21 Ha'Arba'a St. | Platinum Tower
Tel Aviv, 6473921 Israel
Tel. +972-3-6844700 | Fax. +972-3-6855002
www.midroog.co.il

Ellomay Capital Ltd.

Monitoring Report | August 2024

This credit rating report is a translation of a report that was written in Hebrew for a debt issued in Israel.

The binding version is the one in the original language.

Contacts:

Nitzan Shahar
Analyst, Lead Rating Analyst
nitzan.s@midroog.co.il

Tomer Dar
Senior Team Leader, Secondary Rating Analyst
tomero@midroog.co.il

Elad Seroussi, VP
Head of Projects and Infrastructure
elad.seroussi@midroog.co.il

Ellomay Capital Ltd.

Issuer Rating	Baa1.il	Outlook: Stable

Midroog affirms the Baa1.il issuer rating[1] of Ellomay Capital Ltd. (the "Company" or "Ellomay Capital"). Rating outlook is stable.

Summary of Rating Rationale

The rating takes into account the following considerations, among others: (1) The Company engages primarily in the production of electricity from renewable energy sources, in Israel and the world. Midroog rates the risk in this sector as moderate, arising, inter alia, from relatively low entry barriers, intensifying competition and construction risks, as well as exposure to regulation in the production segment and exposure to market prices in the countries in which the Company operates. (2) The growth trend in the renewable energy industry in Israel and the world, which is supported by the setting of targets for the promotion of renewable energies. (3) The regulatory environment in the countries in which the Company operates, along with long-term energy sale agreements with strong end customers, creating relative certainty with respect to the projected cash flow. (4) Low entry barriers to the renewable energy power generation sector compared with the sector of fossil fuel-based power plants, which is characterized by high entry barriers due, among other things, to significant capital investments coupled with technological and engineering complexity. (5) As of the report date, the Company's operating cash flow derives mainly from PV[2] projects owned by it in Spain, along with biogas projects in the Netherlands and cash flows generated from the holding in the Dorad power plant. In the short to medium term, the Company's activity in the PV sector is expected to continue growing, following the completion of the construction of additional projects in Italy, Israel and the U.S. (6) Commercial operation of the Talasol and Ellomay Solar projects has significantly increased the concentration of activities in and cash flows from Spain and their impact on the Company's financial indicators, until the maturation of a significant new portfolio of projects in Italy and completion of the construction of the planned projects in Israel and the U.S., which is expected to moderate this concentration. (7) Good cash flow certainty, supported primarily by the sale of electricity through long-term agreements, at hedged prices. (8) The small size of the Company and its market share compared to the industry peer group, noting however that the scope of the Company's operations is expected to grow significantly in the medium to long term, with the start of commercial operation of the additional projects. (9) A relatively small portfolio with diversified energy sources and a wide geographical distribution, with expectations for the continued expansion of the asset portfolio and the sale of noncore assets. (10) Exposure to the financial markets, to exchange rates, interest rates and to credit risks of the countries in which the Company operates (Italy, Spain, the Netherlands, Israel and the U.S.), which is partly mitigated by hedging transactions. (11) The decline in electricity prices in Spain has affected the Company's revenues in recent years, but the effect on revenues is expected to be balanced following the entry into operation of new projects. (12) The fire that broke out in the Talasol and Ellomay Solar projects has resulted in a degree of damage to equipment installed in the projects and to revenues of the facilities. (13) Improved results of the Dorad power plant, coupled with expectations for an increase in the cash

[1] In addition, the Company currently has four public bond series (3, 4, 5, 6), which are not rated by Midroog.
[2] Photovoltaic.

flows received by the Company from the plant. (14) Significant delays in the timetables for construction of the Pumped Storage project, and accordingly in its projected cash flows. (15) The Company presents low operating profit margins, due among other things to low profitability of the biogas projects and a high component of development costs, along with a decline in revenues in 2023. (16) The Company's balance sheet leverage ratio is higher than typical for the sector, among other things because of the full consolidation of the debt in the Talasol project, which is 51% owned by the Company. (17) Expectations for growth in EBITDA following the start of commercial operation of new projects, contrasted with weak coverage ratios, due among other things to low profitability and the project finance structure (mainly non-recourse debt). (18) The Company has a substantial multiannual investment plan, mainly consisting of the continued construction of the Pumped Storage project at the Manara Cliff, as well as a portfolio of projects in Italy and the construction of new projects in the U.S. We estimate that annual Capex expenditures during 2024-2025 will be between €60-80 million, mainly for project construction financing at the level of the investee companies. (19) The Company maintains adequate liquidity reserves, along with an appropriate standalone ratio of sources to uses. (20) The Company has good financial flexibility, reflected among other things in unleveraged and unencumbered assets, a track record of adding partners to projects and the realization of assets, as well as access to the capital market and to banks. (21) Structural and cash flow subordination of the Company to its senior debts at the level of the projects owned by it. (22) The Company's declaration of no dividend distribution in the coming years. (23) We rate the Company's exposure to environmental and social risks as low, in light of its activity in the renewable energy sector coupled with supportive regulatory frameworks and increasing demand in this sector. In terms of governance risk, we rate the Company's exposure as low.

Midroog's base-case scenario sees the Company focusing on the completion of the development of projects in Italy and the U.S., which are expected to enter into commercial operation in the coming years. Adjusted EBITDA[3] is expected to be in the range of €20-30 million during 2024-2026, mainly in light of expectations for a continuing environment of low electricity prices in Spain, which will be offset with the start of commercial operation of the projects in Italy and the U.S., coupled with an increase in the projected cash flows from the Dorad power plant. Our base case scenario assumes that the environment of low prices in Europe, as observed at the end of 2023 and the beginning of 2024, will continue into the coming years. Simultaneously, the Company's coverage ratios in the coming years are expected to be low and slow for the rating level, even after the start of operation of the additional projects in the investment plan, due among other things to the project financing structure. Additionally, the scenario takes into account declarations by the Company's management that no dividends will be distributed to the shareholders in the years in which it is implementing an extensive investment plan.

Rating Outlook

The stable rating outlook is supported by cash flow certainty, based on a supportive regulatory framework and long-term energy sale agreements with quality end customers, as well as good financial flexibility and adequate liquidity of the Company.

[3] Including cash flow adjustment in respect of revenues from the Dorad plant.

MIDROOG

The war that broke out in Israel on October 7, 2023 has led to a series of repercussions and restrictions, including the partial or full closure of businesses, restrictions on gatherings at workplaces and educational institutions, as well as the contraction of the workforce due to the large-scale call-up of reserves and drop in the number of foreign workers. These factors have resulted in a reduction in economic activity and other negative effects on the Israeli economy. Furthermore, the war has caused sharp declines in Israel's financial markets and significant volatility of the shekel exchange rates. In Midroog's assessment, this period is characterized by a high degree of uncertainty on how the war will develop and on its economic ramifications. Accordingly, Midroog may update the base case scenario for the rating in light of future developments. Further elaboration on the subject is provided in the special report "Impact of the Iron Swords War on the Creditworthiness of Issuers Rated by Midroog" (October 2023).[4]

Factors That Could Lead to a Rating Upgrade

- A significant improvement in leverage and in the coverage ratios.
- Increased diversification of cash flows from quality underlying assets.

Factors That Could Lead to a Rating Downgrade

- A change in the sector's risk profile, including deterioration in the supportive regulatory environment.
- Leverage ratios, financial strength and debt service coverage ratios significantly below Midroog's base case scenario.

Ellomay Capital Ltd. – Key Financial Indicators (euros in thousands)[5]

	31.03.2024	31.03.2023	31.12.2023	31.12.2022	31.12.2021
Revenues	8,243	11,733	48,834	52,241	44,705
Adjusted EBITDA[6]	645	2,888	19,051	19,080	21,609
Cash and cash equivalents[7]	83,767	91,911	52,124	49,294	71,585
Equity	132,251	112,536	125,099	83,077	114,107
Gross financial debt[8]	479,926	456,247	439,705	404,568	370,565
Total assets	666,810	617,925	612,852	576,157	551,979
Debt to cap	78.1%	79.4%	77.5%	81.8%	75.1%

[4] The report is published on the Midroog website.
[5] In light of the sale of the photovoltaic plant in Talmei Yosef, the results of this activity were reclassified under discontinued operations, and the results are presented accordingly.
[6] Including adjustment of cash flows in respect of revenues from the Dorad power station.
[7] Including securities and short-term deposits.
[8] Net of debt service reserves of projects.

Detailed Rating Considerations

Growth trend in the renewable energy industry in Israel and the world, supported by the setting of targets for the promotion of renewable energies

The Company engages primarily in the production of electricity from renewable energy sources, in Europe, the U.S. and Israel, operating as the promoter, developer and owner of power generation facilities. The renewable energy industry is experiencing in recent years accelerated growth, marked by a significant and steady increase in installed capacity and in investments, mainly in projects using photovoltaic and wind energy technologies. In parallel, there has been a decline in construction, operation and maintenance costs, stemming, among other things, from technological advances. The Company's operations in the renewable energy power production sector are based on the initiation, ownership and operation of projects which are mostly funded by project financing (non-recourse, senior debt). Midroog rates the risk in this sector of operations as moderate, arising, inter alia, from relatively low entry barriers, intensifying competition and construction risks, as well as significant exposure to regulatory changes and in the extent of support for the sector in each county. We assess regulatory support for the renewable energy sector as high, with no change expected in the foreseeable future. Nevertheless, any weakening of targets or operational incentives is likely to harm the companies operating in the sector and their financial situation.

We note that as part of the global trend to reduce greenhouse gas emissions, numerous countries are encouraging the production of electricity from renewable energy sources, through regulatory and tariff support. Thus, for example, the US administration and the European Union have set a target of zero greenhouse gas emissions by 2050, including various interim targets. Furthermore, the U.S. administration has approved significant tax incentives for renewable energy generation projects. In 2023, in the European Union, 56 GW of new PV installed capacity were connected to the grid, an increase of 40% over 2022. In Israel, the government has set targets of 20% and 30% for power generation from renewable energy sources, respectively by 2025 and 2030,[9] alongside other targets set with the aim of reducing greenhouse gas emissions,[10] as well as a decision to impose a carbon tax.[11] According to the Report on the State of the Electricity Sector for 2022[12] and the Report on Renewable Energy Targets for 2023,[13] power generated from renewable energy sources accounted, respectively, for 10.4% and 12.5% of total power consumption in the economy in 2022 and 2023, while according to forecasts of the Electricity Authority, 17% of total power consumption in the economy in 2025 will be provided by renewable energy sources.

According to forecasts,[14] total installed capacity of renewable energies is expected to increase globally by 3,700 GW by the year 2028, with renewable energy set to replace coal as the major energy source already in 2025. In our assessment, government targets and decisions, coupled with a decrease in construction, operation and maintenance costs, will continue to support the generation of electricity from renewable energy sources in the coming years. We likewise estimate that the continuation of the war between Russia and Ukraine will boost demand for renewable

[9] Government Decision No. 465 dated October 25, 2020, "Promotion of Renewable Energy in the Electricity Sector and Amendment of Government Decision."
[10] Government Decision on a Carbon-Poor Economy dated July 25, 2021.
[11] Government Decision on the Pricing of Greenhouse Gas Emissions dated August 1, 2021.
[12] Report on the State of the Electricity Sector for 2022, the Electricity Authority.
[13] Report on Renewable Energy Targets for 2023.
[14] Report of International Electricity Agency, January 2024.

energy in Europe, in light of efforts by EU member countries to eliminate their dependence on gas imports from Russia.

Good cash flow certainty, supported primarily by the sale of electricity through long-term agreements, at hedged prices

The Company's business model is based on investments in the initiation and construction of projects and recovery of the investments from the revenues received from the sale of the generated electricity to the power grid and/or from the realization of the assets owned by it, through the sale of its interests in the facilities. The Company's cash flows mostly derive from PV-based power generation projects, as well as from the biogas plants owned by it. The Company also earns dividends from its indirect holding in the Dorad power plant (9.375%). We note that on June 3, 2024, a deal was completed for the sale of the Talmei Yosef project – a solar facility with a capacity of 9.0 MW, located in Israel. The net consideration received was €10.6 million.

The Company's renewable energy operations rely in part on undertakings by local power companies/ transmission companies and/or another external entity to purchase all or most of the electricity produced in the relevant projects (off-takers), at a fixed tariff linked to the consumer price index, over an extended period, under power purchase agreements (PPA). Revenues from these facilities derive, among other things, from payments by government and private bodies, hence, any impairment of the financial strength of these bodies could directly or indirectly affect revenues from this activity. As of the report date, the Company's main customers are the local electricity authorities in Spain and in the Netherlands, which purchase the electricity and the gas from the PV and biogas plants owned by the Company. In our assessment, the characteristics of the agreements strongly contribute to the Company's cash flow stability. At the same time, cash flows which are not hedged by PPA agreements are exposed to market prices in the countries in which the Company operates. In Israel, projected revenues from sales of electricity in the Pumped Storage project are mostly hedged and fixed throughout the license period, whereas the Dorad power plant is exposed, among other things, to fluctuations in the production component. Additionally, commencing June 1, 2024, the plant participates in supply tenders of the System Operator, which exposes it to changes in market prices. We note that the Israeli regulators[15] are promoting the transition to a new regulatory regime based on a market model that encourages stronger competition, while reducing infant industry protections. In our assessment, this regulatory regime is likely to increase competition and somewhat affect cash flow certainty. In Spain, the revenues of plants under tariff regulation are set for each plant at the time of its connection to the power grid and consist of three components: operation, investment and spot prices, with the spot component accounting for 20%-25% of the tariff. In the Netherlands, the Company's revenues comprise several components related to in-process gas production as well as the generation of heat and electricity. We note in this connection that a new law in the Netherlands, effective as of 2025, will require gas suppliers to include green gas at up to 20% of the amount supplied by them. In addition, the prices of the green certificates sold by the Company as part of this activity are also expected to remain high. We likewise note that by the end of 2025, several power generation projects are expected to achieve commercial

[15] Changes in the Electricity Sector and Their Effect on Credit Risks, Midroog, July 2023.

operation in the U.S. In our estimation, the regulatory framework in the U.S. is among the most supportive and stable in the industry, compared with other western countries.

A relatively small portfolio with diversified energy sources and a wide geographical distribution, with expectations for the continued expansion of the asset portfolio

The Company has an array of projects that are distributed over a range of technologies and geographical locations. The Company holds a limited global market share compared with other companies in the peer group. In the Israeli market, the Company primarily owns 9.375% (indirectly) of the Dorad Energy Ltd. ("**Dorad**") power plant, with an installed capacity of 860 MW, and 83.84% of the Pumped Storage project in Manara, with an installed capacity of 156 MW (currently under construction). In the Netherlands, the Company owns three biogas plants, (with a total capacity of 19 MW), and in Spain, the Company owns interests in the 300-MW Talasol project (51%) and in the 28-MW Ellomay Solar project (100%), as well as in other PV projects with a total capacity of 7.9 MW (100%). As of the report date, the Company has significant exposure to the activity of the Talasol project, which accounts for 53% of the total quantity of megawatts in the Company's proportionate share of the income-generating projects held by it, and 60% of the Company's proportionate share of the EBITDA of those projects.[16] We note that in respect of the Talasol project, the Company entered into a hedging transaction on the price of the electricity. The hedging transaction relates to 80% of total electricity production in the project, which is to be sold at a pre-agreed price for a period of ten years, while the electricity produced in the project is expected to be sold at the market price at the time of the sale. In our estimation, the high dependence on the Talasol cash flows impairs the cash flow diversification and could present a risk. However, the hedging transaction substantially mitigates the high exposure to revenues from this asset. The Company is presently working on the initiation, development and construction of multiple PV projects in Italy, Israel and the U.S., which are expected to begin commercial operation during 2024-2027. In our assessment, the commercial operation of these projects should improve to some extent the quality of the geographical distribution of the Company's operations.

Exposure to macroeconomic parameters and to credit risks of the countries in which the Company operates

The Company's projects are mostly funded by a combination of own equity and debt raised from banks and/or institutions (project level) and/or from the public (standalone level). The Company has adequate experience in project financing in Israel and the world, with the collaboration and involvement of local and international banks and other financial bodies, however changes in macroeconomic parameters could affect its financial activity. Significant worsening of economic conditions could lead to tightening of financing terms and adversely affect the Company's ability to raise the capital required for financing new projects. The Company's projects are also exposed to the risk of an increase in interest rates or in the consumer price index. We note, regarding project debt, that a significant component of the base interest is fixed at the time of financial closure and/or at the time of drawing of the debt, but as long as a certain component of the debt has not been fixed, the Company is exposed to an increase in the base interest rate. The Company's operations in different countries likewise expose it to exchange rate risk, including a possible effect of changes in the exchange rates on the viability

[16] Excluding the cash flows received from Dorad.

and profitability of the projects. In our assessment, the exposure to exchange rate risk is mitigated to some extent by natural hedging in the projects (where the revenues, expenses and debt are denominated in the same currency) and by the Company using different currencies according to the countries in which it operates. We note, furthermore, that the Company's overseas operations and implementation of existing agreements expose it to the credit risks of the countries in which it operates, apart from Israel (Moody's A2 rating with negative outlook), including the Netherlands (Aaa, stable outlook), Spain (Baa1, positive outlook), Italy (Baa3, stable outlook), and the U.S. (Aaa, negative outlook).

Low electricity prices in Spain affected the Company's revenues in the past year, but the effect on revenues is expected to be balanced by the operation of new projects

In recent years the Company is in a process of growth, reflected in the accelerated initiation and acquisition of projects, including the initiation and construction of additional PV projects in Italy, Spain, Israel and the U.S. In 2023, the Company's revenues amounted to €49 million, compared with €52 million in 2022. The drop in revenues is primarily attributable to a decrease in electricity prices in Spain compared with 2022 due to a relatively warm winter and to increased generation of hydroelectric energy in light of a relatively rainy winter, as well as a decrease in the supply of electricity to the Spanish power grid due to maintenance and upgrade works on the main transmission line between Spain and Portugal. The drop in revenues was partly offset by hedging of most of the revenues of the Talasol project, as well as by higher revenues from the biogas projects in the Netherlands due to increased production and a rise in the price of gas. We estimate that electricity prices in Europe will remain lower than in recent years, negatively impacting the Company's revenues. At the same time, we note that, according to the Company, an upward trend was observed in electricity prices in July 2024. In addition, the commercial operation of new projects is expected to somewhat offset the effect of the price decline, thus we estimate that revenues will remain at the same level during 2024-2025.

The fire that broke out in the Talasol and Ellomay Solar projects has resulted in a degree of damage to equipment installed in the projects

The Company has reported that on July 20, 2024, a fire broke out in the area of the Talasol and Ellomay Solar projects. On July 21, 2024, the undamaged equipment was reconnected. According to the Company, as of the report date, approximately 90% of the equipment in the facilities has been reconnected, and it estimates that between 5% and 10% of the equipment will require a longer rehabilitation period, lasting several months. The Company notes that no damage was caused to transmitters and converters. The PV facilities are insured under policies covering loss of profit and direct and indirect damages, and a notice regarding the events was delivered to the insurance companies as required. The Company expects the insurance policies to cover the losses and damages, subject to a deductible. In the Company's assessment, despite the fire, the Talasol project will meet the financial covenants stipulated in the financing agreement with an adequate margin.

Improved results of the Dorad power plant

Gas from the Karish reservoir began to flow in November 2022, leading to a reduction in gas expenses of the Dorad power plant. Simultaneously, the increase in the time variable electricity (TAOZ) tariff and in the production component, as well as the Electricity Authority's decision regarding changes in the definition of the demand hour clusters, contributed to an improvement in the plant's results. Finally, as of June 2024, the plant participates in supply tenders for the System Operator, which is expected to result in an additional improvement in profitability. As an outcome of the foregoing, the Company foresees an improvement in the amount of cash generated by the Company from the power plant. We note that the Israeli government has decided to increase the power plant's capacity by a further 650 MW, although not all the approvals required for implementing the expansion have been arranged. Concurrently, in June 2023, an arbitration ruling was handed down obligating Zorlu and Edeltech to reimburse $130 million to Dorad and to pay the plaintiffs in the derivative action an additional NIS 20 million. Appeals against the arbitration ruling have been filed by both parties.

Significant delays in the timetables for the construction of the Pumped Storage project

Since the start of the Iron Swords War, construction works in the Ellomay Pumped Storage project in Manara have been entirely suspended due to the security situation, on the orders of the Defense Minister and the Israeli government, due to the site's proximity to the northern border with Lebanon. The Company applied on October 17, 2023, to the Electricity Authority on grounds of the existence of a war event, with the Company arguing that this can be recognized as a force majeure event in accordance with criterion 131(e). Insofar as the Electricity Authority recognizes this as a force majeure event causing a delay, compensation will be calculated for the delay and an answer provided for direct and indirect costs. According to the Company, negotiations are underway with the Electricity Authority to determine the manner of indemnification of the project for the suspension of the works, which is a result of the Iron Swords War. We note that apart from the delay due to the war, there are other material delays in the construction timetables, which are creating significant uncertainty over the date of commercial operation of the facility. As of the report date, Midroog's base case scenario does not take into account the commercial operation of the facility in the coming years.

Low operating profit margin compared to the industry peer group

In 2023, the Company presented a low adjusted operating profit margin[17] amounting to 6.2%, compared with a profit margin of 6.7% the year before and 15.6% in 2021. The decline in the profit margin is mainly due to a decrease in gross profit, as detailed above, along with an increase in the projects' development costs. The EBIT to net finance costs ratio stood in 2023 at 0.8, compared with 1.0 in 2022. These ratios were significantly impacted by financing income in respect of gains from changes in exchange rates. We estimate that profitability in the next two years will remain low, given expectations for a low electricity prices environment in Spain. However, an improvement in the operating profitability is foreseen in subsequent years in light of the start of commercial operation of additional projects in Italy, Israel and the U.S.

[17] Excluding the Company's share of the results of Dorad power plant, but including the Company's share of the dividend received from Dorad.

High balance sheet leverage compared to the peer group

Recent years have seen an uptrend in the level of balance sheet leverage of the Company, as reflected in the debt[18] to cap ratio, which increased significantly from 61.1% at the end of 2019 to 78.1% as of March 31, 2024. The increase in leverage in these years occurred as a result of the acquisition and initiation of new projects, which involved significant development costs (inter alia the Manara project), as well as an increase in the consolidated debt, along with the full consolidation of the debt in the 51%-owned Talasol project. In addition, the Company's equity is significantly affected by hedging of electricity prices, particularly in the Talasol project, with the volatility of electricity prices in Spain thus also affecting the volatility of the Company's equity and leverage ratios. In 2023, following a significant moderation in the environment of electricity prices in Spain, the Company recorded an accounting gain in the hedging item, which was recognized in the capital reserve. This accounting gain resulted in a certain decrease in the leverage ratio as of the end of 2023 compared with the end of 2022. However, as of March 31, 2024, the leverage ratio rose slightly to 78.2%, mainly due to the issuance of Series 6 in an amount of NIS 210 million.[19] The increase in debt was not fully reflected in the debt to cap ratio, due to an additional improvement in equity, following a further decrease in electricity prices in Spain, which, as mentioned, resulted only in an accounting gain. We note that in May 2024, project financing for the Ellomay Solar project was closed, in an amount of €10 million, and that following receipt of the financing most of the equity invested in the project was returned. In our assessment, the Company's leverage will remain high in the coming years compared to the peer group, in the range of 77%-83%, insofar as no additional capital issues take place and/or projects are sold.

Expectations for growth in EBITDA following the start of commercial operation of new projects

In 2023, adjusted EBITDA[20] stood at €19 million, similar to 2022. In the course of the year there was a decline in the EBITDA of the PV projects in Spain, due to the decrease in prices and the problems in the transmission line, which was offset by the increase in the EBITDA of the biogas projects in the Netherlands, due to increased production and a rise in gas prices for 2023, as well as an increase in the cash flows received by the Company from the Dorad power plant. We expect EBITDA in 2024-2026 to be in the range of €20-30 million, following the entry into operation of additional projects in Italy, Israel and the U.S. According to Midroog's base case scenario, in the coming two years, Capex investments are expected to be in the range of €60-80 million per year, including project financing at the level of the investee companies, due to the construction of the new projects in Italy and the U.S. as well as the construction of the Pumped Storage project in Manara. We consider the period of construction of projects on a significant scale in these years as a risk factor in the rating of the Company, with delays in the commercial operation and/or increases in the construction budgets of the projects liable to affect its rating. In our estimation, the free cash flow (FCF) will be materially affected during 2024-2026 by the construction of the Manara Pumped Storage project and by the investments in the additional projects in Italy, Israel and the U.S. This cash flow is expected to be negative within a range of €60-100 million.

[18] Net of debt service reserves in the projects.
[19] We note that NIS 170 of the Series 6 offering was raised in the first quarter of 2024, and the balance in the second quarter.
[20] Calculated excluding development and general and administrative costs and after adjustment for revenues from the Dorad power plant, and excluding cash flows from the Talmei Yosef project which was reclassified as a discontinued operation.

Weak and slow debt service coverage ratios compared to the peer group

The Company's coverage ratios are weak compared to the peer group and currently inappropriate for the rating level. This factor is attributable, among other things, to the decrease in electricity prices in Spain, low profitability of the biogas projects and significant development costs, and is reflected in the gross financial debt to EBITDA ratio which increased from 19 in 2022 to 21 in 2023. We expect this ratio during 2024-2027 to be in the range of 20.0-25.0. It is worth noting that the Company's accelerated growth due to the initiation and financing of new projects significantly slows the debt service coverage ratios, but we foresee an improvement in the rate of the coverage ratios in the coming years, as the projects currently under planning and construction enter commercial operational.

A financial policy that includes the holding of adequate liquidity reserves

Throughout the years of its operation, the Company has maintained adequate liquidity reserves, which create an appropriate standalone ratio of sources to uses. Furthermore, the Company is compliant, with adequate margins, with its covenants to the holders of its bond series, in addition to which it presents a moderate standalone level of leverage. However, the Company has standalone exposure to foreign currency due to bond issues and repayments in the local market in shekels. This exposure is expected to increase due to the effect of the cash flows from additional projects in Italy and the U.S. We note that this exposure is partly mitigated by hedging transactions.

Additional Rating Considerations

Financial flexibility supported by the ability to sell or leverage additional assets

We consider the Company to have good financial flexibility, reflected, among other things, in access to the capital and debt markets and in capital and debt issues in recent years. As of the report date, the projects in Italy and the U.S. are unleveraged. Furthermore, the Company from time-to-time reviews possibilities for adding partners to projects or realizing assets, and in the past it has even sold several assets in Italy and Israel. These possibilities expand the Company's financial flexibility, allowing it to increase liquidity or reduce debt and leverage, as necessary. Thus, on August 20, 2024, the Company reported expansion of its Series F bonds by NIS 52 million.

Structural and cash flow subordination of the Company to projects owned by it

The Company is subordinated structurally and in cash flow priority due to its holdings in projects with mostly senior debts, including a significantly high concentration of cash flows from the Talasol project. The underlying assets of these companies, including the cash flows arising from them, are for the most part subject to a first lien in favor of the senior debt lenders. Additionally, the distribution of surpluses from the project companies is subject to compliance with distribution conditions. We note that the projects in Italy and the U.S. are currently not encumbered, which slightly mitigates the subordination risk. We foresee a reduction in the high cash flow concentration in the coming years, after the projects under construction in Italy, Israel and the U.S. enter commercial operation and following the projected improvement in profitability of the projects in the Netherlands.

The Company's declaration of no dividend distribution in the coming years

The Company did not distribute any dividends in the years 2017-2023. The Company has declared that it will not be distributing dividends in the coming years, as long as it is involved in the implementation of a significant investment plan. In our estimation, this declaration of the Company's management reduces uncertainty over the extent of the debt-service sources and supports the Company's rating.

Environmental, Social and Governance (ESG) Considerations

The Company's exposure to environmental risks is low, since it engages mainly in the initiation and ownership of renewable energy projects (specifically, based on photovoltaic, biogas and pumped storage technologies), However, the Company also has a significant stake in the Dorad power station, which is a noncore operation. Solar power projects and their by-products do not emit greenhouse gases. The Company has indirect exposure to climate risks, such as extensive fires in the geographical areas in which it operates, although this risk is mitigated by the different insurance policies it holds. In view of the Company's activity in the field of renewable energy, it benefits from the increasing social preference across the globe for solar power, coupled with the commitment of most western countries to zero greenhouse gas emissions by 2050. In terms of governance risk, we rate the Company's exposure as low.

Company Profile

Ellomay Capital Ltd. develops, builds, operates and owns power plants that generate electricity using both renewable energy and conventional technologies, in Israel, the U.S. and Europe. The Company was incorporated in 1987, and its shares are traded on the New York Stock Exchange (NYSE American) since 2011 and on the Tel Aviv Stock Exchange (TASE) since 2013. The Company's main activity is the production of electricity from renewable energy sources. The Company owns photovoltaic power plants, and this segment currently accounts for the major part of its revenues. In this segment the Company owns several projects, including the Talasol project in Talaván, Spain, with a capacity of 300 MW (51% stake), the Ellomay Solar project in Spain with a capacity of 28 MW, and four photovoltaic plants in Spain with a capacity of 7.9 MW (100% stake). The Company also owns three biogas plants in the Netherlands with a green gas production capacity of 18 million cubic meters (equivalent to 19.0 MW). In addition, the Company owns a 9.4% stake in Dorad Energy Ltd., one of Israel's largest private power plants with a production capacity of 860 MW. It likewise holds 83.34% of the shares in the Ellomay Pumped Storage project at the Manara Cliff in Israel, which is in the process of construction and is to have a capacity of 156 MW, and it owns additional photovoltaic projects which are under construction in Italy, Israel and the U.S. The Company's controlling shareholders are Mr. Shlomo Nehama, the chairman of the board (27.92%[21]), Kanir LP (20.27%), in which the general partner is controlled by Mr. Ran Fridrich, who is also the Company's CEO, and by Ms. Anat Raphael, and the estate of the late Mr. Menahem Raphael (1.98%). The above controlling core holds 50.17% of the Company's shares, with an additional 29.92% held by institutional entities and the balance by the public.

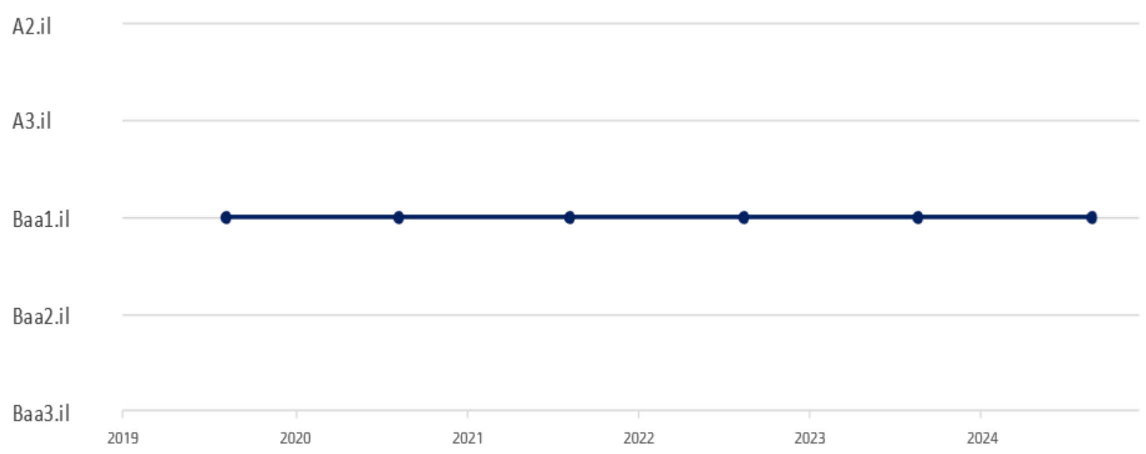
[21] Through S. Nechama Investments (2008) Ltd. and directly.

Rating Scorecard

Category	Parameters	As of 31.03.2024 – LTM Measure [1]	As of 31.03.2024 – LTM Score	Midroog Forecast Measure	Midroog Forecast Score
Operating environment	Cash flow certainty	---	A.il	---	A.il
	Entry barriers	---	A.il	---	A.il
	Regulatory framework	---	A.il	---	A.il
Business profile	Total assets	€667 million	Baa.il	€650-750 million	Baa.il
	Quality of geographical distribution	---	A.il	---	A.il
	Quality and diversification of products and operating segments	---	A.il	---	A.il
	Capex/PPE	13%	A.il	15%-18%	A.il
Financial profile	Debt/EBITDA	28.8	Ba.il	20.0-25.0	Ba.il
	EBIT/net financing	0.1	Ba.il	0.2-0.6	B.il- Ba.il
	Debt/cap	78.1%	Baa.il	83%-77%	Ba.il-Baa.il
	Financial policy	---	A.il	---	A.il
Implied score					Baa2.il
Final score					Baa1.il

(1) The indices presented in the table are after Midroog adjustments, and not necessarily identical to those presented by the Company. Midroog's forecast includes Midroog's assessments regarding the issuer in accordance with the base scenario of Midroog, and not the issuer's assessments.

Rating History



Related Reports

Ellomay Capital Ltd. – Related Reports

Power Producers – Methodology Report, January 2023

Power Projects Finance – Methodology Report, February 2018

Guidelines for Reviewing Environmental, Social and Governance Risks in Credit Ratings – Methodology Report, February 2022

Financial Statements Adjustments and Presentation of Main Financial Measures in Rating – Methodology Report, May 2020

Impact of the Iron Swords War on the Creditworthiness of Issuers Rated by Midroog – Special Report, October 2023

Table of Affinities and holdings

Midroog Rating Scales and Definitions

The reports are published on the Midroog website at www.midroog.co.il

General Information

Date of rating report:	August 21, 2024
Date of last revision of the rating:	August 15, 2023
Date of first publication of the rating:	August 29, 2019
Rating commissioned by:	Ellomay Capital Ltd.
Rating paid for by:	Ellomay Capital Ltd.

Information from the Issuer

Midroog relies in its ratings inter alia on information received from competent personnel at the issuer.

Long-Term Rating Scale

Aaa.il	Issuers or issues rated Aaa.il are those that, in Midroog judgment, have highest creditworthiness relative to other local issuers.
Aa.il	Issuers or issues rated Aa.il are those that, in Midroog judgment, have very strong creditworthiness relative to other local issuers.
A.il	Issuers or issues rated A.il are those that, in Midroog judgment, have relatively high creditworthiness relative to other local issuers.
Baa.il	Issuers or issues rated Baa.il are those that, in Midroog judgment, have relatively moderate credit risk relative to other local issuers, and could involve certain speculative characteristics.
Ba.il	Issuers or issues rated Ba.il are those that, in Midroog judgment, have relatively weak creditworthiness relative to other local issuers, and involve speculative characteristics.
B.il	Issuers or issues rated B.il are those that, in Midroog judgment, have relatively very weak creditworthiness relative to other local issuers, and involve significant speculative characteristics.
Caa.il	Issuers or issues rated Caa.il are those that, in Midroog judgment, have extremely weak creditworthiness relative to other local issuers, and involve very significant speculative characteristics.
Ca.il	Issuers or issues rated Ca.il are those that, in Midroog judgment, have extremely weak creditworthiness and very near default, with some prospect of recovery of principal and interest.
C.il	Issuers or issues rated C are those that, in Midroog judgment, have the weakest creditworthiness and are usually in a situation of default, with little prospect of recovery of principal and interest.

Note: Midroog appends numeric modifiers 1, 2, and 3 to each rating category from Aa.il to Caa.il. The modifier '1' indicates that the obligation ranks in the higher end of its rating category, which is denoted by letters. The modifier '2' indicates that it ranks in the middle of its rating category and the modifier '3' indicates that the obligation ranks in the lower end of that category, denoted by letters.