall be liable to the Purchaser under the Potential Tax Liabilities Indemnity until 31 December 2023, it being understood that, notwithstanding the foregoing, once a Notice of Claim with respect to the Potential Tax Liabilities Indemnity is submitted within and not later than 31 December 2023 and in compliance with Clause 9.1.3 above (under forfeiture of the right (*a pena di decadenza*)), Seller's liability in connection with the indemnification claim specified in the relevant Notice of Claim shall remain in place until the relevant Claim is finally settled or resolved pursuant to this Agreement;

- b) notwithstanding anything in this Agreement to the contrary, Seller's maximum aggregate liability under this Agreement with respect to the Potential Tax Liabilities Indemnity shall in any event be limited, in the aggregate, to Euro 250,000.00 (two-hundred-fifty thousand/00) as decreased in accordance with Schedule 9 hereto, that provides a progressive reduction over the years of the liability of the Seller in connection thereto.

9.3. **Pedale**

- 9.3.1. Subject to and according with Clause 9.1 above, the Seller undertakes to the Purchaser the Indemnity for the following (hereinafter the “**Pedale Indemnity**”): negative outcome of the GSE Verification resulting in the annulment, revocation or reduction of the incentive granted by GSE under the Decree 10 May 2010 (Third *Conto Energia*) in relation to Pedale Plant and grounded on the basis of alleged non-compliance of the installed Conergy modules model PM 230P-5 installed with the applicable rules concerning CEI EN 61215 certifications under the Decree 10 May 2010 (Third *Conto Energia*).
- 9.3.2. The Parties agree that:
 - a) the Seller shall be liable to the Purchaser under the Pedale Indemnity until 30 June 2021, it being understood that, notwithstanding the foregoing, once a Notice of Claim with respect to the Pedale Indemnity is submitted within and not later than 30 June 2021 and in compliance with Clause 9.1.3 above (under forfeiture of the right (*a pena di decadenza*)), Seller's liability in connection with the indemnification claim specified in the relevant Notice of Claim shall remain in place until the relevant Claim is finally settled or resolved pursuant to this Agreement;
 - b) notwithstanding anything in this Agreement to the contrary, Seller's maximum aggregate liability under this Agreement with respect to the Pedale Indemnity shall in any event be limited, in the aggregate, to Euro 2,100,000.00 (two million one-hundred thousand/00).

9.4. **Galatina**

- 9.4.1. Subject to and according with Clause 9.1 above, the Seller undertakes to the Purchaser the Indemnity for the following (hereinafter the “**Galatina Indemnity**”): negative outcome of potential verification by GSE resulting in the annulment, revocation or reduction to the Galatina Plant of the incentive granted by GSE under the Decree 19 February 2007 (Second *Conto Energia*) and grounded on lack of evidence of the transmission of the works completion declaration under article 1 septies of Law no. 129/201 (*Salva Alcoa Law*) to the Municipality of Galatina and/or the competent grid operator by 31 December 2010.
- 9.4.2. The Parties agree that:
 - a) the Seller shall be liable to the Purchaser under the Galatina Indemnity until 31 December 2023, it being understood that, notwithstanding the foregoing, once a Notice of Claim with respect to the Galatina Indemnity is submitted within and not later than 31 December 2023 and in compliance with Clause 9.1.3 above (under forfeiture of the right (*a pena di decadenza*)), Seller's liability in connection with the indemnification claim specified in the relevant Notice of Claim shall remain in place until the relevant Claim is finally settled or resolved pursuant to this Agreement;

- b) notwithstanding anything in this Agreement to the contrary, Seller's maximum aggregate liability under this Agreement with respect to the Galatina Indemnity shall in any event be limited, in the aggregate, to Euro 500,000.00 (five-hundred thousand/00).

10. CONFIDENTIAL INFORMATION

- 10.1. This Clause shall be without prejudice to the Non-Disclosure Agreement dated 17 December 2019 by and *between* Sonnedix Solar International Limited and Ellomay Luxembourg Holdings S.a.r.l. (the "**NDA**"), which shall continue in full force and effect notwithstanding this Agreement.
- 10.2. For a period of two (2) years following the Closing Date (or following the Date of Execution in the event the Closing does not occur), each of the Parties shall treat as strictly confidential and not disclose or use any information received or obtained as a result of entering into this Agreement (or any agreement entered into pursuant to this Agreement) which relates to (a) the existence and the provisions of this Agreement; (b) the negotiations relating to this Agreement; (c) (in the case of the Purchaser) the business, financial or other affairs (including future plans and targets) of the Seller, including, prior to Closing, the SPVs; or (d) (in the case of the Seller) the Purchaser, any of the Purchaser's Affiliates (including the SPVs following the Closing Date), JPMorgan Investment Management Inc. ("**JPMIM**") or JPMorgan Chase & Co. ("**JPMC**"), their subsidiaries and/or any JPMIM or JPMC group managed or advised funds; and (e) (in the case of the Purchaser) the Seller or any of the Seller's Affiliates (excluding the SPVs as of following the Closing Date) (all such information, hereinafter, "**Confidential Information**"). Confidential Information shall not include, however, information that (a) is or becomes generally available to the public other than as a result of a disclosure by a Party or its Relevant Persons; (b) is obtained or independently developed by a Party on a non-confidential basis prior to its disclosure; or (c) is disclosed as required by Applicable Laws and Regulations (including, but not limited to, the rules of any stock exchange on which the corporate capital of either Party or its holding company are listed) or any Authority (including, but not limited to, any stock exchange, listing or regulatory Authorities), (d) is required to vest the full benefit of this Agreement in the Seller or the Purchaser, (e) is required for the purpose of any judicial proceedings arising out of this Agreement or any other agreement entered into under or pursuant to this Agreement, (f) is disclosed pursuant to the written approval to the non-disclosing party.
- 10.3. Where a Party reasonably determines that a disclosure is required by the Applicable Laws and Regulations (including, but not limited to, the rules of any stock exchange on which the corporate capital of either Party or its holding company are listed) or by any other Authority (including, but not limited to, any stock exchange, listing or regulatory Authorities) with relevant powers to which such Party or any of its Affiliate(s) is subject, the disclosure shall, to the extent permitted by the Applicable Laws and Regulations, be made after consultation with the other Party and after taking into account the reasonable requirements of the other Party as to timing, content and manner of making or dispatch of the disclosure.

- 10.4. For the avoidance of doubt, nothing in this Clause 10 shall be deemed to prohibit or restrict the Parties' from disclosing Confidential Information without prior notice to the other Party, to any of its Affiliates or lending banks (including in all cases their respective Relevant Persons and consultants) or to any Authority (including, but not limited to, any stock exchange, listing or regulatory Authorities, bank examiner or self-regulatory organization having authority to regulate or oversee any part of a Party's or its Affiliates' business (including in all cases their respective Relevant Persons)).
- 10.5. No announcement, communication or circular in connection with the existence or the subject matter of this Agreement shall be made or issued by or on behalf of the Seller, any Seller's Affiliate, Purchaser or any Purchaser's Affiliate without the prior written consent of the Seller and the Purchaser. This shall not affect any announcement, communication, or circular required by Applicable Laws and Regulations (including, but not limited to, the rules of any stock exchange on which the corporate capital of either Party or its holding company are listed) or any Authority (including, but not limited to, any stock exchange or regulatory Authorities), which, for the avoidance of doubt, may be effected without consent of the other Party.
- 10.6. Irrespective of the above provisions, the Seller shall be allowed to issue any press release required under the Applicable Laws and Regulations and/or pursuant to internal policies of Ellomay group, in the form shared with the Purchaser before the Date of Execution.

11. COSTS AND TAXES

Any tax, cost, expense, fee, duty, or charge arising out in connection with this Agreement or the transaction contemplated herein shall be borne as follows:

- (i) any income and capital gain taxes (if any) due by the Seller as a consequence of the sale and purchase of the Quotas shall be borne by the Seller;
- (ii) each Party shall bear the fees and expenses incurred by their respective auditors and advisors;
- (iii) notarial fees and Taxes (including registration duties) related to the purchase of the Quotas shall be borne by the Purchaser.

12. MISCELLANEOUS PROVISIONS

12.1. *Entire Agreement*

This Agreement contains the entire understanding and supersedes all prior agreements/arrangements of the Parties with respect to the Transaction contemplated hereunder except for the NDA. There are no agreements, promises, warranties, covenants or undertakings other than those expressly set forth herein.

12.2. *Notices*

Any communication or notice required or permitted to be given under this Agreement shall be made in writing and in English language and shall be deemed to have been duly and validly given (i) in the case of notice sent by letter, upon the date of actual receipt of the same as evidenced by a return receipt, and (ii) in the case of notice sent by certified email or fax, upon the date of acknowledgement of receipt of transmission, addressed, in each case, as follows:

if to the Seller:

Ellomay Luxembourg Holdings S.a.r.l.
7B, Rue de Bonnevoie
L-1260 Luxembourg
Attention: Ran Fridrich, Kalia Rubenbach
Email: ranf@ellomay.com, kaliaw@ellomay.com
Fax: +97237971122

if to the Purchaser:

Sonnedix San Davide S.r.l.
Via Ettore de Sonnaz 19
10121, Torino - Italy
Attention: Maurizio Grassi
Email: notices@sonnedix.com
notice.italy@sonnedix.com
silvia@sonnedix.com
maurizio@sonnedix.com
Pec: sandavide.pec@maildoc.it
Fax: +39 02 40044832

or at such other address as either Party may hereafter provide to the others by written notice, as provided herein.

12.3. *Assignment*

Neither Party may assign, transfer, charge, declare a trust of or otherwise dispose of all or any part of its rights and benefits under this Agreement (including any cause of action arising in connection with any of them) or of any right or interest in any of them without the prior written consent of the other Party. Notwithstanding the foregoing, the Purchaser shall be entitled to (a) freely transfer all or part of its rights and obligations under or arising out of this Agreement to any of its Affiliates it being understood that the Purchaser shall remain jointly and severally liable with such transferee with respect to each and all obligations and undertakings under or arising from this Agreement; and (b) freely assign by way of security any receivable under or arising out of this Agreement to any finance party providing it with loans or other forms of financial accommodation involving the SPVs and/or the Portfolio, it being understood that the Seller shall remain entitled to exercise each and all rights, remedies, exceptions and counterclaims under or arising from this Agreement. This Agreement will be binding upon and will inure to the benefit of the Parties hereto and their respective successors and permitted assigns; provided, that the Liability of the Seller or of any of the Seller's Affiliates shall not be increased as a result thereof.

12.4. ***Changes in writing***

This Agreement may not be waived, changed, modified or discharged orally, but only by an agreement in writing signed by the Party against whom enforcement of any such waiver, change, modification or discharged is sought.

12.5. ***No waiver***

Except for the cases of forfeiture provided for by this Agreement, the failure to exercise or any delay in exercising a right or remedy provided by this Agreement or by Applicable Laws and Regulations shall not impair or constitute a waiver of such right or remedy or an impairment or a waiver of other rights or remedies.

12.6. ***Negotiation***

The Parties reciprocally agree and acknowledge that this Agreement has been specifically negotiated among them in all parts, does not contain any reference to predefined terms and conditions (*condizioni generali di contratto*) and has not been executed by means of predefined forms. Accordingly, the Parties reciprocally agree and acknowledge that Articles 1341 and 1342 of the Italian civil code do not apply to this Agreement.

12.7. ***Further Assurances***

Each of the Parties shall use reasonable endeavours to procure that any necessary third party shall, from time to time, execute any documents and perform any acts and things as either of them may reasonably require to transfer the Quota and the Shareholder Loan to the Purchaser and to give the Purchaser the full benefit of this Agreement.

12.8. ***No Third Party Beneficiaries***

This Agreement, together with the other documents and schedules hereto and thereto are not intended to confer in or on behalf of any Person not a party to this Agreement (and their successors and assigns) any rights, benefits, causes of action or remedies with respect to the subject matter or any provision hereof, save as where expressly provided in this Agreement.

12.9. ***Counterparts***

This Agreement and the Schedules hereto are executed in two counterparts, each of which will be deemed an original, but all of which together will constitute a single document.

12.10. **Severability**

Should any provision of this Agreement be deemed in contradiction with the laws of any jurisdiction in which it is to be performed or unenforceable for any reason, such provision shall be deemed null and void, but this Agreement shall remain in full force in all other respects. Should any provision of this Agreement be or become ineffective because of changes in Applicable Laws and Regulations or interpretations thereof or should this Agreement fail to include a provision that is required as a matter of law, the validity of the other provisions of this Agreement shall not be affected thereby. If such circumstances arise, the Parties hereto shall negotiate in good faith appropriate modifications to reflect those required changes.

13. **APPLICABLE LAW – EXCLUSIVE JURISDICTION**

13.1. **Applicable law**

This Agreement, any connected Schedules or documents and the rights and obligations of the Parties hereunder or however connected with its execution, perfection, construction and performance shall be governed by and construed and interpreted in accordance with the laws of Italy.

13.2. **Dispute resolution and jurisdiction**

The Parties agree to cooperate with each other in good faith to resolve any controversy, claim or dispute among them arising under or in connection with this Agreement or the Transaction (the “**Dispute**”) in accordance with the following procedures:

- (a) if the Dispute cannot be resolved informally, such dispute will initially be referred, through written notice by any Party to the other Party, to a meeting of the senior management representatives of the Parties. The senior management representatives will meet in an attempt to resolve the dispute within 30 calendar days following receipt of such written notice;
- (b) if the Dispute is not resolved within 30 calendar days of the written notice sent by any Party to the other Party, then any Party may submit the Dispute to the exclusive jurisdiction of the courts of Milan.

Please confirm that the foregoing correctly sets forth the terms of our agreement by reproducing our proposal in a separate document duly signed by an authorized signatory, initialized on each page.

Sonnedix San Davide S.r.l.

Silvia Cazzola

ELLOMAY CAPITAL LTD.

List of Subsidiaries as of December 31, 2019

Name of Subsidiary	Percentage of Ownership	Jurisdiction of Incorporation
Ellomay Clean Energy Ltd.	100%	Israel
Ellomay Clean Energy LP	100%	Israel
Ellomay Luxembourg Holdings S.à.r.l.	100%	Luxembourg
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.	51% 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
Groen Gas Goor B.V.	100% ¹	The Netherlands
Groen Goor, Independent Power Plant B.V.	100% ⁵	The Netherlands
Groen Gas Oude-Tonge B.V.	100% ¹	The Netherlands
Oude Tonge Oude Tonge Holdings B.V.	100% ⁶	The Netherlands

1. Held by Ellomay Luxembourg 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. Wholly-owned by Groen Gas Goor B.V.
6. 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: April 7, 2020

/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: April 7, 2020

/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, 2019 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: April 7, 2020

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 April 7, 2020, with respect to the consolidated statements of financial position of Ellomay Capital Ltd. as of December 31, 2019 and 2018, 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, 2019, and the related notes, which report appears in the December 31, 2019 Annual Report on Form 20-F of Ellomay Capital Ltd.

Our report refers to a change to the method of accounting for leases.

/s/ *Somekh Chaikin*
Somekh Chaikin

Certified Public Accountants (Isr).
Member firm of KPMG International

Tel-Aviv, Israel

April 7, 2020

INDEPENDENT AUDITORS' CONSENT

To 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 27, 2020, with respect to the statements of financial position of Dorad Energy Ltd. as of December 31, 2019 and 2018, 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, 2019, and the related notes, which report appears in the December 31, 2019 annual report on Form 20-F of Ellomay Capital Ltd.

Our report refers to a change to the method of accounting for leases.

/s/ Somekh Chaikin
Somekh Chaikin

Certified Public Accountants (Isr).
Member firm of KPMG International

Tel-Aviv, Israel

April 7, 2020
