

---

---

**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, 2014

OR

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

OR

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

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-35284

**ELLOMAY CAPITAL LTD.**

(Exact Name of Registrant as specified in its charter)

**ISRAEL**

(Jurisdiction of incorporation or organization)

**9 Rothschild Boulevard, 2<sup>nd</sup> floor**

**Tel Aviv 6688112, Israel**

(Address of principal executive offices)

**Kalia Weintraub, Chief Financial Officer**

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

**9 Rothschild Boulevard, 2<sup>nd</sup> floor**

**Tel Aviv 6688112, Israel**

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

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

Title of each class

Ordinary Shares, par value NIS 10.00 per share

Name of each exchange on which registered

NYSE MKT

---

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

None

Title of Class

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

None

Title of Class

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 10,692,371<sup>1</sup> 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

---

<sup>1</sup> Does not include a total of 85,655 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.

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

	Page
<a href="#">Introduction</a>	6
<a href="#">Forward-Looking Statements</a>	6
<b>Part I</b>	
<a href="#">Item 1: Identity of Directors, Senior Management and Advisers</a>	9
<a href="#">Item 2: Offer Statistics and Expected Timetable</a>	9
<a href="#">Item 3: Key Information</a>	9
Selected Financial Data	9
Capitalization and Indebtedness	12
Risk Factors	12
<a href="#">Item 4: Information on Ellomay</a>	27
History and Development of Ellomay	27
Business Overview	31
Organizational Structure	70
Property, Plants and Equipment	71
<a href="#">Item 4A: Unresolved Staff Comments</a>	74
<a href="#">Item 5: Operating and Financial Review and Prospects</a>	74
Operating Results	74
Liquidity and Capital Resources	83
Research and Development, Patents and Licenses, Etc.	91
Trend Information	91
Off-Balance Sheet Arrangements	91
Contractual Obligations	91
<a href="#">Item 6: Directors, Senior Management and Employees</a>	92
Directors and Senior Management Compensation	92
Board Practices	95
Employees	100
Share Ownership	113
<a href="#">Item 7: Major Shareholders and Related Party Transactions</a>	116
Major Shareholders	120
Related Party Transactions	120
<a href="#">Item 8: Financial Information</a>	121
Consolidated Statements and Other Financial Information	121
Significant Changes	122

<a href="#"><u>Item 9:</u></a>	<a href="#"><u>The Offer and Listing</u></a>	122
	Offer and Listing Details	122
	Markets	123
<a href="#"><u>Item 10:</u></a>	<a href="#"><u>Additional Information</u></a>	124
	Share Capital	124
	Memorandum of Association and Second Amended and Restated Articles	124
	Material Contracts	132
	Exchange Controls	133
	Taxation	134
	Dividends and Paying Agents	140
	Statement by Experts	140
	Documents on Display	140
<a href="#"><u>Item 11:</u></a>	<a href="#"><u>Quantitative and Qualitative Disclosures about Market Risk</u></a>	141
<a href="#"><u>Item 12:</u></a>	<a href="#"><u>Description of Securities Other than Equity Securities</u></a>	141
<b>Part II</b>		
<a href="#"><u>Item 13:</u></a>	<a href="#"><u>Defaults, Dividend Arrearages and Delinquencies</u></a>	144
<a href="#"><u>Item 14:</u></a>	<a href="#"><u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u></a>	144
<a href="#"><u>Item 15:</u></a>	<a href="#"><u>Controls and Procedures</u></a>	144
<a href="#"><u>Item 16A:</u></a>	<a href="#"><u>Audit Committee Financial Expert</u></a>	145
<a href="#"><u>Item 16B:</u></a>	<a href="#"><u>Code of Ethics</u></a>	145
<a href="#"><u>Item 16C:</u></a>	<a href="#"><u>Principal Accountant Fees and Services</u></a>	146
<a href="#"><u>Item 16D:</u></a>	<a href="#"><u>Exemptions from the Listing Standards for Audit Committees</u></a>	146
<a href="#"><u>Item 16E:</u></a>	<a href="#"><u>Purchases of Equity Securities by the Company and Affiliated Purchasers</u></a>	146
<a href="#"><u>Item 16F:</u></a>	<a href="#"><u>Change in Registrant's Certifying Accountants</u></a>	146
<a href="#"><u>Item 16G:</u></a>	<a href="#"><u>Corporate Governance</u></a>	147
<a href="#"><u>Item 16H:</u></a>	<a href="#"><u>Mine Safety Disclosure</u></a>	148
<b>Part III</b>		
<a href="#"><u>Item 17:</u></a>	<a href="#"><u>Financial Statements</u></a>	148
<a href="#"><u>Item 18:</u></a>	<a href="#"><u>Financial Statements</u></a>	148
<a href="#"><u>Item 19:</u></a>	<a href="#"><u>Exhibits</u></a>	149



## INTRODUCTION

The following is the Report on Form 20-F of Ellomay Capital Ltd. 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 “\$,” “dollar,” “US\$” or “U.S. dollar” are to the legal currency of the United States of America, references to “NIS” or “New Israeli Shekel” are to the legal currency of Israel and references to “€” “Euro” or “EUR” are to the legal currency of the European Union.

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.

## FORWARD-LOOKING STATEMENTS

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

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

- *Amendments, including retroactive amendments, to the regulations governing the photovoltaic markets in which we operate or to which we may in the future enter;*
- *the market, economic and political factors in Italy, in Spain, in Luxemburg and generally in Europe, in Israel and worldwide;*
- *our contractors' technical, professional and financial ability to deliver on and comply with their operation and maintenance undertakings in connection with the operation of our photovoltaic plants;*
- *our ability to further familiarize ourselves and maintain expertise in the photovoltaic market and 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 Dori Energy Ltd. and Dorad Energy Ltd.;*
- *fluctuations in the value of currency;*
- *the price and market liquidity of our ordinary shares;*
- *the fact that we may be deemed to be an “investment company” under the Investment Company Act of 1940 under certain circumstances (including as a result of the investments of assets following the sale of our business), and the risk that we may be required to take certain actions with respect to the investment of our assets or the distribution of cash to shareholders in order to avoid being deemed an “investment company”;*

- *our plans with respect to the management of our financial and other assets and our ability to identify, evaluate and consummate additional suitable business opportunities and strategic alternatives; and*
- *the 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

For the years ended December 31, 2014, 2013, 2012, 2011 and 2010, we have prepared our consolidated financial statements in accordance with IFRS, as issued by the IASB.

The financial statements for the year ended December 31, 2010 were audited by Kost Forer Gabbay & Kasierer, an independent registered public accounting firm and a member of Ernst & Young Global. The financial statements for the years ended December 31, 2014, 2013, 2012 and 2011 were audited by Somekh Chaikin, an independent registered public accounting firm and a member of KPMG International.

On June 9, 2011, we effected a one-for-ten reverse split of our ordinary shares as approved by our shareholders, or the Reverse Split. The Reverse Split caused each 10 ordinary shares, NIS 1.00 par value per share, to be converted into one ordinary share, NIS 10.00 par value per share. No fractional shares were issued as a result of the Reverse Split as all fractional shares resulting from the Reverse Split that were one-half share or more were increased to the next higher whole number of shares and all fractional shares that were less than one-half share were decreased to the next lower whole number of shares. Unless explicitly stated otherwise, all share prices and amounts are adjusted to account for the Reverse Split.

We currently own twelve operating photovoltaic plants in Italy, with an aggregate installed capacity of approximately 22.6 megawatt peak, or MWp, three operating photovoltaic plants in Spain, with an aggregate installed capacity of approximately 5.6 MWp and 85% of one operational photovoltaic plant in Spain, with an installed capacity of approximately 2.3 MWp, or, each, a PV Plant and, together, the PV Plants, and indirectly hold 7.5% of the equity of Dorad Energy Ltd., or Dorad (and an option to increase such holdings to 9.375%). See “Item 4.A: History and Development of Ellomay” and “Item 4.B: Business Overview” for more information.

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 tables below set forth selected consolidated financial data under IFRS for the years ended December 31, 2014, 2013, 2012, 2011 and 2010. The information included in the tables has been derived from our audited consolidated financial statements. The audited consolidated financial statements at December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012, appear at the end of this report.

**Consolidated Statements of Profit or Loss and Other Comprehensive Income (Loss)**  
(in thousands of U.S. Dollars except per share and share data)

	For Year ended December 31,				
	2014	2013	2012	2011	2010
Revenues	\$ 15,782	\$ 12,982	\$ 8,890	\$ 6,114	\$ -
Operating expenses	3,087	2,381	1,954	1,391	-
Depreciation expenses	5,452	4,021	2,717	1,777	-
Gross profit	7,243	6,580	4,219	2,946	-
General and administrative expenses	4,253	3,449	3,110	3,102	3,211
Company's share of income (losses) of investee accounted for at equity	1,819	*(540)	(232)	(596)	*(66)
Other income (expense), net	1,438	*(42)	*146	-	-
Gain on bargain purchase	3,995	10,237	-	-	-
Capital loss, net	-	-	(394)	-	-
Operating profit (loss)	10,242	12,786	629	(752)	(3,277)
Financing income	2,245	204	550	1,971	1,076
Financing income (expenses) in connection with derivatives, net	(1,048)	*1,543	*(2,277)	(2,601)	404
Financing expenses	(4,592)	(4,201)	*(2,046)	(608)	(80)
Financing income (expenses), net	(3,395)	(2,454)	(3,773)	(1,238)	1,400
Profit (loss) before taxes on income	6,847	10,332	(3,144)	(1,990)	(1,877)
Tax benefit (taxes on income)	(201)	(245)	1,011	1,018	44
Profit (loss) from continuing operations	6,646	10,087	(2,133)	(972)	(1,833)
Income from discontinued operations, net	-	-	-	-	7,035
Net income (loss) for the year	6,646	10,087	(2,133)	(972)	5,202
Income (Loss) attributable to:					
Shareholders of the Company	6,685	10,068	(2,110)	(972)	5,202
Non-controlling interests	(12)	19	(23)	-	-
Net income (loss) for the year	6,646	10,087	(2,133)	(972)	5,202
Other comprehensive income (loss):					
Items that are or may be reclassified to profit or loss:					
Foreign currency translation adjustments	(3,199)	6,038	1,620	(3,698)	194
Items that would not be reclassified to profit or loss:					
Presentation currency translation adjustments	(9,082)	-	-	-	-
Total other comprehensive income (loss)	(12,281)	6,038	1,620	(3,698)	194
Total comprehensive income (loss)	(5,635)	16,125	\$ 513	\$ (4,670)	\$ 5,396
Basic net earnings (loss) per share:					
Earnings (loss) from continuing operations	\$ 0.62	\$ 0.94	\$ (0.2)	\$ (0.09)	\$ (0.2)
Earnings from discontinued operations	-	-	-	-	0.9
Net earnings (loss)	\$ 0.62	\$ 0.94	\$ (0.2)	\$ (0.09)	\$ 0.7
Diluted net earnings (loss) per share:					
Earnings (loss) from continuing operations	\$ 0.62	\$ 0.94	\$ (0.2)	\$ (0.09)	\$ (0.2)
Earnings from discontinued operations	-	-	-	-	0.8
Net earnings (loss)	\$ 0.62	\$ 0.94	\$ (0.2)	\$ (0.09)	\$ 0.6
Weighted average number of shares used for computing basic earnings (loss) per share	10,692,371	10,692,371	10,709,294	10,775,458	7,911,551
Weighted average number of shares used for computing diluted earnings (loss) per share	10,808,288	10,752,808	10,709,294	10,775,458	8,904,250

\* During the current period the Company changed the comprehensive income statement classification of the results of the Company's investments in energy projects. The results of such investments are recorded within the operating results. Accordingly, the share of losses of investee accounted for under the equity method and re-evaluation of option to acquire additional shares in the investee are recorded in the operating profit to more appropriately reflect the Company's operations as a holding company operating in the business of energy and infrastructure. Comparative amounts were reclassified for consistency.

Other financial data (in thousands of U.S. Dollars)

	For Year ended December 31,				
	2014	2013	2012	2011	2010
Adjusted EBITDA <sup>(1)</sup>	\$ 11,669	\$ 6,570	\$ 3,592	\$ 1,021	\$ (3,277)

(1) Adjusted EBITDA is a non-IFRS measure and is defined as earnings before financial expenses, net, gain on bargain purchase, capital loss, 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 Adjusted EBITDA to be an important measure of comparative operating performance, Adjusted 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. Adjusted 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 Adjusted EBITDA in the same manner, and the measure as presented may not be comparable to similarly-titled measures presented by other companies. Our Adjusted EBITDA may not be indicative of our historic operating results; nor is it meant to be predictive of potential future results. We use the term "Adjusted EBITDA" to highlight the fact that we deducted the gain on bargain purchase from the net income for the years ended December 31, 2014 and 2013 and added the capital loss to the net income for the year ended December 31, 2012. The Adjusted EBITDA is otherwise fully comparable to EBITDA information which has been previously provided for prior periods.

Reconciliation of Net income (loss) to Adjusted EBITDA

	For Year ended December 31,				
	2014	2013	2012	2011	2010
Net income (loss) for the year	\$ 6,646	\$ 10,087	\$ (2,133)	\$ (972)	\$ 5,202
Financing expenses (income), net	3,395	*2,454	3,627	1,238	(1,400)
Loss (income) from discontinued operations, net of tax	-	-	-	-	(7,035)
Income tax expenses (benefit)	201	245	(1,011)	(1,018)	(44)
Gain on bargain purchase	(3,995)	(10,237)	-	-	-
Capital loss	-	-	394	-	-
Depreciation and amortization	5,452	4,021	2,717	1,777	0
Adjusted EBITDA	11,669	\$ 6,570	\$ 3,594	\$ 1,025	\$ (3,277)

\* During the current period the Company changed the comprehensive income statement classification of the results of the Company's investments in energy projects. The results of such investments are recorded within the operating results. Accordingly, the share of losses of investee accounted for under the equity method and re-evaluation of option to acquire additional shares in the investee are recorded in the operating profit to more appropriately reflect the Company's operations as a holding company operating in the business of energy and infrastructure. Comparative amounts were reclassified for consistency.

Consolidated Statements of Financial Position Data (in thousands of U.S. Dollars except share data)

	At December 31,				
	2014	2013	2012	2011	2010
Working capital (deficiency)	\$ 18,890	\$ (4,384)	\$ 27,977	\$ 31,856	\$ 71,756
Total assets	\$ 159,087	\$ 146,930	\$ 128,740	\$ 126,392	\$ 106,214
Total liabilities	\$ 64,961	\$ 47,169	\$ 45,626	\$ 42,331	\$ 17,648
Total equity	\$ 94,126	\$ 99,761	\$ 83,114	\$ 84,061	\$ 88,566
Capital stock	\$ 102,590 <sup>(1)</sup>	\$ 102,590 <sup>(1)</sup>	\$ 102,068 <sup>(1)</sup>	\$ 102,534 <sup>(2)</sup>	\$ 102,369
Ordinary shares outstanding	10,692,371 <sup>(1)</sup>	10,692,371 <sup>(1)</sup>	10,692,371 <sup>(1)</sup>	10,769,326 <sup>(2)</sup>	10,750,071

(1) Net of 85,655 treasury shares that were purchased during 2011 and 2012 according to a share buyback program that was authorized by our Board of Directors.

(2) Net of 8,700 treasury shares that were purchased during 2011 according to a share buyback program authorized by our Board of Directors.

**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 the PV Plants*

The majority of our PV Plants are located in Italy and our other PV Plants are located in Spain and therefore the revenues derived from them mainly depend on payments received from Italian and Spanish governmental entities. The economic crisis in the European Union, specifically in Italy and in Spain, and measures taken in order to improve Italy's and Spain's financial position, may adversely affect the results of our operations. The global financial crisis that began in 2007 directly affected Italy's and Spain's growth and economy. The situation worsened during 2011 due to the debt crisis in various European Union countries in general and specifically in Italy, whose current debt is one of the highest in the euro zone and in Spain, which has a high unemployment rate and high budget deficit. The financial crisis also caused the Italian and Spanish governments to adopt various spending cuts and tax increases aimed at bolstering growth and increasing revenues for the repayment of debt. For example, during 2011 Spain implemented changes to its incentive scheme, including the reduction of subsidies through 2013 and the Spanish government adopted a law in late 2012 that imposes a new revenue tax on electricity generating power plants. Both countries remain in a state of financial crisis and have commenced during 2013 and 2014 several legislation processes that revise or affect the remuneration scheme for photovoltaic plants and may do so again in the future. For example, the incentive scheme in Italy is based on end-users' payments and not directly on the Italian government's budget, however, in an attempt to revive the Italian economy and decrease electricity expenses, the Italian parliament adopted a new law in August 2014 that decreases the Feed in Tariff, or FiT, that was previously guaranteed to Italian photovoltaic plants for a period of twenty years. As a result of this new law, the FiT for our Italian PV Plants will decrease by approximately 8% commencing January 1, 2015. For more information see "Item 4.B: Business Overview" below and our financial statements included in this report. We cannot assure you that the continued economic crisis will not cause additional changes to the Italian government's photovoltaic energy incentive schemes or that no additional changes will be made in Spain's photovoltaic energy incentive scheme that may directly or indirectly affect the payments we receive and, therefore, our operations and revenues.

Our business depends to a large extent on the availability of financial incentives. The reduction or elimination of government subsidies and economic incentives could reduce our profitability and adversely impact our revenues and growth prospects. Many countries, such as Germany, Spain, Italy, France, Portugal and Japan, offer substantial incentives to offset the cost of photovoltaic power systems in the form of FiT or other incentives to promote the use of solar energy and to reduce dependence on other forms of energy. These government incentives could potentially be reduced or eliminated altogether. For example, on June 6, 2013, the Italian Authority for Electricity and Gas (AEEG) announced that the overall annual expense cap of €6.7 billion for incentive payments payable to PV has been reached. As a consequence, the latest feed-in tariff (FiT) regulation—the Conto Energia V—ceased to apply on July 6, 2013, thus ending the FiT payments for new photovoltaic plants. In addition, on December 19, 2013 AEEG announced the replacement, starting 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 for PV plants exceeding 100KWp. As set forth in the previous risk factor, in August 2014 the Italian parliament amended the FiT scheme in connection with existing photovoltaic plants decreasing the FiT guaranteed. In Spain, which also has a subsidy system for the photovoltaic industry, retroactive cuts were adopted from early 2011 by limiting the number of production hours that are eligible to receive the government's feed-in tariff and imposing taxes on sale of electricity. Since July 2013, a new remunerative regime for photovoltaic plants is in force pursuant to RDL 9/2013 that provides the owner of a renewable installation with a defined yield to be calculated as 10-year government bonds plus 300 basis points. For more information see "Item 4.B: Business Overview" below and our financial statements included in this report. If the Italian or Spanish governments elect to revise the incentive scheme, as both governments have done in the past, this may adversely affect the profitability from our PV Plants and from any new photovoltaic plant acquired by us, and may prevent us from continuing to acquire photovoltaic plants in Italy or in Spain. In general, uncertainty about the introduction of, reduction in or elimination of incentives or delays or interruptions in the implementation of favorable laws could substantially affect our profitability and adversely affect our ability to continue and develop new photovoltaic plants.

Due to the uncertainty in the photovoltaic field, including in Italy and in Spain, we may seek to primarily invest in photovoltaic plants that have already been connected to the national grid and are eligible to receive the applicable FIT, which may not be available on terms beneficial to us or at all and which, if available, may still be subject to retroactive changes through regulatory action. Acquisitions of photovoltaic plants that have already been constructed and are connected to the national grid currently provide relatively more certainty as to their economic potential than plants that are still in the planning or construction stage. It may be difficult for us to locate suitable opportunities with attractive returns, and, even if located, the acquisition of an operating photovoltaic plant may be less attractive as the PV market matures and as operating plants are generally more expensive. Our inability to locate and acquire additional photovoltaic plants and the higher cost of such photovoltaic plants may adversely affect our business and results of operations. Even if we do locate and acquire existing photovoltaic plants, there is still a chance that changes in the regulation will be applied retroactively to existing plants and to the existing remuneration scheme, as has happened in both Spain and Italy, which could also adversely affect our business and results of operations.

Existing regulations, and changes to such regulations, may present technical, regulatory and economic barriers to the construction and operation of our photovoltaic power plants, which may significantly reduce our profitability. Installation of photovoltaic power systems is subject to oversight and regulation in accordance with international, European, national and local ordinances, building codes, zoning, environmental protection regulation, utility interconnection requirements and other rules and regulations. For example, various governmental, municipal and other regulatory entities subject the installation and operation of the plants, and any other component of the PV Plants, to the issuance of relevant permits, licenses and authorizations. If such permits, licenses and authorizations are not issued, or are issued but not on a timely basis, this could result in the interruption, cessation or abandonment of one or more of our PV Plants, or may require making significant changes to one or more of our PV Plants, any of which may cause severe losses. 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 delay in receiving licenses or revocation of existing licenses may adversely affect our business and results of operations.

Success of the PV Plants, from their construction through their commissioning and ongoing commercial operation, depends 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 PV Plants, or the Contractors, and of the other third parties involved, including subcontractors, local advisors, financing entities, land developers and land owners, suppliers of parts and equipment, the energy grid regulator, governmental agencies and other potential purchasers of electricity. The PV Plants are a complex endeavor requiring timely input, often of a highly specialized technical nature, from several parties, including without limitation, the main supplier and contemplated plant operator, other suppliers of relevant parts and materials, the land developers and land owners, subcontractors, financing entities, governmental and related agencies both as subsidizers and as the purchasers of the electricity to be generated by the power plants and as regulators. In addition, as we use Contractors in order to operate and maintain our PV Plants, we depend on the Contractors' expertise and experience, representations, warranties and undertakings regarding, *inter alia*: the operation, maintenance and performance of each of the PV Plants, the use of high-quality materials, securing land use rights and obtaining applicable permits, obtaining the incentive agreement in order to secure the governmental incentive, obtaining the power purchase agreement for the sale of the produced electricity to the energy company, obtaining the interconnection agreement with the national electricity grid operator, strict compliance with applicable legal requirements, our Contractors' financial stability. If the Contractors' representations or warranties are inaccurate or untrue, or if any of the Contractors default on their obligations, delay their supply or provide us with a system that is not free from defect (which adversely affects the proper operation of one or more of the PV Plants), or if any of the other entities referred to herein fail to perform their obligations properly and on a timely basis or fails to grant us the required permits and certifications on a timely basis, at any point in connection with any of the PV Plants, this could result in the interruption, cessation or abandonment of the relevant PV Plant, or may require making significant changes to the project in connection with the relevant PV Plant, any of which may cause us severe losses. For example, the contractor of several of our Italian PV Plants entered into insolvency proceedings during 2012 and we were forced to replace the contractor for such PV Plants. Although we located a replacement for such contractor and there are currently many operation and maintenance contractors available in the Italian and Spanish markets, there is no assurance that we could locate an alternative contractor in the place of a deficient contractor under similar commercial terms in the future.

**We are exposed to the possibility of damages to, or theft of, the various components of our photovoltaic plants. Such occurrences may cause disruptions in the production of electricity and additional costs.** Some of our PV Plants suffered damages as a result of theft of panels and other components, of damages caused due to bad weather and due to land conditions. Although such damages and theft are generally covered by the PV Plants' insurance policies, any such occurrences in the future may cause disruption in the production and measurement of electricity in connection with the relevant photovoltaic plant, may not be covered in part or in its entirety by the insurance and may cause an increase in the premiums paid to our insurance companies, which may adversely affect our results of operations and profitability.

**As a substantial part of our business is currently located in Europe, we are subject to a variety of additional risks that may negatively impact our operations.** We currently have substantial operations in Italy and in Spain, which are held by our Luxembourg subsidiary, and may make additional investments in projects located outside of Israel or the United States. Due to these 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 and the United States, cultural and language differences, crime, strikes, riots, civil disturbances, terrorist attacks and wars and deterioration of political relations with Israel. The PV Plants subject us to a number of these risks, as well as the requirement to comply with Italian, Spanish and European Union law. We cannot assure you that we would be able to adequately address these additional risks. If we were unable to do so, our operations might suffer.

**We are dependent on the suppliers that supply the panels that are installed in our photovoltaic plants. The lack of reliability of such suppliers or of their products, as well as such suppliers' insolvency, may have an adverse effect on our business.** Our PV Plants' performance depends on the quality of the panels installed. Therefore, one of the critical factors in the success of our PV Plants is the existence of reliable panel suppliers, who guarantee the performance and quality of the panels supplied. During recent years, several of the manufacturers of photovoltaic panels became insolvent and certain others suffered severe losses and have gone through a consolidation process. Degradation in the performance of the solar panels above a certain level is guaranteed by the panel suppliers and we receive undertakings from the Contractor with respect to minimum performances, however, if any of the suppliers is unreliable or becomes insolvent, it may default on warranty obligations, and such default may cause an interruption in our business or reduction in the generation of energy power, and thus may have an adverse effect on our profitability and results of operations.

**In the event we will be unable to continuously comply with the obligations and undertakings, including with respect to financial covenants, which we undertook in connection with the project financing of the PV Plants, our results of operations may be adversely affected.** In connection with the financing of several of our PV Plants, we have long-term agreements with an Italian bank and a leasing company. The agreements that govern the provision of financing include, inter alia, undertakings and financial covenants that we are required to maintain for the duration of such financing agreements. In the event we fail to comply with any of these undertakings and covenants, we may be subject to penalties, future financing requirements, and, finally, to the acceleration of the repayment of debt. These occurrences may have an adverse effect on our financial position and results of operations and on our ability to obtain outside financing for other projects.

**A drop in the price of electricity may negatively impact our results of operations.** The revenue from the sale of electricity produced by the PV Plants includes the incentives in the form of feed-in tariffs and proceeds from the sale of electricity produced in the electricity market at market price. A decrease in the price of electricity in Italy or in Spain may have a negative impact on our profitability and on our ability to expand our photovoltaic business.

**Photovoltaic power plant installations have substantially increased over the past few years. The increased demand for solar panels resulted in substantial investments in photovoltaic panels production facilities, creating oversupply and a sharp decrease in the prices of solar panels. These events resulted in financial difficulties and consolidation of panel suppliers, which may lead to a 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), increasing the costs of replacing components in our existing PV Plants and impacting the profitability of constructing new photovoltaic plants and our ability to expand our business. Additionally, if there is a shortage of key components necessary for the production of the solar panels, that may constrain our revenue growth.** Higher demand for solar panels and other components of the photovoltaic system resulted in the past in oversupply and a sharp decrease in prices that led many panel suppliers to financial difficulties and liquidation or consolidation with other suppliers. This trend may lead to a decrease in supply and, therefore, an increase in the price of the photovoltaic system components. Should we decide to expand the business and construct additional plants over time, such increases may significantly decrease the expected return on the investment in new projects. 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.

**Our ability to produce solar power is dependent upon the magnitude and duration of sunlight as well as other meteorological and geographic factors.** The power production has a seasonal cycle, and adverse meteorological conditions can have a material impact on the plant's output and could result in production of electricity below expected output, which in turn could adversely affect our profitability. In addition, floods, storms, seismic turbulence and earth movements may damage our PV Plants and the insurance coverage we have for such risks may not cover in full the damage because of these circumstances are sometimes deemed "acts of god." The resulting expense due to the need to replace damaged components or the lower electricity output may adversely affect our profitability.



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

***Risks Related to Our Investment in Dori Energy***

We have joint control in U. Dori Energy Infrastructures Ltd., or Dori Energy, who, in turn, holds a minority stake in Dorad. Therefore, we do not control the operations and actions of Dorad. We currently hold 40% (and an option to increase our holdings under certain conditions to 50%) of the equity of Dori Energy who, in turn, holds 18.75% of Dorad. Although we entered into a shareholders' agreement with Dori Energy and the other shareholder of Dori Energy, U. Dori Group Ltd., or the Dori SHA, 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. In addition, 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. Although we have one representative on the Dorad board of directors, we do not control Dorad's operations. These factors may potentially adversely impact the business and operations of Dorad and Dori Energy. 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 Dori SHA contains several restrictions on our ability to transfer our holdings in Dori Energy, including a "restriction period" during which we are not allowed to transfer our holdings in Dori Energy (other than to permitted transferees) and, thereafter, we need to comply with certain mechanisms such as 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.

**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 recently finished construction of, and currently operates, a combined cycle power plant based on natural gas, with a production capacity of approximately 850 MW, or the Dorad Power Plant, 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 Dorad Power Plant is exposed to various risks, including, without limitation, in connection with noncompliance or breach by the contractor involved in the construction of its obligations during the warranty period causing delays and inability to provide electricity to Dorad's customers, which may result, inter alia, in fines and penalties being imposed on Dorad or in higher operating expenses, discovery of defects in the construction due to the contractor or outside events and delays in supply of equipment or replacement parts required for the continued operations of the Dorad Power Plant, all of which may have a material adverse effect on Dorad's results of operations and profitability;
- 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 and also on the accuracy of the proprietary forecasting system that will be 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. Any cessation or limitation of operations may cause Dorad to incur additional expenses or result in the enforcement of guarantees provided to certain customers, all of which may have a material adverse effect on Dorad's results of 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. In the event 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 electricity sector in Israel is highly centralized and 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. In addition, the electricity sector is subject to various laws and regulations, such as in connection with the tariffs charged by the IEC, including the resolution from May 2013 to charge private manufacturers for the IEC's system operation services, and the licensing requirement, as the requirement that Dorad obtain a permanent license prior to commencement of its operations. Among other things, the prices paid by Dorad to the IEC for system operation services it will provide to Dorad and the fees received by Dorad 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 and are subject to change due to an impending reform in the electricity market in Israel in light of the IEC's financial situation and the entrance of private energy manufacturers, including Dorad, into the Israeli electricity market. The updates and changes to the regulation may not necessarily involve negotiations or consultations with Dorad and may be unilaterally imposed on it. In addition, the employees of the IEC, who object to certain reforms in the Israeli electricity sector, have in the past applied sanctions to prevent the connection, and at a later stage threatened to disconnect, the Dorad Power Plant from the Israeli national grid as part of their efforts to prevent implementation of these reforms and may in the future do so again. For example, the approval of the generation license and supply license for the Dorad Power Plant was delayed in early 2014 due to ongoing legal proceedings involving the IEC and its employees. These licenses were only approved after Dorad filed an urgent petition with the Israeli High Court in early May 2014, and the current supply license is for a one-year period. On August 12, 2014 Dorad filed a request to extend the supply license for an additional 19 years. Any changes in the tariffs, system charges or applicable regulations, failure by Dorad to obtain or to maintain the required permanent license, the inability of the IEC to pay Dorad or unilateral actions on the part of IEC's employees may adversely affect Dorad's plan of operations and could have a material adverse effect on Dorad's profitability.

- Dorad's operations are 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.

- The Dorad Power Plant is located in Ashkelon, a town in the southern part of Israel, in proximity to the Gaza Strip. The location of the Dorad Power Plant is within range of missile strikes from the Gaza Strip. In recent years, there has been an escalation in violence and missile attacks from the Gaza Strip, including an eight day period in November 2012 in which more than 1,500 missiles were fired from Gaza Strip to Southern and Central Israel and a fifty day period in July and August of 2014 in which more than 4,500 missiles, rockets and mortar shells were fired from the Gaza Strip to Southern and Central Israel. The attacks during 2012 disrupted the work on the Dorad Power Plant, which resumed after the missile strikes ceased and the Dorad Power Plant continued its operations during the attacks of July and August 2014. Although measures were taken in order to protect the Dorad Power Plant from missile attacks, any such further attacks to the area or any direct damage to the location of the Dorad Power Plant may damage Dorad's facilities and disrupt the operations of the Dorad Power Plant and thereafter its operations, and may cause losses and delays.

- Dorad entered into a long-term 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 that may result in Dorad paying for gas that is not actually required for its operations. In the event Dorad will be required to pay for 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 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 gas from Tamar and on the existence of sufficient reserves throughout the term of the agreement with Tamar. Any delays, disruptions, increase 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.
- As a result of the agreements with contractors of the Dorad Power Plant and the indexation included in the gas supply agreement, Dorad is exposed to changes in exchange rates of the U.S. dollar against the NIS. To minimize this exposure Dorad executed forward transactions to purchase U.S. dollars against the NIS. As the hedging performed by Dorad does not completely eliminate such exposure, Dorad's profitability might be adversely affected due to future changes in exchange rates. 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.

#### ***Risks Related to our Other Activities***

**Our ability to leverage our investments and increase our operations depends, inter alia, on our ability to obtain attractive project and corporate financing from financial entities. Due to the crisis in the European financial markets in general, and in the Italian and Spanish financial markets specifically, obtaining financing from local banks is more difficult, and the terms on which such financing can be obtained are less favorable to the borrowers.** 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. Due to the financial crisis in the European Union in general, and in countries like Greece, Spain and Italy specifically, the local Italian and Spanish banks have substantially limited the scope of financing available to commercial firms and the financing that is provided involves terms less favorable than terms provided prior to the financial crisis. In addition, obtaining financing for our PV Plants from financial institutions that are not located in Spain or in Italy is difficult due to such institutions' lack of familiarity with these markets and the underlying assets. Although we have financing agreements with respect to four of our PV Plants and have raised significant funds in Israel during 2014 by the issuance of our Series A Debentures, there is no assurance that we will be able to procure additional project financing for our remaining PV Plants or any operations we will acquire in the future or 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 increase our operations.

**Our ability to freely operate our business is limited as a result of certain restrictive covenants contained in the deed of trust of our Series A Debentures.** The deed of trust governing the Series A Debentures, or the Series A Deed of Trust, contains a number of restrictive covenants that limit our operating and financial flexibility. These covenants include, among other things, a "negative pledge" with respect to a floating pledge on all of our assets and an obligation to pay additional interest in case of certain rating downgrades. The Series A Deed of Trust also contains covenants regarding maintaining certain levels of financial ratios and criteria, including as a condition to the distribution of dividends and other customary immediate repayment conditions, including, under certain circumstances, in the event of a change of control, a 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 Series A Debentures could result in demand for immediate repayment of the outstanding amount under the Series A 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, 2014, our total indebtedness was approximately Euro 52.3 million (approximately \$63.6 million), including principal and interest expected repayments, financing related swap transactions and excluding any related capitalized costs. The trust deed governing the Series A Debentures permits us to incur additional indebtedness, subject to maintaining certain financial ratios and covenants. Our debt 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;
- 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.

**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, short-term deposits and marketable securities in various currencies, including US\$, Euro and NIS. Our investments in the Italian and Spanish PV Plants and in Dori Energy are denominated in Euro and NIS. Our Series A Debentures are denominated in NIS and the interest and principal payments are to be made in NIS. The financing we have in connection with four of our PV Plants bears interest that is 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 transactions as more fully explained in “Item 11: Quantitative and Qualitative Disclosures About Market Risk” below and as described in our financial statements included in this report, we cannot ensure that we will manage to eliminate these risks in their entirety. These swap transactions may also impact the results of our operations due to fluctuations in their value based on changes in the relevant exchange or interest rate.

The energy sector around the world, and specifically in Europe and Israel, is highly regulated, is subject to governmental master plans and policy considerations and requires permits and licenses from various authorities. Our inability to obtain or maintain licenses or permits or changes in the regulatory scheme and governmental preferences could materially adversely affect our existing projects and our willingness and ability to enter into new projects. The energy sector is typically regulated and supervised by various local governmental agencies. Participation in each stage of the energy production and delivery process typically requires governmental approvals and permits that are issued for definite periods and that may be revoked or revised by the relevant governmental authority due to various reasons that may not necessarily be within the control of the permit-holder. In addition, the receipt of a permit or license is sometimes subject to the approval, renewal or update of a governmental master plan regulating the energy sector or the specific energy production method, a complex and lengthy process. For example, our potential involvement in the pumped-storage project in the Manara Cliff in Israel, or the Manara Project, is subject to the issuance of a conditional, and thereafter permanent, license by the Israeli Public Utilities Authority – Electricity, or the Authority, and the issuance of such license will be subject to the quota set forth by the Authority for pumped-storage projects in Israel. Our ability to commence development of the Manara Project, or any other regulated energy project in Israel and around the world, will depend on the projects' compliance with governmental master plans and the obtainment and maintenance of the required licenses and permits. In the event we are unable to obtain or maintain required permits, our ability to commence or continue developing and operating energy projects will be adversely affected.

If we do not conduct an adequate due diligence investigation of a target business or a power plant, 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 businesses or power plants that we would intend to acquire or purchase an interest in. Intensive due diligence is time consuming and expensive due to the technical, accounting, finance and legal professionals who must be involved in the due diligence process. Even if we conduct extensive due diligence on a target business, we cannot assure you that this due diligence will reveal all material issues that may affect a particular target business, or that factors outside the control of the target business and outside of our control will not later arise. If our due diligence review fails to identify issues specific to a target business, industry or the environment in which the target business operates, 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.

**The current general economic and business conditions around the world and any subsequent economic downturn may adversely affect our ability to consummate new acquisitions, to procure financing for our PV Plants, the prospects of any project we may acquire and the trading price of our ordinary shares.** Since mid-2008, due to the severity of the crisis affecting financial institutions throughout the world, the rising costs of various commodities, the limited growth and economic development throughout the world, as well as the recession, the general economic and business conditions in many countries around the world worsened, affecting, among other things, credit ratings of borrowers, the perceived and actual credit risks faced by lenders and purchasers of debt securities, the solvency of trade partners, market entities' appetite for risk, the spending habits of consumers, the ability to procure financing. This crisis disproportionately affected Europe during 2011 and 2012 and many European economies, including Italy and Spain. Despite the signs of economic recovery since 2013, there is no assurance that this financial crisis will improve or be resolved over the short, medium or long term, or that the recession will be overcome in its entirety in the near or far future, or that any of the trends associated with such recession will be reversed in whole or in part. Furthermore, if any further economic downturns ensue, this may adversely affect our ability to procure financing required for the acquisition of new projects, the value of new projects we acquire and our financial condition and results of operations. In addition, if such further economic downturn will occur, it may also affect the trading prices of securities in various capital markets around the world and may significantly and adversely affect the trading price of our ordinary shares.

**We may be deemed to be an "investment company" under the Investment Company Act of 1940, which could subject us to material adverse consequences.** We could be deemed to be an "investment company" under the Investment Company Act if we invest more than 40% of our assets in "investment securities," as defined in the Investment Company Act. Investments in securities of majority owned subsidiaries (defined for these purposes as companies in which we control 50% or more of the voting securities) are not "investment securities" for purposes of this definition. As our interest in Dori Energy is not considered an investment in majority owned securities, unless we maintain the required portion of our assets under our control, limit the nature of the requisite portion of our investments of our cash assets to cash and cash equivalents (which are generally not "investment securities"), succeed in making additional strategic "controlling" investments and continue to monitor our investment in Dori Energy, we may be deemed to be an "investment company." We do not believe that our holdings in the PV Plants would be considered "investment securities," as we control the PV Plants via wholly-owned subsidiaries and we do not believe that the current fair value of our holdings in Dori Energy (all as more fully set forth under "Item 4.A: History and Development of Ellomay" and "Item 4.B: Business Overview" 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." However, we recently provided a notice of exercise of our option to increase our holdings in Dori Energy from 40% to 49%, which may increase the likelihood that we could be deemed an "investment company" in the future. 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 and Spanish 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.

**Our ability to successfully effect acquisitions and to be successful thereafter will be significantly dependent upon the efforts of our key personnel. Several of our key personnel allocate their time to other businesses.** Our ability to successfully effect acquisitions is dependent upon the efforts of our key personnel, including Shlomo Nehama, our chairman of the board, Ran Fridrich, a director and our Chief Executive Officer and Menahem Raphael, a member of our board. Although we have entered into a Management Services Agreement with entities affiliated with these board members, 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 our directors' other business affairs require them to devote more substantial amounts of time to such affairs, it could limit their ability to devote time to our affairs and could have a negative impact on our ability to consummate acquisitions.

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

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

Based on our income and/or assets, we believe that we were a PFIC with respect to any U.S. shareholder that held our shares in 2008 through 2012. We also believe, based on our income and assets, that it is likely that we were not a PFIC with respect to U.S. shareholders that initially acquired our ordinary shares in 2013 and in 2014. 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.



**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.

**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 MKT rules allow us to follow certain Israeli “home country” corporate governance practices in lieu of the corresponding NYSE MKT 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.

**We have undergone, and will in the future undergo, tax audits and may have to make material payments to tax authorities at the conclusion of these audits.** Prior to the sale of our business to HP, we conducted business globally and a substantial part of our operations was conducted in various countries and our past tax obligations were not assumed or purchased by HP as part of the business sold. Since the execution of the contracts in connection with the PV Plants and our other investments, we now also conduct our business globally (currently in Israel, Luxemburg, Italy and Spain). 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 will be subject to further audit and assessment by the applicable tax authorities. While we believe we comply with applicable income tax laws, 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.

**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 59.3% of our outstanding ordinary shares. Shlomo Nehama, our Chairman of the Board who controls Nechama Investments holds directly an additional 4.4% of our outstanding ordinary shares, Ran Fridrich, our CEO and a member of our Board of Directors, holds directly an additional 1.1% of our outstanding ordinary shares and Menaheem Raphael, a member of our Board of Directors who, together with Ran Fridrich, controls the general partner of Kanir, directly and indirectly holds an additional 4.3% of our outstanding ordinary shares. Therefore, acting together, these shareholders could exercise significant influence over our business, including with respect to the election of our directors and the approval of change in control and other material transactions. This concentration of control may have the effect of delaying or preventing changes in control or changes in management, or limiting the ability of our other shareholders to approve transactions that they may deem to be in their best interest. In addition, as a result of this concentration of control, we are deemed a “controlled company” for purposes of NYSE MKT rules and as such we are not subject to certain NYSE MKT 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 “Item 10.B: 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 have been listed on the NYSE MKT under the symbol “ELLO” since August 22, 2011 and on the Tel Aviv Stock Exchange, or TASE, under the symbol “ELOM” since October 27, 2013. Trading in our ordinary shares on these markets is made in different currencies (U.S. dollars on the NYSE MKT 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 non-compliance with the continued listing requirements of the NYSE MKT could cause the delisting of our ordinary shares. The market liquidity and analyst coverage of our ordinary shares is very limited.** The NYSE MKT requires listed companies to comply with continued listing requirements, including with respect to stockholders’ equity, distribution of shares and low selling price. There can be no assurance that we will continue to qualify for listing on the NYSE MKT. If our ordinary shares are delisted from the NYSE MKT, 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. Also, as our shares are now traded on the TASE, to the extent our shares are delisted from the NYSE MKT 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 MKT but are still listed on the TASE, we will be required to start filing and publishing reports in Hebrew 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 in addition to additional regulatory requirements that may have an adverse effect on our results of operations. In addition, our ordinary shares are not yet regularly covered by securities analysts and the media and the liquidity of our ordinary shares is still very limited. Such limited liquidity 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.

**We have not paid any cash dividends in the past and have only recently adopted a dividend distribution policy.** On March 18, 2015, our Board of Directors adopted a dividend distribution policy, which applies to the payment of dividends and the repurchase of our shares. The declaration of dividends will depend on our revenues and 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 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 deed of trust governing our Series A Debentures restrict our ability to distribute dividends (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.** 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 have been listed on the NYSE MKT since August 22, 2011 and on the TASE since October 27, 2013, there is still limited liquidity and limited analyst coverage of our business and prospects, and these circumstances, combined with the general economic and political conditions, 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.

#### **ITEM 4: Information on Ellomay**

##### **A. History and Development of Ellomay**

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

We were incorporated as an Israeli corporation under the name Nur Advertisement Industries 1987 Ltd. on July 29, 1987. On August 1, 1993, we changed our name to NUR Advanced Technologies Ltd., on November 16, 1997 we again changed our name to NUR Macroprinters Ltd. and on April 7, 2008, in connection with the closing of the sale of our business to HP, we again changed our name to Ellomay Capital Ltd. Our corporate governance is controlled by the Israeli Companies Law, 1999, as amended, or the Companies Law.

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

### ***Recent Developments***

#### **The Dorad Power Plant**

In July 2013, the Dorad Power Plant constructed by Dorad Energy, a private Israeli company in which we indirectly hold 7.5% (and an option to increase such holdings to 9.375%), was energized and connected to the Israeli national grid. In November 2013, the Natural Gas Authority of the Israeli Ministry of National Infrastructures, Energy and Water Resources approved the connection of the Dorad Power Plant to the national gas pipeline network. In May 2014, the Israeli Minister of National Infrastructures, Energy and Water Resources approved the twenty-year generation license and the one-year supply license for the Dorad Power Plant and it commenced commercial operation.

In April 2015, we provided a notice of exercise of the option to acquire additional 9% of the share capital of Dori Energy. Following the exercise of this option, our holdings in Dori Energy will increase from 40% to 49% and our indirect ownership of Dorad will increase from 7.5% to 9.1875%. The aggregate amount that will be paid by us in connection with the exercise of this option is expected to be approximately NIS 28.1 million (approximately \$7.1 million) and includes the exercise price and the amount required in order to realign the shareholders loans provided to Dori Energy by its shareholders with the new ownership structure. The closing of the exercise of this option is expected to take place during the upcoming weeks. For more information see “Item 4.B: Dori Energy and the Dorad Power Plant.”

#### **Closing of the Murcia PV Plants Acquisition**

On July 17, 2014, we purchased three Spanish companies, each holding one ground mounted fixed technology photovoltaic (solar) plant in Murcia, Spain, or, together, the Murcia PV Plants, with an aggregate installed capacity of approximately 5.6 MWp. The final adjusted purchase price of the Murcia PV Plants was approximately 9.8 million Euros. The Murcia PV Plants were purchased on a full equity basis, with no external loans at the level of the companies that directly own them. The Murcia PV Plants are connected to the national Spanish grid since 2011.

#### **Series A Debentures Offering in Israel**

On January 13, 2014, we issued Series A Nonconvertible Debentures due December 31, 2023 in a public offering in Israel in the aggregate principal amount of NIS 120,000,000 (approximately \$34.4 million based on the U.S. Dollar/NIS exchange rate at that time) 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 \$33.5 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 \$32.9 million). 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 \$23.6 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 \$22.9 million). For additional information concerning the Series A Debentures see “Item 5.B: Liquidity and Capital Resources” and “Item 10.C: Material Contracts.”

### **Pumped-hydro Storage project in the Manara Cliff in Israel**

Pumped-hydro storage is a form of renewable energy that uses two reservoirs to create a limited amount of energy on demand. During off-peak hours water is pumped from the lower reservoir to the upper reservoir and then, during peak periods, the water is released through a turbine to produce electricity.

On January 28, 2014 we entered into an agreement with Ortam Sahar Engineering Ltd., or Ortam, an Israeli publicly listed company, pursuant to which we shall acquire Ortam's holdings (24.75%) in Agira Sheuva Electra, L.P., or the Partnership, an Israeli Limited Partnership that is promoting a prospective pumped-hydro storage project in the Manara Cliff in Israel, or the Manara Project, as well as Ortam's holdings: (i) in Chashgal Elyon Ltd., or the GP, an Israeli private company, which is the general partner of the Partnership (25%), and (ii) in the engineering, procurement and construction contractor of the aforementioned project (50%). On May 20, 2014 our 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 listed company. Pursuant to the Electra Agreement, Ellomay Manara shall acquire 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 with a one-year 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 conditions as set forth below, we shall acquire the Cooperative's holdings (24.75%) in the Partnership as well as its holdings: (i) in the GP (25%), and (ii) in the EPC (50%).

On November 3, 2014, Ellomay Manara consummated the acquisition of 75% of the limited partnership rights in the Partnership as well as 75% of the GP, from Electra, Ortam and from the Cooperative. The remaining 25% of the Partnership and 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, and undertook to pay certain consideration upon the fulfillment of certain conditions precedent. On the same date, Ellomay Manara acquired Ortam's holdings (50%) in the 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 Project, we and Ellomay Manara are liable (subject to certain conditions and limitations), jointly and severally, to all the monetary obligations of Ellomay Manara.

The Manara Project was issued a conditional license by the Authority to operate a pumped storage power plant with a capacity of 200 MW, which has since expired, and therefore the advancement of the Manara Project depends, among other factors, on the issuance of a new license by the Authority. We and our subsidiaries that are involved in the Manara Project may, for various reasons including changes in the applicable regulation and adverse economic conditions, resolve not to continue the advancement of the Manara Project without further liability to the other parties under the aforementioned agreements. *We will assess from time to time, whether, when at to what extent we will undertake activities in order to advance the Manara Project. Therefore, we believe that the aforementioned acquisitions and transactions are not currently material to us.*

#### **Pre-Bid Agreement in connection with Alon Licenses**

On June 10, 2014, we entered into a Pre-Bid Agreement, or the PBA, with several other companies, or, together with us, the Consortium, in connection with the possible submission of an offer for the acquisition of the participating interest in the 364/"Alon A" License and the 366/"Alon C" License, both exploration and drilling licenses offshore Israel, from Noble Energy Mediterranean Ltd., or Noble, Delek Drilling L.P., or Delek, and Avner Oil Exploration L.P. Pursuant to the PBA, we could choose whether or not to join the offer but were required to participate in the costs of preparing and submitting the offer regardless of whether or not we chose to join the offer. We joined the Offer that was submitted and are expected to hold approximately 20% of the Consortium. In connection with the submission of the Offer, we recorded related expenses of approximately \$0.156 million during the year ended December 31, 2014. *At this stage, the PBA and related costs are not material to us. There is no assurance that the Offer will be accepted and under what terms.*

#### **Principal Capital Expenditures and Divestitures**

During 2012, 2013, 2014 and up to April 1, 2015, we made or expect to make capital expenditures of an aggregate amount of approximately Euro 76.4 million (\$82.2 million, based on the U.S. Dollar/NIS exchange rate as at April 1, 2015) in connection with our Italian and Spanish PV Plants, net of penalties due to delay in connection to the national grid of some of the PV Plants and net of approximately \$0.8 million assets disposed as a result of panels stolen from one of our PV Plants and invertors damaged due to bad weather conditions in another PV Plant, partially reimbursed by the existing insurance policies in the amount of approximately \$0.4 million. Our aggregate capital expenditure in connection with the acquisition of shares in U. Dori Energy Infrastructure Ltd., including the expected exercise of an option to acquire additional shares of U. Dori Energy, increasing our percentage holding to 49%, is approximately \$33 million, as of April 1, 2015.

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

## B. Business Overview

We are in the business of energy and infrastructure and our operations currently mainly include production of renewable and clean energy. We own sixteen photovoltaic plants, or PV Plants, that are connected to their respective national grids and operating as follows: (i) twelve photovoltaic plants in Italy with an aggregate installed capacity of approximately 22.6 MWp, (ii) three photovoltaic plants in Spain with an aggregate installed capacity of approximately 5.6 MWp and (iii) 85% of one photovoltaic plant in Spain with an installed capacity of approximately 2.3 MWp. In addition, we indirectly own 7.5% of Dorad and hold an option to increase our indirect holdings in Dorad under certain conditions to 9.375%. In April 2015 we provided a notice of exercise of an option, which will increase our indirect ownership of Dorad to approximately 9.2%.

### PV Plants

#### *Photovoltaic Industry Background*

Electric power accounts for a growing share of overall energy use. While a majority of the world's current electricity supply is 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.

Solar energy is one of the most direct and unlimited energy sources. It is the underlying energy source for renewable fuel sources, including biomass fuels and hydroelectric energy. By extracting energy directly from the sun and converting it into an immediately usable form, either as heat or electricity, intermediate steps are eliminated.

#### *Global trends in the industry*

According to EPIA (European Photovoltaic Industry Association) the solar power market has grown significantly in the past decade and, with at least 38.4 GW of newly-added capacity globally, 2013 was another record-year for photovoltaic installations, compared to 31.1 GW global photovoltaic new installations in 2012. **The global PV cumulative installed capacity reached an impressive 138.9 GW at the end of 2013, which represents an increase of approximately 38% compared to the year before. The internationalization trend of PV markets already observed in 2012 accentuated in 2013, with Asia taking the lead over Europe in connection with new PV installations.**

While Europe concentrated 74% of the world's new PV installations in 2011 and 55% in 2012, with more than 10 GW of new capacity installed during the year, it only accounted for 29% of the world's market in 2013. Asian markets, led by China and Japan (around 11.8 GW and 6.9 GW respectively), partially explain this decrease, as the Asia-Pacific region represented 56% of the 2013 global market new PV installations. European PV markets have experienced a slowdown that in a number of European countries can be explained by governmental retrospective measures that have adversely affected investors' confidence, as further explained in "Item 4.B: Material Effects of Government Regulations on the PV Plants." PV remains the third most important renewable energy source in terms of globally installed capacity (after hydro and wind power). PV now covers 3% of the electricity demand in Europe and 6% of the peak electricity demand. For the third year in a row, PV is in the top-2 newly-added generation capacity in Europe, together with wind.

### ***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. The earliest solar electric devices converted about 1%-2% of sunlight energy into electric energy. Current solar electric devices convert 5%-25% of light energy into electric energy (the overall efficiency for solar panels is lower than solar cells because of the panel frame and gaps between solar cells), and current mass produced panel systems are substantially less expensive than earlier systems. In recent years effort in the industry has been directed towards the development of solar cell technology that reduces per watt costs and increases area efficiencies.

*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 used in buildings. 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***

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



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

- **Economic** - An increase in solar power generation will reduce dependence on fossil fuels. Worldwide demand for electricity is expected to nearly double by 2025, according to the U.S. Department of Energy. In 2014, in the United States about 67% of the electricity generated was from fossil fuels (coal, natural gas, and petroleum). The combination of declining finite fossil fuel energy resources, increasing energy demand is depleting natural resources, which, combined with political instability in certain of the countries that export fuel, generally results in an increase in electricity costs. These factors underscore the need for reliable renewable energy production. Solar power systems are renewable energy sources that rely on the sun as an energy source and do not require a fossil fuel supply. As such, they are well positioned to offer a sustainable long-term alternative means of power generation. Once a solar power system is installed, the cost of generating electricity is relatively stable over the lifespan of the system. There are no risks that fuel prices will escalate or fuel shortages will develop, although cash paybacks for systems range depending on the level of incentives, electric rates, annualized sun intensity, installation costs and derogation in the efficiency of the panels.
- **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.
- **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 greenhouse gas regulation will increase the costs and constrain the development 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 have impacted our decision to enter into the solar photovoltaic market. We believe the fluctuations in fuel costs, political instability in certain countries that export fuel, 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 that directly spur the installation of grid-tied solar power systems. For further information please see "Item 4.B: Material Effects of Government Regulations on the PV Plants."

There are several risk factors associated with the photovoltaic market. See “Item 3.D: Risk Factors - Risks Relating to the PV Plants.”

#### **Our Photovoltaic Plants**



The following table includes information concerning our PV Plants:

PV Plant Title	Installed Capacity <sup>1</sup>	Location	Technology of Panels	Connection to Grid	FiT (€/kWh) <sup>2</sup>	Revenue in the year ended December 31, 2013 (in thousands) <sup>3</sup>	Revenue in the year ended December 31, 2014 (in thousands) <sup>3</sup>
"Troia 8"	995.67 kWp	Province of Foggia, Municipality of Troia, Puglia region, Italy	Fix	January 14, 2011	0.318	\$ 827	\$ 719
"Troia 9"	995.67 kWp	Province of Foggia, Municipality of Troia, Puglia region, Italy	Fix	January 14, 2011	0.318	\$ 832	\$ 739
"Del Bianco"	734.40 kWp	Province of Macerata, Municipality of Cingoli, Marche region, Italy	Fix	April 1, 2011	0.3215	\$ 470	\$ 479
"Giaché"	730.01 kWp	Province of Ancona, Municipality of Filotrano, Marche region, Italy	Duel Axes Tracker	April 14, 2011	0.3215	\$ 656	\$ 549
"Costantini"	734.40 kWp	Province of Ancona, Municipality of Senigallia, Marche region, Italy	Fix	April 27, 2011	0.3215	\$ 531	\$ 512
"Massaccesi"	749.7 kWp	Province of Ancona, Municipality of Arcevia, Marche region, Italy	Duel Axes Tracker	April 29, 2011	0.3215	\$ 652	\$ 601
"Galatina"	994.43 kWp	Province of Lecce, Municipality of Galatina, Puglia region, Italy	Fix	May 25, 2011	0.318	\$ 829	\$ 675

PV Plant Title	Installed Capacity <sup>1</sup>	Location	Technology of Panels	Connection to Grid	FiT (€/kWh) <sup>2</sup>	Revenue in the year ended December 31, 2013 (in thousands) <sup>3</sup>	Revenue in the year ended December 31, 2014 (in thousands) <sup>3</sup>
"Pedale (Corato)"	2,993 kWp	Province of Bari, Municipality of Corato, Puglia region, Italy	Single Axes Tracker	May 31, 2011	0.2659	\$ 2,518	\$ 2,295
"Acquafresca"	947.6 kWp	Province of Barletta-Andria-Trani, Municipality of Minervino Murge, Puglia region, Italy	Fix	June 2011	0.2677	\$ 675	\$ 572
"D'Angella"	930.5 kWp	Province of Barletta-Andria-Trani, Municipality of Minervino Murge, Puglia region, Italy	Fix	June 2011	0.2677	\$ 662	\$ 572
"Soleco"	5,923.5 kWp	Province of Rovigo, Municipality of Canaro, Veneto region, Italy	Fix	August 2011	0.2189	\$ 1,520 <sup>4</sup>	\$ 2,819
"Tecnoenergy"	5,899.5 kWp	Province of Rovigo, Municipality of Canaro, Veneto region, Italy	Fix	August 2011	0.2189	\$ 1,501 <sup>4</sup>	\$ 2,727
"Rinconada II" <sup>5</sup>	2,275 kWp	Municipality of Córdoba, Andalusia, Spain	Fix	July 2010	N/A (the FiT for 2013 was 0.322162) <sup>6</sup>	\$ 1,309	\$ 1,021
"Rodríguez I"	1,675 kWp	Province of Murcia, Spain	Fix	November 2011	N/A <sup>6</sup>	\$ - <sup>7</sup>	\$ 434 <sup>7</sup>
"Rodríguez II"	2,691 kWp	Province of Murcia, Spain	Fix	November 2011	N/A <sup>6</sup>	\$ - <sup>7</sup>	\$ 715 <sup>7</sup>
"Fuente Librilla"	1,248 kWp	Province of Murcia, Spain	Fix	June 2011	N/A <sup>6</sup>	\$ - <sup>7</sup>	\$ 353 <sup>7</sup>

---

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. In addition to the FiT payment, our Italian PV Plants are eligible to receive the price paid for the electricity generated by the plant ("ritiro dedicato") equal to the applicable electricity market price. Until December 31, 2013, Italian PV plants with a capacity under 1 MW were eligible to receive a minimum market price guarantee, as a function of supply and demand, on an hourly basis for different zones within Italy. Resolution no. 618/2013/R/EFR dated December 19, 2013 set a replacement, starting January 1, 2014, of the minimum guaranteed prices 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). In addition, in connection with the regulatory changes in Italy, principally Law 116/2014, which generally provides for a decrease in the FiT guaranteed to existing photovoltaic plants commencing January 1, 2015, we elected to implement the option that entails a decrease of approximately 8% in the FiT. The FiT set forth in the table above represents the updated FiT after this decrease.

3. Due to the expected decrease in the FiT in future years commencing on January 1, 2015 as described in footnote (2) above, these results are not indicative of our results in future periods. These results are also not indicative of future results due to other various factors, including changes in the climate and the degradation of the solar panels. For more information concerning the recent regulatory changes see note 6 to our financial statements included in this annual report.

4. The acquisition of this PV Plant was consummated on June 26, 2013 and therefore revenues for the period prior to consummation of the acquisition are not reflected herein.

5. This PV Plant is 85% owned by us.

6. Due to regulatory changes in Spain, principally RDL 9/2013, which replaced the remunerative regime for owners of a renewable installation, these results are not indicative of our results in future periods. For more information concerning these regulatory changes see "Material Effects of Government Regulations on the Italian PV Plants" below and note 6 to our financial statements included in this annual report.

7. The acquisition of these PV Plants was consummated on September 18, 2014 and therefore revenues for the period prior to consummation of the acquisition are not reflected herein.

#### ***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 agreements:

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

- an Operation and Maintenance, or O&M, Agreement, which governs the operation and maintenance of the photovoltaic plant by the respective Contractor;
- when applicable, an agreement between the owner of the photovoltaic plant and the Contractor, whereby the panels required for the construction of the photovoltaic plant will be purchased by such owner directly from a third party supplier of such panels, and then transferred to the Contractor;
- a number of ancillary agreements, including:
  - o one or more “surface rights agreements” or “lease agreements” with the land owners, which provide the terms and conditions for the lease of land on which the photovoltaic plants are constructed and operated;
  - o with respect to our Italian PV Plants –
    - standard “incentive agreements” with Gestore dei Servizi Elettrici, or GSE, Italy’s energy regulation agency responsible, *inter alia*, for incentivizing and developing renewable energy sources in Italy and purchasing energy and re-selling it on the electricity market. Under such agreements, it is anticipated that GSE will grant the applicable FiT governing the purchase of electricity (FiTs are further detailed in “Item 4.B: Material Effects of Government Regulations on the Italian PV Plants”);
    - one or more “power purchase agreements” with GSE, specifying the power output to be purchased by GSE for resale and the consideration in respect thereof or, alternatively, a “power purchase agreements” with a private energy broker, specifying the power output to be purchased for resale and the consideration in respect thereof; and
    - one or more “interconnection agreements” with the Enel Distribuzione S.p.A, or ENEL, the Italian national electricity grid operator, which provide the terms and conditions for the connection to the Italian national grid.
  - o with respect to our Spanish PV Plant –
    - 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; and

- Standard “representation agreements” with an entity that will act as the energy sales agent of the PV Principals in the energy market, in accordance with Spanish Royal Decree 436/2004.
- 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 in connection with our PV Plants is approximately Euro 76.4 million.

As all of our PV Plants are operational, the summaries below describe the material terms of the O&M Agreements executed in connection with such PV Plants. Certain of the EPC Contracts and forms of O&M Agreements were filed as exhibits to previously filed Form 20-Fs.

#### *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, i.e. starting from the issuance of a Provisional Acceptance Certificate pursuant to the applicable EPC Contracts and for a period of 20 years thereafter in Italy and 25 years in Spain.

A technical adviser, appointed by the PV Principal or the Financing Entity, is responsible for monitoring the performance of the services, or the Technical Adviser. Our current Technical Adviser in Italy is a leading technical firm in Italy which appears in the Italian banks’ white list.

Currently many EPC companies provide O&M services to photovoltaic plants and we expect that, if required, we will be able to replace some or all of our current O&M Contractors with other contractors and service providers. However, we cannot ensure that if such replacement shall take place we will be able to receive the same terms and warranties from the new contractor. In addition, to the extent the relevant PV Plant received financing from a bank or other financing institution, the applicable financing agreement will generally require that we obtain the financing institution’s approval for the replacement of an O&M contractor.

The former Contractor of four of our photovoltaic plants (Del Bianco, Giache, Constantini and Massaccesi) entered into insolvency proceedings during 2012 that are subject to an arrangement with its creditors. We therefore entered into new O&M agreements with another leading Contractor with effect from February 2014. This leading Contractor also started providing O&M services for two additional Italian PV Plants (Soleco and Tecnoenergy) from September 2014. In connection with the insolvency proceedings of our former Contractor, we enforced the bonds received from the contractor as part of its obligations under the EPC agreements and received an amount of approximately \$0.6 million during the year ended December 31, 2013.

#### *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 that are 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 Euro 19,000 to Euro 45,000 per MWp (reduced to approximately Euro 19,000 to Euro 36,000 with effect from 2015) (linked to the Italian inflation rate or the Spanish 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 to the extent they have an exposure, 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 remains 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.

### ***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 due to the changing regulatory regime relating to newly built photovoltaic plants. 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), Origo Energy, Foresight Group, NextEra Energy Partners (NYSE:NEP), NRG Yield (NASDAQ:NYLD), Brookfield Renewable Energy Partners (NYSE:BEP), TransAlta Renewables (TSX:RNW), Pattern Energy Group (NASDAQ:PEGI), Abengoa Yield PLC (NASDAQ:ABY), Hannon Armstrong Sustainable Infrastructure (NYSE:HASI), Foresight Solar VCT PLC (LSE:FTSV), NextEnergy Solar Fund Limited (LSE:NESF), Bluefield Solar Income Fund Limited (LSE:BSIF), Infinis Energy PLC (LSE:INF), 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.

### ***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.

### ***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 that are purchased from third party suppliers. One of the critical factors 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 of the suppliers is unreliable or becomes insolvent, it may default on warranty obligations. Photovoltaic power plant installations have substantially increased over the past few years. Higher demand for solar panels and other components of the photovoltaic system resulted in the past in oversupply and a sharp decrease in prices that led many panel suppliers to financial difficulties and liquidation or consolidation with other suppliers. This trend may lead to a decrease in supply and, therefore, an increase in the price of the photovoltaic system components.

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

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

#### ***Material Effects of Government Regulations on the PV Plants***

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

#### ***Material Effects of Government Regulations on the Italian PV Plants***

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

##### ***National Legislation***

###### ***(i) Construction Authorizations***

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

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

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

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

With particular regard to the Puglia Region, for a certain period of time the limitations of the DIA procedure were not applicable due to regional legislation that had increased the abovementioned limits of power; however, this has been superseded by a new Regional Law (no. 25 of 2012) that has implemented the provisions introduced by the Romani Decree on PAS (see the relevant section below).

The Italian PV Plants rely on three AUs, three DIAs and six Building Permits. Pedale is the PV Plant that relies on the AU. Please see below for more information on the suspension of Pedale's AU.

(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 Plant" 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. We sell electricity through this method.

*Regional Regulation Applicable to the Marche Region*

Marche Regional Law no. 7 of 2004 requires certain types of projects to be subjected to an Environmental Impact Assessment, or the VIA Procedure, and states that the VIA Procedure is expressly excluded for photovoltaic plants whose surface is less than 5000 m<sup>2</sup> (unless such plants are not listed as national protected areas pursuant to law no. 394 of December 6<sup>th</sup> 1991). Specific provisions prevent constructors from avoiding such limits by building various plants with a surface of less than 5,000 m<sup>2</sup>.

In addition, Regional Law no. 7 of 2004 has been amended by Law no. 99 of 2009, which specifies that the VIA Procedure is expressly excluded for plants with a nominal power lower than 1 MW. In the case of the PV Plants, the target nominal power for each PV Plant is less than 1 MW, such that the PV Plants are expected to be exempt from the VIA Procedure.

*Regional Regulation Applicable to the Puglia Region*

Regional Law 19 February 2008 no. 1 has established that the construction of renewable energy plants in Puglia whose power capacity is up to 1 MW can be authorized with DIA (without prejudice to applicable provisions on environmental impact assessment), in the case of photovoltaic plants located on industrial, commercial and service buildings, and/or located on the ground within industrial, commercial and service parks.

In this regard, by *Circolare* no. 38/8763 the Puglia Region pointed out the so-called “cluster issue” (i.e. group of plants whose capacity is lower than 1 MW each, located in the same agricultural area and authorized by means of DIAs, rather than under the AU procedure), providing that if plants cannot be deemed as single plants, the simplified DIA procedure shall be considered elusive of Legislative Decree no. 387/2003 and therefore the AU Procedure should be followed. The *Circolare* identified as signals to the occurrence of a cluster: (i) single point of connection for more than one plant; (ii) same landowner(s) for adjacent plants; or (iii) same economic and industrial initiative (i.e. same directors or shareholders, same developer, etc.).

Regional Law 21 October 2008 no. 31 has subsequently provided a new regulation of the terms according to which the DIA procedure can be used in connection with plants having nominal power up to 1 MWp. Said law applies to DIA which have become effective after 7 November 2008 and provides that the commencement of the works concerning photovoltaic plants, whose power ranges from 20 kW up to 1 MW to be built on agricultural lands, can be authorized by way of DIA, provided that:

- the area to be enslaved (*asservimento*) is at least twice the size of the radiant surface; and
- the portion of the plot of land which is not occupied by the photovoltaic plant is used exclusively for agricultural activities.

However, on March 26, 2010 Regional Law no. 31/2008 was annulled by the Constitutional Court in so far as, contrary to what is set forth in Legislative Decree no. 387/2003, it increases up to 1 MWp the maximum power threshold (20 kW) established by Law no. 244/2007 for application of the DIA procedure. DIA issued according to Regional Law no. 31/2008 can therefore be voided on the basis of the Constitutional Court judgment provided that they are successfully challenged by a third party having an interest or by the administrative bodies acting in self-protection (“*autotutela*”). As noted above, three of the PV Plants rely on DIAs that were issued under Regional Law 31/2008; however, as those PV Plants are already built and have been operating for the past years, the period for a challenge by third parties or administrative bodies are deemed to have expired.

By Regional Law no. 25, issued on September 24, 2012, further regulations have been introduced particularly with the aim of implementing the Romani Decree provisions at regional level. In particular, Regional Law no. 25:

- (i) confirmed and further regulated the provisions of the *Circolare* no. 38/8763 regarding the cluster issue;
- (ii) implemented and extended the provisions of the Romani Decree by providing that the PAS applies to photovoltaic plants with power up to 200 kWp, and in particular cases (contaminated areas such as industrial areas, dumps and quarries), up to 1 MWp; and
- (iii) provided new requirements as to the procedure of application for the AU, including the requirement to submit an audited business plan together with the application.

#### *Regional regulation applicable to the Veneto Region*

##### *The authorization procedure*

Regional Committee Resolution (*Delibera di Giunta Regionale*) no. 2204/2008, as amended by Regional Committee Resolution no. 1192/2009, provides that photovoltaic plants with installed capacity higher than 20 kW are subject to the AU to be issued by the urban department (*direzione urbanistica*) of the Veneto Region. Moreover, Regional Committee Resolution no. 2373/2009 includes detailed rules about the AU procedure and specifies all the necessary documents to be filed with the Veneto Region. The procedure is compliant with the AU procedure promulgated under the national regulation (Legislative Decree no. 387/2003 and subsequent amendments). Furthermore, Regional Law no. 10/2010 remarks that the construction of ground-based photovoltaic plants with installed capacity higher than 20 kW and that permits from more than one administrative entity, is subject to the AU.

##### *The VIA/VINCA procedures*

Pursuant to Regional Law no. 10/1999 as implemented by Regional Committee Resolutions nos. 308/2009, 327/2009, 2373/2009 and 4145/2009, a screening procedure is required for ground-based photovoltaic plants with installed capacity higher than 1 MW. This screening procedure is similar to the correspondent screening procedure set out by Legislative Decree no. 152/2006 and subsequent amendments and integrations, which must be carried out in order to determine whether the project is subject to the environmental impact assessment procedure (so-called VIA procedure, as described above).

Moreover, all projects which are located on SIC/ZPS areas (*rete natura 2000*) or which have a negative impact on the SIC/ZPS areas are subject to the VINCA procedure (*valutazione di incidenza ambientale*). Pursuant to Regional Committee Resolution no. 3173/2006, which has implemented Presidential Decree no. 357/1997, as further amended, the VINCA procedure consists of two main phases: (i) the screening phase; and (ii) the actual environmental impact assessment phase. During the first of the two mentioned phases, in order to assess whether a project negatively affects SIC/ZPS areas, an environmental report must be submitted to the Veneto Region. In addition, at the end of the above procedure, a qualified expert must state if the project implies negative effects on the SIC/ZPS areas. Should the project have negative impact, the VINCA procedure is required. Conversely, should the project not have negative effects, the VINCA procedure is not necessary. With respect to the Veneto PV Plants, after the first phase it was determined that the VINCA procedure was not necessary.

#### *Authorizations for construction and operation of electricity lines*

The Veneto Region adopted Regional Law 24/1991 to regulate the necessary authorizations for the construction and operation of electricity lines and plants whose voltage is no higher than 150,000 V. According to Regional Law 11/2001, the authority to issue the authorizations for the construction and operation of electricity lines whose voltage is not higher than 150,000 V has been transferred to the provinces. Regional Law 24/1991 provides two different procedures: (i) the ordinary procedure, which is regulated by article 4; and (ii) the simplified procedure, which is regulated by article 5. Under the ordinary procedure, the competent province, after having obtained all the permits/nulla osta necessary to build the electricity line from the relevant entities, issues a final authorization. Under the simplified procedure, according to article 5 of Regional Law 24/1991, the applicant files the authorization request attaching thereto all the permits/nulla osta with the competent province and the construction of the electricity line is deemed authorized in the event the province does not reply within 60 days (so called “implied consent”). Moreover, according to article 7 of Regional Law 10/2010, should an electricity line fall within the territory of a single municipality, the latter will be the competent entity in charge of the relevant authorization procedure. In any case, the AU also includes the authorization for the construction and operation of the grid connection lines and plants. The Veneto PV Plants have electricity lines that are subject to this regional legislation.

#### *The Incentive Tariff System for Photovoltaic Plants*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	June 2011		July 2011		August 2011	
	PV plants on buildings	Other plants	PV plants on buildings	Other PV plants	PV plants on buildings	Other PV plants
	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]
1≤P≤3	0.387	0.344	0.379	0.337	0.368	0.327
3<P≤20	0.356	0.319	0.349	0.312	0.339	0.303
20<P≤200	0.338	0.306	0.331	0.300	0.321	0.291
200<P≤1000	0.325	0.291 <sup>4</sup>	0.315	0.276	0.303	0.263
1000<P≤5000	0.314	0.277	0.298	0.264	0.280	0.250
P>5000	0.299	0.264	0.284	0.251	0.269	0.238

<sup>4</sup> With regard to the Italian PV Plant under the Forth Conto Energia the tariff is equal to €0.291/kWh.



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

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

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

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

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

The Fourth Conto Energia has been replaced by a new decree effective July 11, 2012, also known as Fifth Conto Energia. The Fifth Conto Energia is the last law of this type and sets out a new system of incentives granted to plants fed by renewable energy sources and, with some exceptions, applies to photovoltaic plants that commenced operations starting from August 27, 2012. The main provisions introduced by the Fifth Conto Energia are:

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

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

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

### *Other Renewable Energy Incentives*

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

In other words, in light of the increasing demand of energy, the sale of the total output of power plants fuelled 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.

#### *Recent innovations regarding the Italian incentive system and the electric energy sale price*

##### *(i) The so called “Fare 2” Decree*

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

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

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

- a measure consisting of granting the option to access a new revised incentive plan. This specific provision applies to producers of renewable energy and owners of plants to which the “all-inclusive tariff” (*tariffa 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:

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

(ii) *Minimum Guaranteed Prices determined by AEEGSI*

*AEEGSI opinion n. 483/2013*

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

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

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

*AEEGSI Resolution n. 618/2013*

On December 19, 2013 AEEGSI issued a new resolution, determining the new reduced minimum guaranteed prices applicable as of January 1, 2014, by means of the amendment of AEEGSI Resolution n. 280/2007. However, such resolution has been challenged before the administrative Court (TAR Lombardia) by an organization of renewable energy producers (AssoRinnovabili). The decision is still pending.

(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. All of our Italian PV Plants are parties to the GSE mandatory purchase regime.

On June 24, 2013, the administrative Court of the Lombardia Region annulled the parts of AEEGSI Resolution relating to the imbalance costs as the AEEGSI Resolution 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 an *interim* basis reinstated the provisions of Resolution n. 281/2012/R/efr by suspending the effectiveness of the administrative court decision, with the exception that, for non-programmable plants, a deductible of 20% on the imbalance shall apply (i.e., imbalance costs shall be paid only if the forecast inaccuracy exceeds 20%).

Following the interim 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;
  - 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.

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

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

- (i) a reduction of 8% in the FiT for photovoltaic plants with nominal capacity above 900 kW, a reduction of 7% in the FiT for photovoltaic plants with nominal capacity between 500 kW and 900 kW and a reduction of 6% in the FiT for photovoltaic plants with nominal capacity between 200 kW and 500 kW (i.e., out of the twelve Italian photovoltaic plants owned by us, eight would be subject to a reduction of 8% in the FiT and four would be subject to a reduction of 7% in the FiT);

- (ii) extending the 20-year term of the FiT to 24 years with a reduction in the FiT in a range of 17%-25%, depending on the time remaining on the term of the FiT for the relevant photovoltaic plant, with higher reductions applicable to photovoltaic plants that commenced operations earlier (based on the remaining years in the initial guaranteed FiT period of our existing Italian photovoltaic plants, the expected reduction in the FiT for the our photovoltaic plants would have been approximately 19%);
- (iii) a rescheduling in the FiT so that during an initial period the FiT is reduced and during the second period the FiT is increased in the same amount of the reduction with the goal to guarantee an annual saving of at least Euro 600 million by the Italian public between 2015 and 2019, assuming all photovoltaic operators opt for this alternative); or
- (iv) the beneficiaries of FiT incentive schemes can sell up to 80% of the revenues deriving from the incentives generated by the photovoltaic plant to a selected buyer to be identified among the top EU banks. The selected buyer will become eligible to receive the original FiT and will not be subject to the changes set forth in alternatives (i) through (iii) above.

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

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

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

#### *Implementing decrees*

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

##### *(i) The decree on the payment terms by GSE*

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

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

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

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

None of our Italian PV Plants opted for this option.

(iii) *CDP Decree*

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

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

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



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

#### *Material Effects of Government Regulations on the Spanish PV Plants*

##### *The new Spanish general legal framework applicable to renewable energies*

The legal and regulatory framework applicable to the production of electricity from renewable energy sources in Spain has been modified by Royal Decree-law 9/2013, dated July 12, 2013, due to the adoption of several urgent measures in order to ensure the financial stability of the power system, or RDL 9/2013, 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 new remuneration scheme applicable to renewable energies called the "Specific Remuneration" regime.

Specific Remuneration includes two components to be paid on the top of 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 new Power Act (Law 24/2013, of December 26, 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.

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

- a) The Specific Remuneration is calculated by reference to a "*standard facility*" during its "*useful regulatory life*". Order 1045/2014 has 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 exiting installations in one of the new formulated IT-categories and, as a result of such inclusion, is based on the retribution 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;
  - (ii). The standard exploitation costs;
  - (iii). The standard value of the initial investment. For this calculation, only those costs and investments that correspond exclusively to the electricity production activity will be taken into account. Furthermore, costs or investments determined by administrative rules or acts that do not apply throughout Spanish territory will not be taken into account.
- c) Order 1045/2014 established the relevant parameters applicable to each IT-category. Therefore, in order to ascertain the total amount of the Specific Remuneration applicable to a particular installation it is necessary to (1) identify the applicable IT-category and (2) 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.
- d) The Specific Remuneration is calculated for regulatory periods of six years, each divided into two regulatory semi-periods of three years. The first Regulatory Period commenced July 14, 2013 and terminates December 31, 2019.
- 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 (approximately 7.5%).
- 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.

Please note that 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 obligation to finance the tariff deficit*

Pursuant to the new Power Act (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). Following the new legislation, 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).

#### *New taxation of the income from generation of electricity*

The Spanish Parliament enacted the Law 15/2012, dated December 27, 2012, or Law 15/2012, on fiscal measures for the sustainability of the energy sector, which entered into force on January 1, 2013. Law 15/2012 sets forth a new tax on energy generation of 7% from the total amount received.

#### *Rinconada II*

Rinconada II is fully commissioned and commenced receiving the Specific Remuneration on July 13, 2014 as set forth in RDL 9/2013. In particular, Rinconada II has been included in **IT-category 00431** which refers to photovoltaic solar plants with the following characteristics:

- Commissioning date in year 2010;
- Solar zone number IV (i.e. photovoltaic installations that are located in Córdoba -Zone IV- which has a capacity of 1,632 equivalent hours of production for a fixed project);
- With fixed structures; and
- Former applicable feed-in tariff corresponding to second quarter of 2009.

The new tax on energy generation set forth in Law 15/2012 is fully applicable to Rinconada II. The taxpayers are Ellomay Spain, S.L. and the 21 Spanish affiliates entirely owned by Ellomay Spain, S.L.

#### *Rodríguez I and II*

Rodríguez I and Rodríguez II are fully commissioned and commenced receiving the Specific Remuneration on July 14, 2013 as set forth in RDL 9/2013. In particular, Rodríguez I and Rodríguez II have been included in **IT-category 00465** which refers to photovoltaic solar plants with the following characteristics:

- Commissioning date in year 2011;
- Solar zone number V (i.e. photovoltaic installations that are located in Lorca - Zone \_V - which has a capacity of 1,753 equivalent hours of production for a fixed project);
- With fixed structures; and
- Former applicable feed-in tariff corresponding to the third quarter of 2010.

The new tax on energy generation set forth in Law 15/2012 is fully applicable to Rodríguez I and Rodríguez II. The taxpayer is Rodríguez I Parque Solar, S.L. and Rodríguez II Parque Solar, S.L., respectively.

#### *Fuente Librilla*

Fuente Librilla is fully commissioned and commenced receiving the Specific Remuneration on July 14, 2013 as set forth in RDL 9/2013. In particular, Fuente Librilla has been included in **IT-category 00453** which refers to photovoltaic solar plants with the following characteristics:

- Commissioning date in year 2011;
- Solar zone number V (i.e. photovoltaic installations are located in Mula - Zone \_V\_- which has a capacity of 1,753 equivalent hours of production for a fixed project);
- With fixed structures; and
- Former applicable feed-in tariff corresponding to the first quarter of 2010.

The new tax on energy generation set forth in Law 15/2012 is fully applicable to Fuente Librilla. The taxpayer is Seguisolar, S.L.

#### **Dori Energy and the Dorad Power Plant**

##### *General*

U. Dori Energy Infrastructures Ltd., or Dori Energy, is an Israeli private company in which we currently hold 40%. The remaining 60% is currently held by U. Dori Group Ltd., or the Dori 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 \$14.1 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 on January 27, 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 first option is exercisable starting from issuance and shall expire within twelve (12) months following the completion and delivery of the power plant and the second option shall commence at this date and expire within 2 years following the completion and delivery of the power plant. 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 April 2015, we provided Dori Energy a notice of exercise of the first option. For more information, see "Item 4.A: Information on Ellomay - History and Development of Ellomay."

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

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

#### ***The Dorad Power Plant***

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

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

The electricity produced by the Dorad Power Plant is sold to end-users throughout Israel and to the Israeli National Electrical Grid. The transmission of electricity to the end-users is done via the existing transmission and distribution grid, in accordance with the provisions of the Electricity Sector Law and its Regulations, and the Standards and the tariffs determined by the Public Utility Authority - Electricity. 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 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. (37.5%) and Edelcom Ltd. (18.75%), both Israeli private companies, and Zurlu Enerji Elektrik Uretim A.S. (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.

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 on November 29, 2010, with the first drawdown received on January 27, 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 5.5%. 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, 2014. In connection with the Dorad Credit Facility, Dorad's shareholders (including Dori Energy) undertook to provide guarantees to certain customers, to the IEC and to various suppliers and service providers of Dorad and also undertook to indemnify Dorad and the consortium in connection with certain expenses, including payments to customers due to delays in the commencement of operations, payment of liquidated damages to the construction contractors in the event of force majeure and certain environmental hazards. The aggregate investment of Dorad in the construction of the Dorad Power Plant as of December 31, 2014 was approximately NIS 4,708 million (approximately \$1,210.5 million). 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 April 1, 2015, Dori Energy provided guarantees to the Public Utilities Authority – Electricity, to the IEC, to customers of Dorad and to Israel Natural Gas Lines Ltd. in the aggregate amount of approximately NIS 22.5 million. As of December 31, 2014, the principal and accrued interest on the shareholders loans provided to Dorad by Dori Energy was in the aggregate amount of approximately NIS 94 million (approximately \$24.2 million). Shareholder loans bear 10% interest and are linked to the Israeli CPI.

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

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

Dorad previously entered into an operation and maintenance agreement, or the Dorad O&M Agreement, with a wholly-owned subsidiary of Eilat Ashkelon Infrastructure Services Ltd., which holds 37.5% of Dorad, or the Dorad O&M Contractor. Certain of the obligations under such agreement were assigned to Zurlu Enerji Elektrik Uretim A.S., or Zurlu, which holds 25% of Dorad. 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. During 2013, the Dorad O&M Contractor entered into an agreement with Ezom Ltd., which, to our knowledge, is 75% owned by the controlling shareholder of Edelcom Ltd. (which holds 18.75% of Dorad) with the remainder held by a company controlled by Zurlu for the provision of sub-contracting services to the Dorad O&M Contractor. Despite the assignment and subcontracting agreement, the Dorad O&M Contractor remains liable to Dorad for all obligations under the Dorad O&M Agreement.

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

#### ***The Israeli Electricity Market; Competition***

The Israeli electricity market is dominated by the IEC, which manufactures and sells almost all of the electricity consumed in Israel and by the Palestinian Authority and had an installed capacity of 14,326 MW as of May, 2014. In recent years, various private manufacturers received energy production licenses from the Public Utilities Authority – Electricity. According to IEC, a total of 1,200 MW new installed capacity is expected to connect to the local grid, with Dalia Power Energies Ltd, which is in the final stages of construction, being the largest plant (870 MW). As of December 31, 2014, approximately 13.5% of total installed capacity in Israel was attributed to private manufacturers, with 1,934 MW.

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. As noted below, the regulation governing the electricity market in Israel is currently subject to a review by a steering committee. However, as long as the regulations 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. During 2013, the employees of IEC temporarily disconnected the Dorad Power Plant from the Israeli national grid as part of their efforts to prevent the entrance of private electricity manufacturers into the Israeli electricity market until the IEC reaches an understanding with them concerning the expected reform and possible privatization of the IEC. During June 2013, the Israeli labor court issued a ruling permitting the disconnection of private power plants by employees of the IEC under certain conditions. In addition, 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 long term (between 6-20 years) 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 customers mostly pay a fee that is less than the fee set by the Israeli Public Utilities Authority – Electricity for electricity consumers in the Israeli market and the validity of these agreements is generally subject to the commencement of operations and electricity supply by the Dorad Power Plant.

The agreements with the Israeli Ministry of Defense and with Mekorot include an undertaking to compensate such customers in the event of a delay in commercial operations of the Dorad Power Plant beyond the second quarter of 2013. Dorad reached an agreement with such customers for compensation in the form of discounts for the first six months or one year of operations and may still be subject to claims for monetary compensation from Mekorot for which a provision was made during 2013 and 2014 in Dorad's financial statements.

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 Public Utilities Authority – Electricity, on IEC's requirements and on the tariffs determined by the Israeli Public Utilities Authority – Electricity.

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

The Dorad Power Plant is a bi-fuel plant, using natural gas as the main fuel and diesel oil in the event of an emergency. Pursuant to publications of the Israeli Public Utilities Authority – Electricity, natural gas is currently being used for the production of approximately 30%-35% of the electricity produced in Israel and is expected to become the main production material (for approximately 75%) of the electricity produced in Israel.

## **Agreement with EMG**

Dorad previously executed a gas sale agreement for the supply of natural gas for its operations with the Egyptian company, EMG. In early 2011, riots in Egypt led to political instability and to the resignation of the President of Egypt and the appointment of a new government. In addition, during 2011 several explosions of gas pipelines at the Egyptian National Grid in Sinai occurred causing the halt of supply of natural gas from Egypt for various periods pending repair of the gas pipelines.

Based on information provided to Dori Energy by Dorad, on April 22, 2012 Dorad received a letter from EMG indicating that on April 19, 2012 the Egyptian energy companies with which EMG entered into a Gas Supply and Purchase Agreement, or GSPA (Egyptian General Petroleum Corporation and Egyptian Natural Gas Holding Company, or, together, the Egyptian Gas Companies), delivered a notice to EMG purporting to terminate their agreement with EMG and on June 21, 2012 an additional letter from EMG was received indicating that while the termination attempt of the GSPA was unlawful and in bad faith, on May 9, 2012, EMG found itself with little practical alternative but to accept the Egyptian Gas Companies' repudiation of the GSPA, resulting in the termination of the GSPA at common law. Such additional letter from EMG further indicated that EMG continues to explore the possibility of alternative gas supply as a result of the aforementioned termination of the GSPA. Further to the these events, Dorad notified EMG, in a letter of which copy was delivered to us on August 6, 2012, that the natural gas delivery agreement dated December 12, 2007 (as amended) by and between Dorad and EMG has been terminated with immediate effect and demanded that EMG refund the \$3 million advance payments made by Dorad, in addition to interest accrued thereon, and compensate Dorad for its losses arising from the breaches of the aforesaid agreement. Our share in this amount was recorded as a loss as of December 31, 2012.



#### *Agreement with Tamar*

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

- Tamar has committed to supply natural gas to Dorad in an aggregate quantity of up to approximately 11.2 billion cubic meters (BCM), or the Total Contract Quantity, in accordance with the conditions set forth in the Tamar Agreement.
- The Tamar Agreement will terminate on the earlier to occur of: (i) sixteen (16) years following the commencement of delivery of natural gas to the Dorad power plant or (ii) the date on which Dorad will consume the Total Contract Quantity in its entirety. Each of the parties to the Tamar Agreement has the right to extend the Tamar Agreement until the earlier of: (i) an additional year provided certain conditions set forth in the Tamar Agreement were met, or (ii) the date upon which Dorad consumes the Total Contract Quantity in its entirety.
- Dorad has committed to purchase or pay for (“take or pay”) a minimum annual quantity of natural gas in a scope and in accordance with a mechanism set forth in the Tamar Agreement. The Tamar Agreement provides that if Dorad did not use the minimum quantity of gas as committed, it shall be entitled to consume this quantity every year during the three following years and this is in addition to the minimum quantity of gas Dorad is committed to.
- The Tamar Agreement grants Dorad the option to reduce the minimum annual quantity so that it will not exceed 50% of the average annual gas quantity that Dorad will actually consume in the three years preceding the notice of exercise of the option, subject to adjustments set forth in the Tamar Agreement. The reduction of the minimum annual quantity will be followed by a reduction of the other contractual quantities set forth in the Tamar Agreement. The option described herein is exercisable during the period commencing as of the later of: (i) the end of the fifth year after the commencement of delivery of natural gas to Dorad in accordance with the Tamar Agreement or (ii) January 1, 2018, and ending on the later of: (i) the end of the seventh year after the commencement of delivery of natural gas to Dorad in accordance with the Tamar Agreement or (ii) December 31, 2020. In the event Dorad exercises this option, the quantity will be reduced at the end of a one year period from the date of the notice and until the termination of the Tamar Agreement.

- During an interim period, that will commence upon the fulfillment of conditions set forth in the Tamar Agreement, or the Interim Period, the natural gas supply to Dorad will be subject to the quantities of natural gas available to Tamar at the time following the supply of natural gas to customers of the “Yam Tethys” project and other customers of Tamar that have executed natural gas supply agreements with Tamar prior to the execution of the Tamar Agreement. The Interim Period will end after (and to the extent) Tamar completes a project to expand the supply capacity of the natural gas treatment and transmission system from Tamar, expected to be completed by January 2016, 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.

- The natural gas price set forth in the Tamar Agreement is linked to the rate of electricity production as determined from time to time by the Israeli Public Utility Authority – Electricity, which includes a “floor price.”

- As set forth in the notice received from Dorad, Dorad estimates that the aggregate value of the Tamar Agreement (based on its assessment of the gas prices, after the linkage pursuant to the formula set forth in the Tamar Agreement, and of the quantity of natural gas that will be acquired over the term of the Agreement) may amount to approximately US\$3.5 billion, assuming that the Total Contract Quantity will be increased to approximately 13.2 BCM and assuming that the option for the reduction of the minimum gas quantities as set forth above will not be exercised by Dorad. The actual value will depend on various factors, including the quantity of natural gas actually purchased and the electricity production rates and accordingly there can be no assurance as to the aggregate value of the Tamar Agreement.

- 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 agreements with the construction 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.

Tamar and Dorad are currently in dispute over the price of natural gas due to the update of the electricity production costs determined by the Israeli Public Utilities Authority – Electricity during 2013. In the event such parties do not reach an understanding, the dispute will be referred to an arbitration process. Any increase in the natural gas price under the agreement with Tamar will add to Dorad’s cost of production and will adversely affect its results of operations.

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

### ***Material Effects of Government Regulations on Dorad's Operations***

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. In addition, standards, guidelines and other instructions published by the Israeli Public Utilities Authority – Electricity (established pursuant to Section 21 of the Electricity Law, or the Authority) and/or by the Israeli Electric Company also apply to the production of electricity by the private sector in Israel.

In February 2010, the Authority granted Dorad a Conditional License, as defined by the Electricity Market Regulations (Conventional Private Electricity Manufacturer), 2005, or the Conditional License) 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 MWp. The Conditional License includes several conditions precedent to the entitlement of the holder of the Conditional License to produce and sell electricity to the Israeli Electric Company. The Conditional License is valid for a period of fifty four (54) months commencing from the date of its approval by the Israeli Minister of National Infrastructures, Energy and Water Resources, subject to compliance, by Dorad, with the milestones set forth therein, and the other provisions set forth therein (including a financial closing, the provision of guarantees and the construction of the power plant).

On April 13, 2014, the Authority resolved to grant Dorad a generation license for a period of twenty years and a supply license for a period of one year, or the Licenses, which become effective with the receipt of the approval of the Israeli Minister of National Infrastructures, Energy and Water Resources, or the Minister. The execution of the Licenses was under the examination of the Israeli Ministry of Justice due to an outstanding legal proceeding between the employees of the IEC, the IEC and the State of Israel in the Israeli local labor court. In connection with such legal proceeding, the labor court ruled that the State of Israel should refrain from any change to the status quo that influences or could affect the mandates of the IEC pending the discussions among the parties to the legal proceeding. On May 4, 2014 an urgent petition was filed by Dorad with the Israeli High Court of Justice concerning the delay in the provision of the Licenses to the Dorad Power Plant, or the Petition, requesting the issuance of conditional orders against, among others, the Authority, the legal advisor to the government and the Minister, to provide the reasons for not signing the Licenses despite governmental undertakings that were provided to Dorad. An urgent hearing at the High Court of Justice was scheduled for May 11, 2014. At the hearing the parties to the Petition reached a settlement, which the Israeli High Court of Justice approved, that, among other things, included the agreement of the parties that the Minister will approve the Licenses and that Dorad will be made a party to any petition or claim filed in the future by any of the parties that may affect Dorad. In August 2014, Dorad filed a request to extend the supply license for an additional period of nineteen years. On March 2, 2015 the Authority approved extending the license for the additional 19 years and transferred it to the Minister for signing. Thus far the Minister has not yet signed the license.

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

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

The 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 Authority's decision provides that the IEC will pay for the availability even in the event electricity was not actually used by end customers depending on the amount of electricity made available to the IEC.

As noted above, the transmission and delivery lines used by the Dorad Power Plant are managed by the IEC, and the IEC is solely licensed to operate electricity systems (i.e. to oversee and manage the production and transmission of electricity) in Israel. In May 2013, the Authority determined a temporary fee that will be charged by the IEC per KWh for its electricity system operator services from its customers, from private energy manufacturers, such as Dorad, and from "self-manufacturers" (i.e. those who manufacture electricity for self-use). The Authority determined that once a permanent fee is established, a retroactive settling of accounts will be performed. These fees may revise the pricing structure of Dorad's services and may cause Dorad to incur additional costs.

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

On July 9, 2014, Dorad petitioned the Israeli High Court against the Authority and the IEC in view of the Authority's intention to approve a resolution that, *inter alia*, requires the private electricity producers to pay IEC a new rate, generally referred to by the Authority as "system costs". The Israeli High Court decided that the Authority will submit its response until September 10, 2014 and the IEC also requested permission to submit its response. The IES and Authority have since submitted their responses to the court and the Authority contended that the petition should be denied for various reasons. A hearing on this petition is scheduled for October 22, 2015.

On August 25, 2014, the 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. The proposed decision also states that until December 31, 2014 only 60% of the rates will be applicable. Dorad included a provision in connection with this proposed decision in its financial statements.

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

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. Prior to the commencement of its operations, Dorad is required to obtain various licenses and permits from local and municipal authorities, which Dorad is in the process of obtaining.

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.

#### **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,” as we control our Italian PV Plants and our Spanish PV Plants (all of our Italian and Spanish PV Plants are held via wholly-owned subsidiaries, other than Rinconada II that is held through an 85% held subsidiary). We also control the companies holding the Manara Pumped Storage Project via an ownership stake of 75% of the related Partnership and GP. 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. However, we recently provided a notice of exercise of our option to increase our holdings in Dori Energy from 40% to 49%, which may increase the likelihood that we could be deemed an “investment company” in the future. 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 the HP Transaction, 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 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 “shell company” subjected us to various restrictions and requirements under the U.S. Securities Laws. For example, in the event we consummated a transaction that caused us to cease being a “shell company,” we were required to file a report on Form 20-F within four business days of the closing of such transaction. We filed such Form 20-F that included full disclosure with respect to the PV Plants and our post-transaction status on March 10, 2010, following the execution of the EPC Contracts in connection with the Del Bianco and Costantini PV Plants.

Therefore, we believe that since the execution of the EPC Contracts on March 4, 2010, we have ceased being a “shell company.” However, as noted below, the fact that we previously could have been deemed to be a “shell company” continues to affect us in certain ways.

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

### **C. Organizational Structure**

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

Our Spanish PV Plants are held by: (i) (a) Rodríguez I Parque Solar, S.L., (b) Rodríguez II Parque Solar, S.L. and (c) Seguisolar S.L., all wholly-owned by Ellomay Luxembourg Holdings S.à.r.l., and (ii) Rinconada II is held by Ellomay Spain S.L., a Spanish company 85% owned by Ellomay Luxembourg. Ellomay Spain owns 21 Spanish companies, each holding a 90 kW solar installation portion of the Riconada II, the first named Energía Solar Fotovoltaica Parque 15, S.L. and the others bear a similar name with references to different numbers (16-34 and 69).

We hold the Dori Energy shares through Ellomay Clean Energy Limited Partnership, an Israeli limited partnership whose general partner is Ellomay Clean Energy Ltd., a company incorporated under the laws of the State of Israel wholly-owned by us. We hold the rights in connection with the Manara Project through our wholly-owned subsidiary, Ellomay Manara (2014) Ltd., which owns 75% of the rights in Chashgal Elyon Ltd. and Agira Sheuva Electra, L.P.

**D. Property, Plants and Equipment**

Our office space of approximately 306 square meters is located in Tel Aviv, Israel. This lease currently expires in April 2016. We sub-lease a small part of our office space to a company controlled by Mr. Shlomo Nehama, at a price per square meter based on the price that we pay under our leases. This sub-lease agreement was approved by our Board of Directors.

The PV Plants are located in Italy and in Spain. 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 Plant on the land on which they are located, or the Lands). The ownership of the Lands remains with the relevant owners of the Lands who are the grantors of the building rights under the respective building right agreements. In the case of the Galatina PV Plant our subsidiary owns the land on which the PV Plant is built. In the case of the Rodríguez I, Rodríguez II and Fuente Librilla PV Plants, long-term lease agreements were executed with the owners of the land. The following table provides information with respect to the Lands and the PV Plants:

PV Plant	Size of Property	Location	Owners of the PV Plants/Lands
“Troia 8”	2.42.15 hectares	Province of Foggia, Municipality of Troia, Puglia region	PV Plant owned by Leasint and leased to Ellomay Six S.r.l. / Building right granted to Ellomay PV Six S.r.l. from owners
“Troia 9”	2.39.23 hectares	Province of Foggia, Municipality of Troia, Puglia region	PV Plant owned by Leasint and leased to Ellomay Five S.r.l. / Building right granted to Ellomay PV Five S.r.l. from owners
“Del Bianco”	2.44.96 hectares	Province of Macerata, Municipality of Cingoli, Marche region	PV Plant owned by Ellomay PV One S.r.l./ Building right granted to Ellomay PV One S.r.l. from owners

<b>PV Plant</b>	<b>Size of Property</b>	<b>Location</b>	<b>Owners of the PV Plants/Lands</b>
“Giaché”	3.87.00 hectares	Province of Ancona, Municipality of Filotrano, Marche region	PV Plant owned by Ellomay PV Two S.r.l. / Building right granted to Ellomay PV Two S.r.l. from owners
“Costantini”	2.25.76 hectares	Province of Ancona, Municipality of Senigallia, Marche region	PV Plant owned by Ellomay PV One S.r.l. / Building right granted to Ellomay PV One S.r.l. from owners
“Massaccesi”	3,60,60 hectares	Province of Ancona, Municipality of Arcevia, Marche region	PV Plant owned by Ellomay PV Two S.r.l. / Building right granted to Ellomay PV Two S.r.l. from owners
“Galatina”	4.00.00 hectares	Province of Lecce, Municipality of Galatina, Puglia region	PV Plant and Land owned by Energy Resources Galatina S.r.l.
“Pedale (Corato)”	13.59.52 hectares	Province of Bari, Municipality of Corato, Puglia region	Building Right granted to Pedale S.r.l. that will own the PV Plant once constructed/ Land held by owners and leased to Pedale S.r.l.
“Acquafresca”	3.38.26 hectares	Province of Barletta-Trani, Municipality of Minervino Murge, Puglia region	Building Right granted to Murgia Solar S.r.l. owns the PV Plant. Land held by owners and leased to Murgia Solar S.r.l.
“D’Angella”	3.79.570 hectares	Province of Barletta-Trani, Municipality of Minervino Murge, Puglia region	Building Right granted to Luma Solar S.r.l. that owns the PV Plant. Land held by owners and leased to Luma Solar S.r.l.



<b>PV Plant</b>	<b>Size of Property</b>	<b>Location</b>	<b>Owners of the PV Plants/Lands</b>
“Soleco”	11.56.87 hectares	Province of Rovigo, Municipality of Canaro, Veneto region	Building Right granted to Soleco S.r.l. that owns the PV Plant. Land held by owners and leased to Soleco S.r.l.
“Tecnoenergy”	11.66.78 hectares	Province of Rovigo, Municipality of Canaro, Veneto region	Building Right granted to Tecnoenergy S.r.l. that owns the PV Plant. Land held by owners and leased to Tecnoenergy S.r.l.
“Rinconada II” <sup>1</sup>	81,103 m <sup>2</sup>	Municipality of Córdoba, Andalusia, Spain	Building Right granted to Ellomay Spain S.L. that owns the PV Plant. Land held by owners and leased to Ellomay Spain S.L.
“Rodríguez I”	65,600 m <sup>2</sup>	Lorca Municipality, Murcia Region	Lease Agreement executed with owners. <u>Plot number 28088:</u> Dña. Ana Ruiz Ruiz. <u>Plot number 28086:</u> Dña. Maria Teresa Guirao Ruiz. <u>Plot number 28084:</u> Dña. Maria Teresa Guirao Ruiz.
“Rodríguez II”	50,300 m <sup>2</sup>	Lorca Municipality, Murcia Region	Lease Agreement executed with owners. <u>Plot number 18214:</u> Dña. Eulalia Giner Ruiz. <u>Plot number 27479:</u> Comunidad de Regantes de Lorca.
“Fuente Librilla”	64,000 m <sup>2</sup>	Fuente Librilla Municipality, Murcia Region	Lease Agreement executed with owners. Andrés Luis Montalbán Otalora; Candelaria Belén Montalbán Otalora and Catalina Laura Montalbán Otalora.

1. This PV Plant is 85% owned by us.

For more information concerning the use of the properties in connection with the PV Plants, 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 annual 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 annual report.*

##### A. Operating Results

###### General

We are involved in the production of renewable energy through our ownership of PV Plants in Italy and Spain. As of April 1, 2015, all of our PV Plants, with an aggregate installed capacity of approximately 22.6 MWp in Italy, or approximately 5.6 MWp in Spain and of an additional approximately 2.3 MWp in Spain (owned by an 85% held subsidiary), are connected to the applicable national grid and operating. In addition, we indirectly own 7.5% of Dorad (and an option to increase our indirect holdings in Dorad under certain conditions to 9.375%) and own 75% of Chashgal Elyon Ltd. and Agira Sheuva Electra, L.P. 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.

## 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 computed by us that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the following:

As a result of the significant funds raised in Israel in the beginning of 2014 and the related currency interest rate swap transactions used to exchange the NIS denominated Series A Debentures notional principle with a Euro notional principal (described below and in note 2 to our consolidated financial statements), together with the increasing influence of the Euro over the primary economic environment in which we operate and the increase in our holdings of photovoltaic operations in Italy and Spain, we re-evaluated our functional currency. Following such re-evaluation, our management determined that our functional currency has changed from the U.S. Dollar to the Euro with effect from January 1, 2014. The change of our functional currency has been accounted for prospectively in accordance with IAS 21 “The Effects of changes in Foreign Exchange Rates.” Items included in the financial statements of each of our subsidiaries and associates are measured using their functional currency. We elected the U.S. dollar as our presentation currency.

### *Legal claims*

When assessing the possible outcomes of legal claims that were filed against us and our subsidiaries, we and our subsidiaries relied on the assessments of our legal counsel. The assessments of our legal counsel are based on the best of their professional judgment, and take into consideration the current stage of the proceedings and the legal experience accumulated with respect to the various matters. As the results of the claims will ultimately be determined by the courts, they may be different from such assessments.

### *Classification of leases*

In order to determine whether to classify a lease as a finance or operating lease, we evaluate whether the lease transfers substantially all the risks and benefits incidental to ownership of the leased asset. In this respect, we evaluate such criteria as the existence of a “bargain” purchase option, the lease term in relation to the economic life of the asset and the present value of the minimum lease payments in relation to the fair value of the asset.

### *Uncertain Tax positions*

We recognize a provision for tax uncertainties. In determining the amount of the provision, assumptions and estimates are made in relation to the probability that the position will be sustained upon examination and the amount that is likely of being realized upon settlement, using the facts, circumstances, and information available at the reporting date. We record additional tax charges in a period in which it determines that a recorded tax liability is less than it expects ultimate assessment to be. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evaluation of regulations and court rulings. Therefore, the actual tax liability may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

#### *Purchase price allocation*

We are required to allocate the purchase price of investment in investees to the assets and liabilities of the investee, on the basis of their estimated fair value. This valuation requires management to use significant estimates and assumptions. The intangible assets that were recognized include the customer portfolio. Critical estimates that were used to value certain assets include, inter alia, the cash flows expected from the customer portfolio. Management's assessments regarding the fair value and useful life are based on assumptions management considered reasonable, but involve uncertainty, therefore actual results may be different.

#### *Fair value measurement of non-trading derivatives*

Within the scope of the valuation of derivative not traded on an active market, we make assumptions about unobserved data using valuation models.

### **Results of Operations**

#### ***Year Ended December 31, 2014 Compared with Year Ended December 31, 2013***

Revenues were approximately \$15.8 million for the year ended December 31, 2014, compared to approximately \$13 million for the year ended December 31, 2013. Operating expenses were approximately \$3.1 million for the year ended December 31, 2014, compared to approximately \$2.4 million for the year ended December 31, 2013. Depreciation expenses were approximately \$5.5 million for the year ended December 31, 2014, compared to approximately \$4 million for the year ended December 31, 2013. These increases resulted from the operations of the Murcia PV Plants acquired on July 1, 2014 and the Veneto PV Plants acquired on June 26, 2013, all of which were not included in our results prior to their acquisition, slightly offset by relatively low radiation levels during the year ended December 31, 2014, the implementation of a new remuneration scheme in Spain adopted in 2014 effective from July 1, 2013 and a decrease in market prices of electricity in Italy.

Gain on bargain purchase was approximately \$4 million for the year ended December 31, 2014 compared to approximately \$10.2 for the year ended December 31, 2013. The gain on bargain purchase for the year ended December 31, 2014 resulted from the consummation on July 1, 2014 of the acquisition of the Murcia PV Plants. The final consideration paid for the Murcia PV Plants and the related licenses was approximately Euro 9.8 million (approximately \$13.3 million). The Murcia PV Plants were acquired in a tender process from Gerlicher Solar Espana S.L, the subsidiary of a German company, Gerlicher Solar AG, in insolvency proceedings. The factors we believe contributed to the bargain purchase price were: (a) as noted, the seller was in insolvency proceedings and was therefore under pressure to realize the assets and repay its creditors; (b) the complexity of a cross-border transaction (with due diligence efforts required in both Spain and Germany), (c) one of the critical considerations upon which the liquidator selected the top proposals was the issue of funding, with preference provided to proposals that included full self-financing over proposals that included obtaining financing as a condition on the part of the bidder, and our bid was not conditioned on obtaining additional financial resources in order to fully fund the purchase price; and (d) the liquidator was interested in selling the three plants together, mainly due to the complexity of splitting the existing contracts between the three plants (insurance contracts, security, maintenance, etc.) and for reasons of efficiency and time constraints, and our bid entailed the purchase of the three plants. We believe that these factors, combined with our experience in the Spanish and Italian photovoltaic field, provided the liquidator with the assurance that the transaction, if executed with us, would be consummated swiftly and efficiently. Taking into account the liquidator's interest in realizing the assets under receivership and advancing the insolvency proceedings, the liquidator was willing to sell the Murcia PV Plants to us at a bargain price. For a description of the factors that we believe contributed to the bargain purchase price of the Vento PV Plants, which is reflected in the gain on bargain purchase for the year ended December 31, 2013, see below under the relevant paragraph of "Year Ended December 31, 2013 Compared with Year Ended December 31, 2012."

General and administrative expenses were approximately \$4.3 million for the year ended December 31, 2014, compared to approximately \$3.5 million for the year ended December 31, 2013. The increase resulted mainly from the inclusion in the general and administrative expenses for the corresponding period in 2013 of proceeds from a bond received from a contractor of four of our photovoltaic plants that entered into insolvency proceedings, in the amount of approximately \$0.6 million, which offset general and administrative expenses for that period. In addition, the general and administrative expenses for the year ended December 31, 2014 included expenses, some of which were not included in the corresponding period in 2013, mainly expenses in the amount of approximately \$0.2 million in connection with the payment of bonuses to employees and aggregate expenses in the amount of approximately \$0.7 million in connection with a pumped storage project in the Manara Cliff in Israel, a pre-bid agreement executed with respect to a joint offer to acquire participating interests in two exploration and drilling licenses off-shore Israel (Karish Tanin) and other due diligence and transaction expenses and an increase in management fees.

Company's share of income of investee accounted for at equity, after elimination of intercompany transactions, was approximately \$1.8 million in the year ended December 31, 2014, compared to losses of approximately \$0.5 million in the year ended December 31, 2013. This increase is due to the commencement of the Dorad Power Plant commercial operations in May 2014.

Other income, net was approximately \$1.4 million in the year ended December 31, 2014, compared to other expense, net of approximately \$42,000 in the year ended December 31, 2013. Other income, net for the year ended December 31, 2014 was mainly due to income receivables in connection with a pumped storage project in the Gilboa, Israel, net of the fair value measurement of the option to acquire additional shares in Dori Energy. Other expense, net for the year ended December 31, 2013 was primarily due to such option fair value measurement.

Financing expenses, net were approximately \$3.4 million in the year ended December 31, 2014, compared to approximately \$2.5 million in the year ended December 31, 2013. The increase in financing expenses, net was mainly due to financing expenses in connection with the reevaluation of our SWAP contracts and related payments. Financing expenses included approximately \$1 million of expenses in connection with the repayment of a loan by a wholly-owned Italian subsidiary of the Company and termination of related swap contract and interest payment and expenses due on and in connection with our Series A Debentures.

Taxes on income were approximately \$0.2 million in the year ended December 31, 2014 and in the year ended December 31, 2013.

Net income was approximately \$6.6 million in the year ended December 31, 2014, compared to approximately \$10.1 million in the year ended December 31, 2013.

Other comprehensive loss from foreign currency translation adjustments of foreign operations were approximately \$3.2 million in the year ended December 31, 2014, compared to income of approximately \$6 million in the year ended December 31, 2013. The changes for the years ended December 31, 2014 and December 31, 2013 were due to our investment in Dori Energy. Loss from foreign currency translation adjustments in the year ended December 31, 2014 resulted from the devaluation of the NIS against the U.S. dollar of approximately 11.7% during 2014. Income from foreign currency translation adjustments in the year ended December 31, 2013 resulted from appreciation of the NIS against the U.S. dollar of approximately 7.5% during 2013.

Loss due to presentation currency translation adjustments was approximately \$9.1 million in the year ended December 31, 2014, compared to \$0 in the year ended December 31, 2013. The presentation currency translation adjustments in the year ended December 31, 2014 resulted from our determination that our functional currency changed from the U.S. Dollar to the Euro with effect from January 1, 2014. Such loss is a result the devaluation in the Euro against the U.S. Dollar of approximately 11.8%.

Our total comprehensive loss was approximately \$5.6 million in the year ended December 31, 2014, compared to income of approximately \$16.1 million in the year ended December 31, 2013. The comprehensive loss for the year ended December 31, 2014 was primarily due to the total other comprehensive loss of approximately \$12.3 million for the period, which offset our net income of approximately \$6.6 million for the period.

#### ***Year Ended December 31, 2013 Compared with Year Ended December 31, 2012***

Revenues were approximately \$13 million for the year ended December 31, 2013, compared to approximately \$8.9 million for the year ended December 31, 2012. Operating expenses were approximately \$2.4 million for the year ended December 31, 2013, compared to approximately \$2 million for the year ended December 31, 2012. Depreciation expenses were approximately \$4 million for the year ended December 31, 2013, compared to approximately \$2.7 million for the year ended December 31, 2012. These increases resulted from the operations of our Spanish PV Plant acquired on July 1, 2012 and the Veneto PV Plants acquired on June 26, 2013.

Gain on bargain purchase was approximately \$10.2 million for the year ended December 31, 2013 compared to \$0 for the year ended December 31, 2012. The gain on bargain purchase for the year ended December 31, 2013 resulted from the consummation on June 26, 2013 of the acquisition of the Veneto PV Plants. The final consideration paid for the Veneto PV Plants and the related licenses was approximately Euro 23.5 million (approximately \$30.7 million). The Veneto PV Plants were acquired in a tender process from Solibra Solar Solutions GmbH, a German company in insolvency proceedings. The factors that we believe contributed to the bargain purchase price were: (a) as noted, the seller was in insolvency proceedings and was therefore under pressure to realize the assets and repay its creditors; (b) for various reasons, including the complexity of a cross-border transaction (with due diligence efforts required in both Italy and Germany), a limited number of bids were submitted, and only a few of those were actually considered; (c) one of the critical considerations upon which the liquidator selected the top proposals was the issue of funding, with preference provided to proposals that included full self-financing over proposals that included obtaining financing as a condition on the part of the bidder, and our bid was not conditioned on obtaining additional financial resources in order to fully fund the purchase price; (d) the liquidator was interested in selling the two plants together, mainly due to the complexity of splitting the existing contracts between the two plants (insurance contracts, security, maintenance, etc.) and for reasons of efficiency and time constraints, and our bid entailed the purchase of both plants; (e) we were already familiar with the Veneto PV Plants due to our interest in acquiring them in the past, and therefore we could more easily complete the due diligence process and structure a bid that would be acceptable to the liquidator; and (f) due to the limited number of bids considered by the liquidator, we were also able to enter into direct negotiations with the liquidator following the tender process, which eventually resulted in an additional price reduction as the liquidator believed a further reduction would contribute to the efficient consummation of the acquisition. We believe that these factors, combined with our experience in the Italian photovoltaic field and our familiarity with the Veneto PV Plants, provided the liquidator with the assurance that the transaction, if executed with us, would be consummated swiftly and efficiently. Taking into account the liquidator's interest in realizing the assets under receivership and advancing the insolvency proceedings, the liquidator was willing to sell the Veneto PV Plants to us at a bargain price.

General and administrative expenses were approximately \$3.5 million for the year ended December 31, 2013, compared to approximately \$3.1 million for the year ended December 31, 2012. The increase resulted mainly from consultancy fees in connection with the transactions negotiated during 2013, including the acquisition of the Veneto PV Plants and the loan agreement with Israel Discount Bank Ltd. The increase in general and administrative expenses for the year ended December 31, 2013 was offset by proceeds received in connection with the enforcement of a bond received from a contractor of four of our photovoltaic plants that has entered into insolvency proceedings, in the amount of approximately \$0.6 million. General and administrative expenses for the year ended December 31, 2012 include a disposal of fixed assets due to theft and damages to components of two of our PV Plants and income from insurance policies in connection with these events.

Company's share of loss of investee accounted for at equity, after elimination of intercompany transactions was approximately \$0.5 million in the year ended December 31, 2013, compared to approximately \$0.2 million in the year ended December 31, 2012. This increase was primarily due to expenses in connection with delay in the operation of the Dorad Power Plant and Dorad's expenses relating to the fair value measurement of derivatives.

Other expense, net, was approximately \$42,000 in the year ended December 31, 2013, mainly due to the fair value measurement of the option to acquire additional shares in Dori Energy, compared to income of approximately \$146,000 million in the year ended December 31, 2012.

Capital loss was \$0 for the year ended December 31, 2013, compared to a capital loss of approximately \$0.4 million for the year ended December 31, 2012. The capital loss recorded during 2012 is mainly attributable to the sale of holdings in connection with an MVNO project we decided not to continue holding and to the impairment of our investment in the Yitzhak License.

Financing expenses, net were approximately \$2.5 million in the year ended December 31, 2013, compared to approximately \$3.8 million in the year ended December 31, 2012. This decrease in financing expenses was primarily attributable to the fair value measurement of swap contracts. The decrease was offset by expenses related to the listing of our shares on the TASE and from an approximately \$0.5 million expense recorded as a result of the issuance of a warrant to purchase 308,427 shares, increased expenses from exchange rate differences in 2013 on cash and cash equivalents and short-term bank loans denominated in foreign currencies and to the interest expenses on our short-term loans and borrowings, financial lease obligations and long-term bank loans. See Note 17 to our consolidated financial statements.

Taxes on income were approximately \$0.2 million in the year ended December 31, 2013, compared to tax benefit of approximately \$1 million in the year ended December 31, 2012. Tax benefit for the year ended December 31, 2012 is mainly attributable to reversal of tax provisions made in prior years.

Net income was approximately \$10.1 million in the year ended December 31, 2013, compared to a net loss of approximately \$2.1 million in the year ended December 31, 2012.

Other comprehensive income from foreign currency translation differences from foreign operation were approximately \$6 million in the year ended December 31, 2013, compared to income of approximately \$1.6 million in the year ended December 31, 2012. The changes for the years ended December 31, 2013 and December 31, 2012 were primarily due to the operations of our Italian and Spanish PV Plants and our investment in Dori Energy. Income from foreign currency translation differences in the years ended December 31, 2013 and December 31, 2012 resulted from the revaluation of the Euro against the U.S. dollar and the revaluation of the NIS against the U.S. dollar during 2013 and 2012. Appreciation of the Euro against the U.S. dollar was approximately 4.6% during 2013, compared to an appreciation of the Euro against the U.S. dollar of approximately 2% during 2012. During 2013 the appreciation of the NIS against the U.S. dollar was approximately 7.5%, compared to an appreciation of the NIS against the U.S. dollar of approximately 2.3% during 2012.

Our total comprehensive income for the year ended December 31, 2013 was approximately \$16.1 million, compared to a loss of approximately \$0.5 million in the year ended December 31, 2012. The net income for the year ended December 31, 2013 was primarily due to gain on bargain purchase (negative goodwill) in the amount of approximately \$10.2 million recorded in connection with the acquisition of the Veneto PV Plants.

#### ***Impact of Inflation and Fluctuation of Currencies***

The annual rate of inflation in Israel was 1.6% in the year ended December 31, 2012, it increased to 1.8% in the year ended December 31, 2013 and decreased to a deflation of 0.2% in the year ended December 31, 2014.



We hold cash and cash equivalents, restricted cash and short-term deposits in various currencies, including U.S. Dollar, Euro and NIS. Our investments in the Italian and Spanish PV Plants and in Dori Energy are denominated in Euro and NIS. Our Series A Debentures are denominated in NIS and the interest and principal payments are to be made in NIS, and the amounts we owe in connection with four of our PV Plants bears interest that is based on EURIBOR rate. In addition, as we changed our functional currency from the U.S. Dollar to Euro as of January 1, 2014, our balance sheet is exposed to changes due to fluctuations in the exchange rates. We therefore are affected by changes in the prevailing Euro/U.S. dollar and NIS/U.S. dollar exchange rates. We cannot predict the rate of appreciation/depreciation of the NIS or the Euro against the U.S. dollar in the future, and whether these changes will have a material adverse effect on our finances and operations.

The table below set forth the annual rates of appreciation (or depreciation) of the NIS against the U.S. dollar and of the Euro against the U.S. Dollar.

	Year ended December 31,		
	2014	2013	2012
Appreciation (Depreciation) of the NIS against the Euro	(1.2)%	(2.9)%	(0.4)%
Appreciation (Depreciation) of the U.S. dollar against the Euro	(11.8)%	4.5%	2%

The representative Euro exchange rate was U.S. dollar 1.318 for one Euro on December 31, 2012, U.S. dollar 1.378 for one Euro on December 31, 2013 and U.S. dollar 1.215 for one Euro on December 31, 2014. The average exchange rates for converting the U.S. dollar to Euro during the years ended December 31, 2012, 2013 and 2014 were U.S. dollar 1.284, 1.329 and 1.329 for one Euro, respectively. The exchange rate as of April 1, 2015 was U.S. dollar 1.077 for one Euro.

The representative Euro exchange rate was NIS 4.921 for one Euro on December 31, 2012, NIS 4.782 for one Euro on December 31, 2013 and NIS 4.725 for one Euro on December 31, 2014. The average exchange rates for converting the NIS to Euro during the years ended December 31, 2012, 2013 and 2014 were NIS 4.953, 4.797, and 4.747 for one Euro, respectively. The exchange rate as of April 1, 2015 was NIS 4.278 for one Euro.

As a result of the significant funds raised in Israel in the beginning of 2014 and the related currency interest rate swap transactions used to exchange the notional principal of the NIS denominated Series A Debentures with a Euro notional principal, together with the increasing influence of the Euro over the primary economic environment in which we operate and the increase in our holdings of photovoltaic operations in Italy and Spain, we re-evaluated our functional currency. Following that re-evaluation, our management determine that our functional currency changed from the U.S. Dollar to the Euro with effect from January 1, 2014. However, we maintained the U.S. dollar as our reporting currency.

Items included in the financial statements of each of the our subsidiaries and investee 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:

- (a) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- (b) Income and expenses for each period presented in the statement of 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.
- (c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing at the date of issuance.
- (d) Retained earnings are translated based on the opening balance translated at the exchange rate at that date and other relevant transactions during the period are translated as described in (b) and (c) above.
- (e) All resulting translation differences are recognized as a separate component of other comprehensive income (loss) in equity "adjustments arising from translating financial statement of foreign operations."

Intergroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in that foreign operation and are accounted for as part of the investment and the exchange differences arising on these loans are recognized in the same component of equity as discussed in (e) above.

For information concerning hedging transactions entered into in connection with our PV operations in Italy and in Spain and our Series A Debentures, 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***

Our PV Plants are subject to comprehensive regulation and we sell the electricity produced by our PV Plants for rates determined by governmental legislation and to local governmental entities. Any change in the legislation that affects PV plants such as our PV Plants could materially adversely affect our results of operations. The recent economic crisis in Europe and specifically in Italy and Spain could cause the applicable legislator to reduce benefits provided to operators of PV plants or to revise the Feed-in-Tariff system that currently governs the sale of electricity in Italy and Spain. For more information see "Item 3.D: Risk Factors - Risks Related to the PV Plants" and "Item 4.B: Material Effects of Government Regulations on the PV Plants."

#### *Effective Israeli Corporate Tax Rate*

Israeli companies are generally subject to company tax on their taxable income. The applicable rate was 26% in 2009, 25% in 2010, 24% in 2011 and 25% in 2012 and 2013.

On August 5, 2013, the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014), 2013, by which, inter alia, the corporate tax rate was set at a rate of 26.5% as from 2014.

As of December 31, 2014, we had tax loss carry-forwards in the amount of approximately NIS 119 million (approximately \$30.5 million). Under current Israeli tax laws, tax loss carry-forwards do not expire and may be offset against future taxable income.

#### **B. Liquidity and Capital Resources**

##### *General*

As of April 1, 2015, we held approximately \$16.7 million in cash and cash equivalents, approximately \$0.2 million in short-term restricted cash, approximately \$0.7 million in short-term deposits, approximately \$5 million in marketable securities and approximately \$5 million in long-term restricted cash. As noted under “Item 4.A: Information on Ellomay - History and Development of Ellomay,” subsequent to April 1, 2015, we provided a notice of exercise of an option to acquire an additional 9% of Dori Energy’s share capital and the payment that we will make in connection with such exercise is expected to be approximately NIS 28.1 million (approximately \$7.1 million).

Although we now hold the aforementioned funds, we may need additional funds if we seek to acquire certain new businesses and operations. If we are unable to raise funds through public or private financing of debt or equity, we will be unable to fund certain 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 the Leasing Agreements with Leasint, the Finance Agreement with Centrobanc and the Loan Agreement with UniCredit in connection with the financing of six of our PV Plants and into the Discount Bank Agreement in connection with the financing of our portion of Dori Energy’s obligations to Dorad (all as defined and more fully described below). We also secured short term bank financing in connection with the financing of our PV operations from Leumi USA (that was repaid during 2013). In addition, during 2013 we entered into a loan agreement with Israel Discount Bank Ltd. or the Discount Loan Agreement (that was repaid during 2014), and in January 2014 and June 2014 we issued the Series A Debentures, as more fully described below. We currently have no agreements, commitments or understandings for additional financing, however we intend to finance the remainder of our PV Plants by bank loans or other means of financing.

As of December 31, 2014 we had working capital of approximately \$18.9 million. 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.

At December 31, 2014 we had approximately \$15.8 million of cash and cash equivalents, compared with approximately \$7.2 million of cash and cash equivalents at December 31, 2013 and approximately \$33.2 million of cash and cash equivalents at December 31, 2012. The reduction in cash during the year ended December 31, 2013 was mainly attributable to the acquisition of the Veneto PV Plants and the increase in cash during the year ended December 31, 2014 was mainly attributable to funds raised in the offering of our Series A Debentures, offset by repayment of the loan under the Discount Loan Agreement, the repayment of the Unicredit loan and payment of the purchase price of the Murcia PV Plants.

As of December 31, 2014, we had recorded commitments for capital expenditures in the amount of approximately \$0.9 million for services that were substantially preformed in connection with agreements entered into during 2010 through 2011. We anticipate using our cash assets and financing from third party financing entities (especially in connection with the financing of our Italian PV Plants) in order to meet such commitments.

#### **Project Finance**

We executed several project finance agreements in connection with six of the PV Plants and may in the future exercise additional project finance agreements with respect to one or more of the remaining PV Plants. The following is a brief description of the project finance agreements that existed during the year ended December 31, 2014 in connection with several of the PV Plants.

#### **Leasint**

On December 31, 2010, Ellomay PV Five S.r.l. and Ellomay PV Six S.r.l., our wholly-owned Italian subsidiaries that are the PV Principal for the Troia 9 and Troia 8 PV Plants, respectively, entered into Financial Leasing Agreements, or the Leasing Agreements, with Leasint S.p.A., or Leasint.

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

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

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

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

As of December 31, 2013, all available funds under the Leasing Agreements, amounting to approximately Euro 6 million, were utilized.

*Centrobanca*

On February 17, 2011, Ellomay PV One S.r.l., our wholly-owned Italian subsidiary that is the PV Principal for the Del Bianco and Costantini PV Plants, entered into a project finance facilities credit agreement, or the Finance Agreement, with Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A., or Centrobanca.

Pursuant to the Finance Agreement, Ellomay PV One received two lines of credit in the aggregate amount of Euro 4.65 million divided into:

- (i) a Senior Loan, to be applied to the costs of construction of the PV Plants (up to 80% of the relevant amount), in the amount of Euro 4.1 million, accruing interest at the EURIBOR rate, increased by a margin of 200 basis points per annum, repaid semi-annually with a maturity date of December 31, 2027; and
- (ii) a VAT Line, for payment of VAT due on the costs of construction in the amount of Euro 0.55 million, accruing interest at the EURIBOR rate, increased by 160 basis points per annum. As of December 31, 2013 the entire VAT Line was repaid.

The Finance Agreement provides for a default interest that will accrue upon the occurrence of certain events, including a delay in payments, acceleration, termination and withdrawal. The outstanding loans may be prepaid on predetermined dates, upon payment of a fee equal to 2% of the prepaid amount. The Finance Agreement also provides for mandatory prepayment upon the occurrence of certain events, including in the event the present value of cash flow available for debt services/debt outstanding (the Loan Life Coverage Ratio) is lower than a pre-determined ratio and in the event of a change of more than 49% of the ownership of Ellomay PV One (unless Centrobanca resolves to maintain the financing in force based on the identity and undertakings of the new shareholder). The Finance Agreement includes various customary representations, warranties and covenants, including covenants to maintain certain financial ratios.

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

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

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

As of December 31, 2013, all available funds under the Finance Agreement, amounting to approximately Euro 4.4 million, were utilized.

#### *Unicredit*

On December 20, 2011, Ellomay PV Two S.r.l., our wholly-owned Italian subsidiary that is the PV Principal for the Giaché and Massaccesi PV Plants, entered into a loan agreement, or the Loan Agreement, with Unicredit S.p.A., or Unicredit. Pursuant to the Loan Agreement, Ellomay PV Two received a line of credit up to an amount of Euro 5.047 million bearing interest at the EURIBOR 6 month rate plus a range of 5.15%-5.35% per annum, depending on the period in which interest is accrued during the term of the Loan Agreement. The principal and interest on the loan were due to be repaid semi-annually. The final maturity date of this loan was originally December 31, 2029.

The Loan Agreement provides for a default interest that will accrue upon a delay in payments. The outstanding loans may be prepaid subject to the provision of a prepayment notice and the requirement for prepayment of amounts that are not less than certain thresholds set forth in the Loan Agreement. The Loan Agreement also provides for mandatory prepayment upon the occurrence of certain events, including in the event the borrower receives insurance or indemnity compensation and in the event of a change in control of the borrower without Unicredit's consent. The Loan Agreement includes various customary representations, warranties and covenants, including covenants to maintain certain financial ratios.

No amount re-paid or pre-paid under the Loan Agreement may be re-borrowed by Ellomay PV Two. Ellomay PV Two may not transfer any of the credits or other rights or obligations under the Loan Agreement.

In connection with the Loan Agreement, Ellomay PV Two provided securities to Unicredit, including a mortgage on the PV Plants and an assignment of receivables deriving from the project contracts (including the agreements with GSE, credits resulting from the EPC Contracts and O&M Agreements and insurances).

In connection with the Loan Agreement, Ellomay Luxembourg, our wholly-owned subsidiary and the parent company of Ellomay PV Two (i) provided a pledge on the shares it holds in this company in favor of Unicredit in order to guarantee the obligations of this company under the Loan Agreement and related documents and (ii) agreed to the subordination of any receivables it may be entitled to receive from Ellomay PV Two. In addition, we and Ellomay Luxembourg entered into an equity contribution agreement with Ellomay PV Two and Unicredit that provides for Ellomay Luxembourg's obligation to contribute funds to Ellomay PV Two and our obligation to cure Ellomay Luxembourg's failure to do so, both under limited circumstances (certain additional project costs and failure of Ellomay PV Two to deliver warranty bonds under the Loan Agreement) and for limited amounts.

As of December 31, 2013, all available funds under the Loan Agreement, amounting to approximately Euro 5 million, were utilized and as of December 31, 2014 all outstanding amounts under the Loan Agreement were repaid by us in full.

#### ***Other Financing Activities***

##### *Discount Bank Loan*

On June 20, 2013 we entered into the Discount Loan Agreement. Pursuant to the Discount Loan Agreement, we received an amount of Euro 13.5 million (approximately \$17.7 million) for a period of 18 months, bearing an interest at the EURO LIBOR 3 month rate plus 4.5%. The Discount Loan Agreement includes several pledges on our assets and undertakings, as are set forth in Note 9 of the consolidated financial statements included in this report. The Discount Loan Agreement permits early repayment without penalties. In January 2014, we repaid EUR 12.8 million and in April 2014 we repaid the remaining EUR 0.7 million using part of the proceeds received from the offering of our Series A Debentures.

##### *Series A Debentures*

On January 13, 2014, we issued NIS 120 million (approximately \$34.4 million, as of the issuance date) of unsecured non-convertible Series A Debentures through a public offering that was limited to residents of Israel. The Series A Debentures were issued with a price per unit (each unit comprised of NIS 1,000 par value) of NIS 973. During June 2014, we issued an additional NIS 80.341 million (approximately \$23.3 million, as of the issuance date) Series A Debentures to Israeli classified investors in a private placement. The Series A Debentures are traded on the TASE and have been rated ilA-, on a local scale, by Standard & Poor's Maalot Ltd.

The principal amount of Series A Debentures is repayable in ten equal annual installments on December 31 of each of the years 2014 through 2023 (inclusive) and is not linked to the CPI or otherwise. The Series A Debentures bear a fixed annual interest rate of 4.6%, payable semi-annually on June 30 and December 31 of each of the years 2014 through 2023 (inclusive). The aggregate gross and net proceeds received in connection with the offering of our Series A Debentures during the year ended December 31, 2014 were approximately NIS 197.9 million (approximately \$50.9 million, as at December 31, 2014) and approximately NIS 193.6 million (approximately \$49.8 million, as at December 31, 2014), respectively.

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

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

1. 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 the Company 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 subsidiaries of the Company, or, together, the Net Financial Debt, to (b) the equity of the Company, on a consolidated basis, plus the Net Financial Debt, shall not exceed a rate of 65%; and
3. The ratio of (a) the Company's equity, on a consolidated basis, to (b) the Company's balance sheet, on a consolidated basis, shall not be less than a rate of 20%.

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

For further information concerning the Series A Deed of Trust, see "Item 10.C: Material Contracts" and the Series A Deed of Trust is included as exhibit 4.28 to this annual report.



### ***Cash flows***

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

	Year ended December 31,		
	2014	2013	2012
	(U.S. dollars in thousands)		
Net cash provided by operating activities	\$ 3,336	\$ 6,389	\$ 5,906
Net cash used in investing activities	(16,065)	(42,779)	(1,850)
Net cash provided by (used in) financing activities	24,938	9,874	(34)
Exchange differences on balances of cash and cash equivalents	(3,689)	462	353
Increase (decrease) in cash and cash equivalents	8,520	(26,054)	4,375
Cash and cash equivalents at beginning of year	7,238	33,292	28,917
Cash and cash equivalents at end of year	15,758	7,238	33,292

### ***Operating activities***

In the year ended December 31, 2014, we had net income of \$6.6 million. Net cash provided by operating activities was approximately \$3.3 million, primarily due to collection of revenue from the sale of electricity by our PV Plants.

In the year ended December 31, 2013, we had net income of \$10.1 million. Net cash provided by operating activities was approximately \$6.4 million, primarily due to collection of revenue from the sale of electricity by our PV Plants, VAT refunds received in Italy and Spain and the enforcement of bonds received from one of our contractor's in Italy as part of its obligations under the EPC agreements.

In the year ended December 31, 2012, we had net loss from continuing operations of \$2.1 million. Net cash provided by operating activities was approximately \$5.9 million, primarily due to collection of revenue from the sale of electricity by our PV Plants.

### ***Investing activities***

Net cash used in investing activities was approximately \$16.1 million in the year ended December 31, 2014, primarily due to the acquisition of the Murcia PV Plants, our additional investments in Dori Energy via the extension of shareholder loans and our investment in marketable securities, net of proceeds from short-term deposits and restricted cash.

Net cash used in investing activities was approximately \$42.8 million in the year ended December 31, 2013, primarily due to the acquisition of the Veneto PV Plants and our additional investments in Dori Energy via the extension of shareholder loans, net of proceeds from short-term deposits and restricted cash.

Net cash used in investing activities was approximately \$1.8 million in the year ended December 31, 2012, primarily due to the acquisition of our Spanish PV Plant and our additional investments in Dori Energy via the extension of shareholder loans, net of proceeds from short-term deposits and restricted cash.

### ***Financing activities***

Net cash provided by financing activities in the year ended December 31, 2014 was approximately \$24.9 million, deriving primarily from the issuance of our Series A Debentures in January and June 2014, net of repayment of the loans under the Discount Loan Agreement and the agreements with Unicredit and financial lease obligations.

Net cash provided by financing activities in the year ended December 31, 2013 was approximately \$9.9 million, deriving primarily from the Discount Loan Agreement entered into in 2013, net of repayments of long term bank loans and financial lease obligations.

Net cash used in financing activities in the year ended December 31, 2012 was approximately \$34,000, deriving primarily from the utilization of the Unicredit loan in January 2012, net of short term and long term loans repayments.

For more information concerning hedging transactions undertaken in connection with financings granted at EURIBOR linked interest, the Series A 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 2014, we issued the Series A Debentures. For more information concerning the Series A Debentures, see “Series A Debentures” under “Other Financing Activities” above and note 12 to the financial statements included in this report.

During 2013, we entered into the Discount Loan Agreement (which was fully repaid during 2014). As of December 31, 2013 we utilized approximately Euro 13.5 million out of the amount available under the Discount Loan Agreement. For more information concerning the Discount Loan Agreement see “Discount Bank Loan” under “Other Financing Activities” above and Note 9 to the financial statements included in this report.

We did not enter into any financing agreement during 2012.

As of December 31, 2014 we were not in default under any financial covenants pursuant to the agreements with Centrobanca, Leasint and Discount and under the terms of the Series A Deed of Trust.

As of December 31, 2014, our total current assets amounted to approximately \$29.8 million, of which approximately \$15.8 million was in cash and cash equivalents, approximately \$3.6 million was in marketable securities and approximately \$4 was in short-term deposits, compared with total current liabilities of approximately \$10.9 million. Our assets held in cash equivalents are held in money market accounts and short-term deposits, substantially all of which are highly liquid investments that are readily convertible to cash with original maturities of three months or less at the date acquired.

As of December 31, 2013, our total current assets amounted to approximately \$22.5 million, of which approximately \$7.2 million was in cash and cash equivalents and \$5.2 was in short-term deposits, compared with total current liabilities of approximately \$26.9 million. Our assets held in cash equivalents are held in money market accounts and short-term deposits, substantially all of which are highly liquid investments that are readily convertible to cash with original maturities of three months or less at the date acquired.

The increase in our cash, marketable securities and short-term deposits balance is mainly attributable to the funds raised in the issuance of our Series A Debentures and cash collected in connection with the sale of electricity, net of amounts invested in new operations, repayment of loans and general and administrative expenses.

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

We did not conduct any research and development activities in the years ended December 31, 2012, 2013 and 2014.

**D. Trend Information**

We operate in the Italian and Spanish photovoltaic markets and in the Israeli energy market through our ownership of twelve PV Plants in Italy, four PV Plants in Spain (one of them only 85% owned by us) and 40% of the issued and outstanding shares of Dori Energy. Our PV Plants are all operational and connected to the Italian and Spanish national grids, as applicable. However, (i) as we acquired our Rinconada II only during 2012 our results for 2012 do not reflect a full year of operations of such PV Plant, (ii) as we acquired the Veneto PV Plants only during 2013 our results for 2013 do not reflect a full year of operations of such PV Plants and (iii) as we acquired the Murcia PV Plants only during 2014 our results for 2014 do not reflect a full year of operations of such PV Plants. In addition, the power plant constructed by Dorad only commenced operations during 2014 and therefore our results for 2014 do not reflect a full year of operations of the Dorad Power Plant.

Our business and revenue growth from the transactions in the Italian and Spanish photovoltaic market depends, among other factors, on payments received in accordance with applicable regulation and on seasonality. Revenue tends to be lower in the winter, primarily because of adverse weather conditions. The growth of our solar business in Italy and Spain is affected significantly by government subsidies and economic incentives and recent amendments to the Italian and Spanish legislation may have an adverse impact on our future revenues and on our ability to locate attractive investments in the PV field in these countries. In addition, our ability to continue to leverage the investment in this market, may affect the profitability of the transactions. Dorad's revenues are also dependent to an extent on regulation and on seasonality. For more information see "Item 3.D: Risk Factors - Risks Related to the PV Plants," "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, 2014, 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 U.S. dollars)				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	more than 5 years
Finance lease obligations (including current maturities) <sup>(1)</sup>	7,558	571	1,141	1,138	4,708
Long-term loans (including current maturities) <sup>(1)</sup>	5,120	432	578	1,766	2,344
Long-term rent obligations <sup>(2)</sup>	4,893	346	556	518	3,473
Debentures (including current maturities) <sup>(1)</sup>	57,026	7,287	13,857	12,909	22,976
SWAP contracts	3,807	708	1,154	736	1,209
Total	78,404	9,344	17,286	17,067	34,710

\* For contractual obligations related to our investment in the Italian and Spanish photovoltaic market, please refer to Item 4.

(1) These amounts include future payment of interest.

(2) Includes land lease agreements of our Italian and Spanish subsidiaries. Rent until April 2016 of our offices in Tel Aviv is also included.

**ITEM 6: Directors, Senior Management and Employees****A. Directors and Senior Management**

The following table sets forth certain information with respect to our directors and senior management, as of April 1, 2015:

Name	Age	Position with Ellomay
Shlomo Nehama <sup>(1)(2)</sup>	60	Chairman of the Board of Directors
Ran Fridrich <sup>(1)(2)(3)</sup>	62	Director and Chief Executive Officer
Hemi Raphael <sup>(1)(2)</sup>	63	Director
Anita Leviant <sup>(1)(3)(4)(5)</sup>	60	Director
Barry Ben Zeev <sup>(4)(5)(6)</sup>	63	Director
Mordechai Bignitz <sup>(4)(5)(6)</sup>	63	Director
Kalia Weintraub	36	Chief Financial Officer
Eran Zupnik	47	EVP of Business Development
Ori Rosenzweig	38	Chief Investment Officer

- (1) Elected pursuant to the Shareholders Agreement, dated as of March 24, 2008, between S. Nechama Investments (2008) Ltd. and Kanir Joint Investments (2005) Limited Partnership (See “Item 7.A: Major Shareholders”).
- (2) Provides management services to the Company pursuant to a Management Services Agreement (See “Item 6.B: Compensation”).
- (3) Member of our Advisory Committee.
- (4) Independent Director pursuant to the NYSE MKT rules.
- (5) Member of our Audit Committee and Compensation Committee.
- (6) External Director pursuant to the Companies Law.

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

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

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

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

*Anita Leviant* has served as a director of Ellomay since March 2008. Ms. Leviant heads LA Global Consulting, a practice specializing in representing and consulting global oriented companies in the public offering process. LAGC represents and consults investors and corporations on business and regulatory issues, in cross border and financial transactions, banking and capital markets. 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.

*Barry Ben Zeev* has served as an external director of Ellomay since December 30, 2009. Mr. Ben Zeev is a business strategic consultant. From 1978 to 2008, Mr. Ben Zeev served in various positions with Bank Hapoalim. During 2008, he served as the bank's Deputy CEO and as its CFO, in charge of the financial division. From 2001 to 2007, he served as the bank's Deputy CEO in charge first of the private international banking division and then of the client asset management division. Mr. Ben Zeev has served on the board of many companies, including as a director on the board of the Israeli Stock Exchange in 2006-2007. He currently serves as a director of Partner Communications Ltd. (NASDAQ and TASE: PTNR), Kali Equity Markets, Hiron-Trade Investments & Industries Buildings Ltd. (TASE: HIRON) and Poalim Asset Management (UK) Ltd., a subsidiary of Bank Hapoalim B.M. and on the advisory board of the Bereishit Fund. Mr. Ben Zeev also serves as an independent director and Head of Investment Committee at Altshuler Shaham Pension & Gemel B.M. and as Chairman of Hapoel Tel Aviv Football Club. Mr. Ben Zeev holds an MBA from Tel-Aviv University specializing in financing, and a BA in Economics from Tel-Aviv University.

*Mordechai Bignitz* has served as an external director of Ellomay since December 20, 2011. Mr. Bignitz is involved in economic and financial consulting and investment management and currently serves as the chairman of the investment committee of Migdal Capital Markets, one of Israel's largest investment houses. 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) and from 2007 to 2010 he served as a director of Leader Holdings & Investments Ltd. (TASE: LDER). From 2004 to 2007, Mr. Bignitz served as CEO of Advanced Paradigm Technology. From 1992 to 2004, Mr. Bignitz served as director and CFO of DS Capital Markets. From 1994 to 1996, Mr. Bignitz served as Managing Director of Dovrat, Shrem & Co. Trading Ltd. From 1991 to 1994 Mr. Bignitz served as Vice President and CFO of Dovrat Shrem & Co. and prior to that he served as Vice President of Clal Retail Chains (a subsidiary of the Clal Group) and Vice President & CFO of Clal Real Estate Ltd. Mr. Bignitz serves as a director of Israel Financial Levers (IFL) Ltd. (TASE: LVR) and of ARAD Investment and Industrial Development Ltd. (TASE: ARD). Mr. Bignitz is a CPA, holds a BA in Accounting and Economics from Tel-Aviv University and completed the Executive Program in Management and Strategy in Retail at Babson College in Boston. Mr. Bignitz qualifies as an external director according to the Companies Law.

*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.

*Eran Zupnik* has served as our EVP of Business Development since November 2008. Prior to joining Ellomay, Eran was a mergers and acquisitions lawyer in New York with Skadden Arps Slate Meagher & Flom LLP, one of the world's leading law firms. At Skadden, Eran led and advised US and International clients in more than 150 cross-border merger and acquisition transactions as well as securities offerings. Prior to Skadden, Eran was a consultant with the business advisory services group of PricewaterhouseCoopers LLP in Boston. Eran received his LLB and BA in Business Administration from the College of Management in Israel. He was admitted to both the New York and Israeli bar and is also a certified public accountant.

*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 (TASE: AFIL) from 2009 through 2013 and a senior manager at GSE financial consulting from 2002 through 2008. Mr. Rosenzweig holds a MBA degree from the Tel Aviv University and a BA degree in business and international relations from the Hebrew University.

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

## B. Compensation

### General

Salaries, fees, commissions and bonuses paid or accrued with respect to all of our directors and senior management as a group in the fiscal year ended December 31, 2014 was approximately \$655 million, including an amount of approximately \$29 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 10.C: Material Contracts") 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, 2014. All amounts reported in the table below are as recognized in our financial statements for the year ended December 31, 2014.

Name and Position	Salary <sup>(1)</sup>	Management Fees	Bonus (US\$ in thousands)	Share-Based Payment <sup>(2)</sup>	Total
Shlomo Nehama, <i>Chairman of the Board</i>	-	200 <sup>(3)</sup>	-	-	200 <sup>(3)</sup>
Ran Fridrich, <i>CEO and Director</i>	-	100 <sup>(3)(4)</sup>	-	-	100 <sup>(3)(4)</sup>
Hemi Raphael, <i>Director</i>	-	100 <sup>(3)(4)</sup>	-	-	100 <sup>(3)(4)</sup>
Kalia Weintraub, <i>CFO</i>	236	-	52 <sup>(5)</sup>	-	288
Eran Zupnik, <i>EVP Business Development</i>	315	-	81 <sup>(5)</sup>	*	396

\* Less than \$500.

- (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) Represents the equity-based compensation expenses recorded in our consolidated financial statements for the year ended December 31, 2014. For a discussion of the assumptions used in reaching this valuation, see Note 16 to our consolidated financial statements.
- (3) Such amounts are paid pursuant to the terms of the Management Services Agreement among the Company, Kanir and Meisaf Blue & White Holdings Ltd. For additional information, see "Management Services Agreement" below.
- (4) The Management Services Agreement provides for an aggregate payment to Kanir in connection with services provided by Messrs. Fridrich and Raphael. For purposes of this tabular presentation, we divided the aggregate annual payment of \$200,000 to Kanir equally between Mr. Fridrich and Mr. Raphael, however, this division does not necessarily represent the actual amounts received by them.
- (5) These amounts were paid as bonuses during the year ended December 31, 2014 on account of the year ended December 31, 2012.

Other than options granted to members of our Board of Directors and the grant of options to one of our senior employees, we did not grant any options to purchase ordinary shares during 2014. 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 a 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 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” and “Item 10.C: Material Contracts.”

#### ***Compensation of Non-Executive Directors***

As approved by our shareholders, we pay our non-executive directors (Anita Leviant, Barry Ben Zeev and Mordechai Bignitz) 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 52,585 (equivalent to approximately \$13,232, as of April 1, 2015) and an attendance fee of NIS 1,860 (equivalent to approximately \$468) per meeting (board or committee). These amounts are updated twice 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, Barry Ben Zeev and Mordechai Bignitz) also receives an annual grant of options to purchase 1,000 ordinary shares under the terms and conditions set forth in our 1998 Share Option Plan for Non-Employee Directors, or the 1998 Plan. The 1998 Plan provides for grants of options to purchase ordinary shares to our non-employee directors. The 1998 Plan, as amended, is administered, subject to Board approval, by the Compensation Committee and our Board. An aggregate amount of not more than 75,000 ordinary shares is reserved for grants under the 1998 Plan. The original expiration date of the 1998 Plan pursuant to its terms was December 8, 2008 (10 years after its adoption). At the general meeting of our shareholders, held on January 31, 2008, the term of the 1998 Plan was extended and as a result it will expire on December 8, 2018, unless earlier terminated by our Board.

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

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

The term of each option granted under the 1998 Plan is 10 years from the applicable date of grant and such options may be terminated earlier upon certain circumstances, such as the expiration of three months from the date of the director's termination of service on our Board (subject to extension and certain exceptions pursuant to the terms of the 1998 Plan). Pursuant to the original terms of the 1998 Plan, all options granted under the 1998 Plan were fully vested immediately upon the date of grant. In connection with the adoption of our compensation policy in 2013, the 1998 Plan was amended to provide that options granted under the 1998 Plan will become exercisable based on the vesting schedule determined in the approvals of the option grant. At our 2013 Shareholders Meeting, our shareholders, following the approval of our Compensation Committee and Board of Directors, approved an amendment to the vesting terms of future option grants to our non-employee directors (currently Anita Leviant) so that the options granted to these directors will vest in one installment on the first anniversary of the grant date of the options. At our annual shareholders meeting held on September 11, 2014, our shareholders, following the approval of our Compensation Committee and Board of Directors, approved an amendment to the vesting terms of future option grants to Mr. Mordechai Bignitz commencing upon the election or reelection of our other external director, expected to occur during 2015.

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 “Share Ownership” below.

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

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

***Compensation Policy***

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

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

At the 2013 Shareholders Meeting, our shareholders approved our compensation policy, or the Compensation Policy, following its approval by our Board of Directors and the recommendation of our Compensation Committee.

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 4.22 under Item 19.

*Approval Process of Terms of Service and Employment of Office Holders*

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

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

In the event the transaction with any office holder is not in accordance with the compensation policy, the approval of the company's shareholders, by "special majority," is also required. In the event the company's shareholders do not approve the compensation of the CEO or other office holders (who are not directors, controlling shareholders or relatives of the controlling shareholders), the Compensation Committee and board of directors may, in special situations, approve the transaction, subject to their providing detailed reasons and after discussion and examination of the rejection by the company's shareholders.

### **C. Board Practices**

We are a “controlled company” as defined in Section 801 of the NYSE MKT Company Guide. As a result, we are exempt from certain of the NYSE MKT 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 approved by the SEC on January 11, 2013 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 pass 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.

Officers serve at the discretion of the Board or until their successors are appointed.

#### ***Terms of Directors***

Our Board currently consists of six members, including two external directors. Pursuant to our Articles, unless otherwise prescribed by resolution adopted at a general meeting of our shareholders, our Board shall consist of not less than four (4) nor more than eight (8) directors (including the external directors). Except for our two external directors, the members of our Board are elected annually at our annual shareholders' meeting and remain in office until the next annual shareholders' meeting, unless the director has previously resigned, vacated his office, or was removed in accordance with the Articles. The most recent annual meeting was held on September 11, 2014. In addition, the 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. Mr. Oded Akselrod, who was a member of our Board of Directors since February 2002, passed away in July 2014.

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 MKT, 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 Barry Ben Zeev and Mordechai Bignitz.

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 Barry Ben Zeev and Mordechai Bignitz 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 MKT, 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 MKT Requirements***

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

Our Board determined that three of the members of our Board, Messrs. Ben Zeev and Bignitz and Ms. Leviant, are “independent” within the meaning of Section 803A of the NYSE MKT 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 MKT Company Guide, currently consists of Barry Ben Zeev, who is also the chairman of the Audit Committee, Mordechai Bignitz and Anita Leviant. The members of our Audit Committee satisfy the respective "independence" requirements of the Securities and Exchange Commission, NYSE MKT and Israeli law for audit committee members. During 2014, our Audit Committee met at least once each quarter.

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

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

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

Our Audit Committee provides assistance to our Board in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal accounting controls. Under the Sarbanes-Oxley Act of 2002, the Audit Committee is also responsible for the appointment, compensation, retention and oversight of our independent accountants and takes those actions as it deems necessary to satisfy itself that the accountants are independent of management. However, under the Companies Law the appointment of independent auditors requires the approval of our shareholders, accordingly, the appointment of the independent auditors is approved and recommended to the shareholders by our Audit Committee and Board and ratified by the shareholders. Furthermore, pursuant to our Articles, our shareholders have the authority to determine the compensation of the independent auditors (or empower the Board to establish their remuneration, as they have in the annual shareholders meeting held during 2014) and such compensation is approved by our Board following a recommendation of the Audit Committee.

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

#### ***Compensation Committee***

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

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

Our Compensation Committee replaced our former Stock Option and Compensation Committee that was established to administer and oversee the allocation and distribution of stock options under our stock option plans.

#### ***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 1,000,000 (equivalent to approximately US\$251,636, as of April 1, 2015), 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. At our shareholders meeting held on June 20, 2012, our shareholders approved amendments to our Articles to permit us to indemnify and insure the liability of our office holder to the fullest extent permitted by the Companies Law and the Securities Law.

#### *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 him in favor of a third party by a judgment, including a settlement or a decision of an arbitrator which is given the force of a judgment by court order, (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 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, including reasonable legal expenses, which term includes attorney fees), and (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. 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; or (ii) any liability stated in (b) or (c) above. Our Articles also authorize us to indemnify an office holder after the occurrence of the event which is the subject of the indemnity and with respect to any matter permitted by applicable law.

At the annual shareholders meeting held on June 20, 2012, our shareholders authorized us to revise the indemnification and insurance provisions of our Articles to reflect recent amendments to the Companies Law and Securities Law and further authorized us, following the approval of our Audit Committee and Board, to provide indemnification undertakings to each of our current and future directors and officers that reflect the revisions to the Articles. 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 undertaking is 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, 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.

In such indemnification agreements, 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 Committee, Board and shareholders, any of our future directors shall also receive such indemnification agreement.

### *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 the annual shareholders meeting held on October 27, 2004, our shareholders authorized us to exempt our directors and officers in advance from liability to us, in whole or in part, for a breach of the duty of care. The form of exemption letter was approved at the annual shareholders meeting held on October 27, 2005 and amendments were approved at the annual shareholders meeting held on December 30, 2009. We have extended such exemption letters to all our directors and some officers. With respect to our directors, Shlomo Nehama, Ran Fridrich and Hemi Raphael, special shareholder approval was sought and received, as they are deemed to be “controlling shareholders” and further approval and ratification of the exemption to such directors was received in our annual shareholder meeting held on June 20, 2012. Based on the previous approvals of our Audit Committee, Board and shareholders, any of our future directors shall also receive such exemption letter.

### *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 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; and (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, including reasonable legal expenses, which term includes attorney fees). 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. Based on such undertaking as approved by our Audit Committee, Board and shareholders, 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 of 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, 2014, we had nine (9) employees and independent contractors compared to ten (10) employees and independent contractors as of December 31, 2013 and eleven (11) employees and independent contractors as of December 31, 2012. All of our employees and independent contractors, as of December 31, 2014, were in management, finance and administration and all, other than one independent contractor located in Italy, were located in Israel.

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 pro rated 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 10% of wages, of which the employee and the employer each contribute half. 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 April 1, 2015, 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. All exercise prices and amounts are adjusted to account for the Reverse Split.

Name of Beneficial Owner	Number of Shares Beneficially Held (1)	Percent of Class
Shlomo Nehama(2)(5)	4,016,842	37.6%
Hemi Raphael(3)(5)	3,240,921	30.3%
Ran Fridrich(4)(5)	2,903,184	27.2%
Anita Leviant(6)	*	*
Barry Ben Zeev(6)	*	*
Mordechai Bignitz(6)	*	*
Eran Zupnik(7)	132,270	1.2%
Kalia Weintraub	-	-
Ori Rosenzweig	-	-

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

- (1) As used in this table, “beneficial ownership” means the sole or shared power to vote or direct the voting or to dispose or direct the disposition of any security. For purposes of this table, a person is deemed to be the beneficial owner of securities that can be acquired within 60 days from April 1, 2015 through the exercise of any option or warrant. Ordinary shares subject to options or warrants that are currently exercisable or exercisable within 60 days are deemed outstanding for computing the ownership percentage of the person holding such options or warrants, but are not deemed outstanding for computing the ownership percentage of any other person. The amounts and percentages are based upon 10,692,371 ordinary shares outstanding as of April 1, 2015. This number of outstanding ordinary shares does not include a total of 85,655 ordinary shares held at that date as treasury shares under Israeli law, all of which were repurchased by us. For so long as such treasury shares are owned by us they have no rights and, accordingly, are neither eligible to participate in or receive any future dividends which may be paid to our shareholders nor are they entitled to participate in, be voted at or be counted as part of the quorum for, any meetings of our shareholders.
- (2) According to information provided by the holders, the 4,016,842 ordinary shares beneficially owned by Mr. Nehama consist of: (i) 3,551,869 ordinary shares held by Nechama Investments, an Israeli company, which constitute approximately 33.2% of our outstanding ordinary shares, and (ii) 464,973 ordinary shares held directly by Mr. Nehama, which constitute approximately 4.4% of our outstanding ordinary shares. Mr. Nehama, as the sole officer, director and shareholder of Nechama Investments, may be deemed to indirectly beneficially own any ordinary shares beneficially owned by Nechama Investments, which constitute (together with the shares held directly by him) approximately 37.6% of our outstanding ordinary shares.
- (3) The 3,240,921 ordinary shares beneficially owned by Mr. Raphael consist of: (i) 2,786,397 ordinary shares held by Kanir, which constitute approximately 26.1% of our outstanding share capital, (ii) 314,514 ordinary shares held by a BVI private company wholly-owned by Mr. Raphael, which constitute approximately 2.9% of our outstanding shares and (iii) 140,010 ordinary shares held directly by Mr. Raphael, which constitute approximately 1.3% of our outstanding shares. Mr. Raphael, by virtue of his position as a director and majority shareholder of Kanir Investments Ltd., or Kanir Ltd., the general partner in Kanir, and his position as a limited partner in Kanir, may be deemed to indirectly beneficially own the ordinary shares beneficially owned by Kanir. Mr. Raphael disclaims beneficial ownership of the shares held by Kanir, except to the extent of his pecuniary interest therein, if any. In addition, Mr. Raphael, as the sole officer, director and shareholder of such private company, may be deemed to indirectly beneficially own any ordinary shares beneficially owned by the BVI private company.
- (4) The 2,903,184 ordinary shares beneficially owned by Mr. Fridrich consist of: (i) 2,786,397 ordinary shares held by Kanir, which constitute approximately 26.1% of our outstanding share capital and (ii) 116,787 ordinary shares held directly by Mr. Fridrich, which constitute approximately 1.1% of our outstanding shares. Mr. Fridrich, by virtue of his position as a director of Kanir Ltd. and his position as a limited partner in Kanir, may be deemed to indirectly beneficially own the ordinary shares beneficially owned by Kanir. Mr. Fridrich disclaims beneficial ownership of the shares held by Kanir, except to the extent of his pecuniary interest therein, if any.
- (5) By virtue of the 2008 Shareholders Agreement between Nechama Investments and Kanir (see “Item 7.A: Major Shareholders”), Mr. Nehama, Nechama Investments, Kanir and Messrs. Raphael and Fridrich may be deemed to be members of a group that holds shared voting power with respect to 6,338,266 ordinary shares, which together constitute approximately 59.3% of our outstanding ordinary shares, and holds shared dispositive power with respect to 5,356,878 ordinary shares, which constitute 50.1% 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 63.6%, 63.5% and 60.4%, respectively, of the outstanding ordinary shares. Mr. Nehama and Nechama Investments both disclaim beneficial ownership of the ordinary shares beneficially owned by Kanir and Kanir Ltd., Kanir and Messrs. Raphael and Fridrich all disclaim beneficial ownership of the shares held by Nechama Investments.
- (6) Our directors who are not subject to Management Services Agreement currently hold, in the aggregate, options currently exercisable into 24,502 ordinary shares.
- (7) Consists of options currently exercisable or that will become exercisable within 60 days from April 1, 2015.

Our directors currently hold, in the aggregate, options exercisable into 25,502 ordinary shares. The 25,502 options have a weighted average exercise price of approximately \$6.53 per share and have expiration dates until 2024. During the years ended December 31, 2012, 2013 and 2014 each of Anita Leviant, Barry Ben Zeev and Mordechai Bignitz, all members of our Board, were granted options to purchase 1,000 shares (on August 1 of each of such years) under the 1998 Plan. . 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. The options granted to directors under the 1998 Plan have exercise prices ranging from \$3.1 to \$9.37 per share, with various expiration dates. As described above under “Compensation - Compensation of Non-Executive Directors”, commencing 2013 the options granted to our non-executive directors who are not external directors vest on the first anniversary of the grant date. Of the 25,502 options held by our directors, 24,502 are currently exercisable and an additional 1,000 will become exercisable on August 1, 2015.

Only one of our officers currently holds options to purchase our ordinary shares. On January 4, 2009, Eran Zupnik, EVP of Business Development, was granted options to purchase 132,053 ordinary shares, at an adjusted exercise price of \$8.5 per ordinary share. 16.67% of these options vested 6 months after the grant date, with a further 8.33% vesting at the end of every three-month period thereafter. As of April 1, 2015 all of these options have vested. Additionally, such officer was granted the entitlement to receive 1.125% of any securities (shares, warrants or options, other than shares underlying securities that existed at the time of execution of his employment agreement) we issue under the same terms and conditions of the issuance (however, the vesting schedule of the additional options shall in any event be 1/12 at the end of every three month period for an aggregate vesting period of 36 months). As a result of the issuance of options to directors during 2009 (as detailed above), Eran Zupnik received options to purchase 45 ordinary shares on August 1, 2009 and options to purchase seven (7) ordinary shares on December 30, 2009, at an exercise price identical to that of the directors (\$4.7 and \$6.3, respectively). As a result of the issuance of options to directors in 2010 (as detailed above), Eran Zupnik received additional options to purchase 45 ordinary shares on August 1, 2010, at an exercise price identical to that of the directors (\$5.9). As a result of issuances of options to directors during 2011 (as detailed above), Eran Zupnik received additional options to purchase 45 ordinary shares on August 1, 2011 and options to purchase seven (7) ordinary shares on January 3, 2012, at an exercise price identical to that of the directors (\$7 and \$5.55, respectively). As a result of issuances of options to directors during 2012, 2013 and 2014 (as detailed above), Eran Zupnik received additional options to purchase 45 ordinary shares on August 1, 2012 and on August 1, 2013 and options to purchase 34 ordinary shares on August 1, 2014 at an exercise price identical to that of the directors (\$5.24, \$8.48 and \$9.37, respectively). All of the options granted to Mr. Zupnik were granted under our 2000 Stock Option Plan and expire ten years after their grant date.

## 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, 2014, December 31, 2014 and April 1, 2015, there were 43,081, 41,081 and 41,081 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.

At annual shareholders meetings held in 2003, 2004 and 2005, our shareholders approved increases in the number of ordinary shares authorized for issuance under the 2000 Plan (as amended) to 1,749,759 and by the number of ordinary shares underlying options surrendered (except in the case of surrender for the exercise into shares) or which cease to be exercisable under our 1995 Israeli Stock Option Plan and 1997 Stock Option Plan, together, the 1995 and 1997 Plans. The additional number of ordinary shares underlying options cancelled under the 1995 and 1997 Plans increased the number of ordinary shares authorized for issuance under the 2000 Plan by 22,700 from 1,749,759 to 1,772,459. Section 12 of the 2000 Plan provided originally that the 2000 Plan will expire on August 31, 2008, unless previously terminated or extended by the Board. At our Board meeting held on June 23, 2008, our Board resolved to amend Section 12 of the 2000 Plan to extend its term until August 31, 2018.

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 April 1, 2015, there were 132,319 outstanding options under the 2000 Plan. As a result of the repurchase and cancellation or expiration of all outstanding options under the 2000 Plan following the consummation of the HP Transaction, the number of additional ordinary shares available for issuance under the 2000 Plan, as of January 1, 2014, December 31, 2014 and April 1, 2015, was 594,919, 594,885 and 594,885, 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 April 1, 2015, 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 (the most recent is a Schedule 13D/A filed on September 3, 2013 and a Schedule 13G/A filed on January 15, 2015) and on information provided by them.

	Ordinary Shares Beneficially Owned <sup>(1)</sup>	Percentage of Ordinary Shares Beneficially Owned
Shlomo Nehama <sup>(2)(5)</sup>	4,016,842	37.6%
Kanir Joint Investments (2005) Limited Partnership <sup>(3)(4)(5)(6)</sup>	2,786,397	26.1%

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

- (1) As used in this table, “beneficial ownership” means the sole or shared power to vote or direct the voting or to dispose or direct the disposition of any security as determined pursuant to Rule 13d-3 promulgated under the U.S. Securities Exchange Act of 1934, as amended. For purposes of this table, a person is deemed to be the beneficial owner of securities that can be acquired within 60 days from April 1, 2015 through the exercise of any option or warrant. Ordinary shares subject to options or warrants that are currently exercisable or exercisable within 60 days are deemed outstanding for computing the ownership percentage of the person holding such options or warrants, but are not deemed outstanding for computing the ownership percentage of any other person. The amounts and percentages are based on a total of 10,692,371 ordinary shares outstanding as of April 1, 2015. This number of outstanding ordinary shares does not include a total of 85,655 ordinary shares held at that date as treasury shares under Israeli law, all of which were repurchased by us. For so long as such treasury shares are owned by us they have no rights and, accordingly, are neither eligible to participate in or receive any future dividends which may be paid to our shareholders nor are they entitled to participate in, be voted at or be counted as part of the quorum for, any meetings of our shareholders.

- (2) The 4,016,842 ordinary shares beneficially owned by Mr. Nehama consist of: (i) 3,551,869 ordinary shares held by Nechama Investments, which constitute approximately 33.2% of our outstanding ordinary shares and (ii) 464,973 ordinary shares held directly by Mr. Nehama, which constitute approximately 4.4% of our outstanding ordinary shares. Mr. Nehama, as the sole officer, director and shareholder of Nechama Investments, may be deemed to indirectly beneficially own any ordinary shares owned by Nechama Investments, which constitute (together with his shares) approximately 37.6% of our outstanding ordinary shares.
- (3) Kanir is an Israeli limited partnership. Kanir Ltd., in its capacity as the general partner of Kanir, has the voting and dispositive power over the ordinary shares directly beneficially owned by Kanir. As a result, Kanir Ltd. may be deemed to indirectly beneficially own the ordinary shares beneficially owned by Kanir. Messrs. Hemi Raphael and Ran Fridrich, who are members of our Board of Directors, are the sole directors of Kanir Ltd. and Mr. Raphael is a majority shareholder of Kanir Ltd. As a result, Messrs. Raphael and Fridrich may be deemed to indirectly beneficially own the ordinary shares beneficially owned by Kanir, which constitute, together with their holdings as set forth in footnote (4), 30.3% and 27.2%, respectively, of our outstanding ordinary shares. Kanir Ltd. and Messrs. Raphael and Fridrich disclaim beneficial ownership of such ordinary shares except to the extent of their respective pecuniary interest therein, if any.
- (4) Mr. Raphael beneficially owns 454,524 ordinary shares, consisting of: (i) 314,514 ordinary shares held by a BVI private company wholly-owned by Mr. Raphael, which constitute approximately 2.9% of our outstanding shares and (ii) 140,010 ordinary shares held directly by Mr. Raphael, which constitute approximately 1.3% of our outstanding shares. Mr. Raphael, as the sole officer, director and shareholder of such private company, may be deemed to indirectly beneficially own any ordinary shares beneficially owned by such private company, which constitute (together with the shares held directly by him) approximately 4.3% of our outstanding ordinary shares. Mr. Fridrich directly owns 116,787 ordinary shares, which constitute approximately 1.1% of our outstanding shares.
- (5) By virtue of the 2008 Shareholders Agreement, Mr. Nehama, Nechama Investments, Kanir, Kanir Ltd., and Messrs. Raphael and Fridrich may be deemed to be members of a group that holds shared voting power with respect to 6,338,266 ordinary shares, which constitute approximately 59.3% of our outstanding ordinary shares, and holds shared dispositive power with respect to 5,356,878 ordinary shares, which constitute 50.1% of the outstanding ordinary shares. Accordingly, taking into account the shares directly held by Messrs. Nehama, Raphael (taking into account also shares held by the private company wholly-owned by him) and Fridrich, they may be deemed to beneficially own approximately 63.6%, 63.5% and 60.4%, respectively, of our outstanding ordinary shares. Each of Mr. Nehama and Nechama Investments disclaims beneficial ownership of the ordinary shares beneficially owned by Kanir. Each of Kanir, Kanir Ltd. and Messrs. Raphael and Fridrich disclaims beneficial ownership of the ordinary shares beneficially owned by Nechama Investments. A copy of the 2008 Shareholders Agreement was filed with the Securities and Exchange Commission, or the SEC, on March 31, 2008 as Exhibit 14 to an amendment to a Schedule 13D and is not incorporated by reference herein.
- (6) Bonstar Investments Ltd., or Bonstar, an Israeli company, holds 233,258 ordinary shares, which constitute approximately 2.2% of the outstanding ordinary shares. Bonstar is a limited partner of Kanir and assisted Kanir in the financing of the purchase of some of its ordinary shares. Accordingly, Bonstar may be deemed to be a member of a group with Kanir and its affiliates, although there are no agreements between Bonstar and either of such persons and entities with respect to the ordinary shares beneficially owned by each of them. Mr. Joseph Mor and Mr. Ishay Mor are the sole shareholders of Bonstar and Mr. Joseph Mor serves as the sole director of Bonstar. Messrs. Joseph Mor and Ishay Mor also hold, through a company jointly held by them, 175,000 ordinary shares, which constitute approximately 1.6% of the outstanding ordinary shares. By virtue of their control over Bonstar and the other company, Messrs. Joseph Mor and Ishay Mor may be deemed to indirectly beneficially own the 408,258 ordinary shares beneficially owned by Bonstar and by the other company, which constitute approximately 3.8% of the ordinary shares. Each of Bonstar and Messrs. Joseph Mor and Ishay Mor disclaims beneficial ownership of the ordinary shares beneficially owned by Kanir and Nechama Investments, except to the extent of their respective pecuniary interest therein, if any.

### Significant Changes in the Ownership of Major Shareholders

In February 2012, Kanir transferred an aggregate of 751,658 ordinary shares to Hemi Raphael, a company controlled by Hemi Raphael, Ran Fridrich and Bonstar. As a result of such transfers, the beneficial ownership of Kanir decreased to 26.6%.

In May 2013, Kanir transferred 55,043 ordinary shares to Ran Fridrich. As a result of such transfer, the beneficial ownership of Kanir decreased to 26.1%.

On July 23, 2013, we entered into a transaction with Mr. Zohar Zisapel, who at the time held approximately 8% of our outstanding shares, in an effort to increase the “public float” of our outstanding shares in connection with the possible listing of our shares on the Tel Aviv Stock Exchange. Pursuant to the transaction, Mr. Zisapel agreed to hold no more than 4.99% of our outstanding shares for a period of one year in consideration for the issuance of a warrant to purchase the amount of shares sold by Mr. Zisapel in order to reduce his holdings to less than 5.0%. On August 9, 2013, we issued Mr. Zisapel a warrant to purchase 308,427 ordinary shares at an exercise price of \$7.97 per share, or the Warrant. On August 12, 2013, Mr. Zisapel filed an amendment to his Schedule 13G with the SEC, noting that his holdings in our ordinary shares decreased below 5.0%. The Warrant includes a contractual provision that prohibits Mr. Zisapel from exercising the Warrant during a 12 month period following the effective date of the Warrant if such exercise would result in the Mr. Zisapel beneficially owning more than 4.99% of our ordinary shares. In addition, the Warrant may only be exercised via cashless exercise methods described in the Warrant. Mr. Zisapel was also provided with certain registration rights in the event Rule 144 is not available for the resale of the shares underlying the Warrant following a certain holding period of the Warrant and/or the shares underlying the Warrant, with an indemnification undertaking from us (subject to certain conditions) and with reimbursement of expenses related to the transaction.

### Record Holders

Based on a review of the information provided to us by our transfer agent, as of April 1, 2015, there were 49\* record holders of ordinary shares, of which 20 represented United States\* record holders holding approximately 31.9% of our outstanding ordinary shares (including approximately 31.1% 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.

---

\* 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).

## **Encumbrances Placed on our Securities**

Pursuant to public filings made and information provided by Kanir and Nechama Investments and their affiliates, on March 27, 2008, Kanir entered into a loan agreement with Israel Discount Bank Ltd. in order to finance the purchase of our ordinary shares and warrants to purchase our ordinary shares. As collateral for the loans, Israel Discount Bank Ltd. received a first-priority pledge over 2,692,892 ordinary shares, or 25.2% of our outstanding ordinary shares, held by Kanir. A default of Kanir under its agreement with Israel Discount Bank Ltd. could cause a foreclosure with respect to our ordinary shares subject to the pledge to such bank, which could result in a change of control of Ellomay. A summary of the loan agreement was filed by Kanir with the SEC on March 31, 2008 as Exhibit 17 to an amendment to a Schedule 13D and is not incorporated by reference herein.

## Registration Rights

We previously executed various registration rights agreements with certain entities and individuals, including former controlling shareholders, in connection with private placements of our securities. Registration rights with respect to a majority of the ordinary shares held by our current controlling shareholders were assigned from certain holders of such registration rights to our controlling shareholders, subject to the undertaking of the assignees to be bound by and subject to the terms and conditions of the registration rights agreement. During 2014 we received a demand for registration from several shareholders, including our controlling shareholders, and filed a registration statement on Form F-3 with covering the resale of 6,421,545, or 60.1% of our ordinary shares, which became effective on November 17, 2014. The registration of the shares included in this registration statement will 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 MKT 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 a 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. In consideration of 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 in and quarterly payments, 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 following approval by our Audit Committee, Compensation Committee, Board of Directors and by our shareholders at the 2013 Shareholders Meeting. The term of the Management Services Agreement was extended at our shareholders meeting held in 2009, 2010 and 2011. At our 2013 Shareholders Meeting, following the approval of our Audit Committee, Compensation Committee and Board, our shareholders approved a further extension of the term of the Management Services Agreement and the revision of its termination provision, so that it shall remain in effect until the earlier of: (i) June 17, 2016, (ii) the termination of service of either of the Kanir and Nechama Investments affiliates on our Board of Directors, or (iii) a date that is six (6) months following the delivery of a written termination notice by Meisaf and Kanir to the Company or by the Company to Meisaf and Kanir.

For a further discussion of transactions and balances with related parties see “Item 6.B: Compensation,” “Item 6.C: Board Practices” under “Indemnification, Exemption and Insurance of Executive Officers and Directors,” “Item 10.C: Material Contracts” and Note 15 to our consolidated financial statements, which are included as a part of this report and the disclosure concerning the registration of shares held by our controlling shareholders set forth under “Item 7.A: Major Shareholders” above.

### C. Interests of Experts and Counsel

Not Applicable.



## **ITEM 8: Financial Information**

### **A. Consolidated Statements and Other Financial Information.**

#### **Consolidated Statements**

Our consolidated financial statements are set forth in Item 18.

#### **Legal Proceedings**

The U.S. dollar amounts presented below are based on applicable conversion rates in effect as of December 31, 2014.

In December 2003, Imagens Digitais Ltda., a client of NUR Do Brazil Ltda., filed a suit against NUR Do Brazil Ltda. and NUR America in Brazil, alleging that a machine purchased by it failed to perform. Imagens was seeking reimbursement of the purchase price paid by it in the amount of approximately \$0.35 million (as of December 31, 2014). During 2006 we filed a counterclaim for the collection of unpaid invoices, which was settled between the parties in May 2010. In January 2010 the court dismissed the client's suit and in June 2010 the client filed an appeal. Based on management's estimation and the assessment of our legal counsel, no provision was recorded with respect to the client's claim.

In February 2007 a claim was filed against us and one of our former officers by a person claiming to have been an agent of the company in West Africa for commissions on sales of printers. The claim is for NIS 3 million (\$0.864 million). We filed a statement of defense denying all claims, both with respect to the causes of action and with respect to the factual allegations in the claim. The plaintiff filed a motion with the Court to strike our Statement of Defense, which was rejected. The plaintiff filed an appeal to the Supreme Court. That motion was rejected in July 2010. In October 2012, the district court rendered its ruling and rejected the plaintiff's claims in their entirety. In November 2012 an appeal was filed in the Supreme Court by the plaintiff. Written summaries will be submitted by the plaintiffs and by the defendants by September 2013 and November 4, 2013, respectively, and the plaintiffs may submit a response to the defendants' summaries by December 2013. On March 5, 2014 an appeal hearing was held at the Israeli Supreme Court. In accordance with the court's recommendation, the parties agreed to end all their disputes on a settlement for the amount of \$0.085 million in favor of the plaintiff. This amount was paid to the plaintiff during March 2014.

We may from time to time become a party to various legal proceedings in the ordinary course of our business.

#### **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 below, distributions are subject to the restrictions in the Series A Deed of Trust. Our Board of Directors may, subject to the circumstances and conditions stated above, declare additional dividend distributions, change the rate of a specific distribution or cancel a distribution (either as a revision to the Policy or on a more temporary basis). In addition, our Board of Directors may, in its absolute discretion and at any time, revise, update or terminate the Policy. Prior to the adoption of the Policy, we did not have a dividend distribution policy or distribute cash dividends in the past.

The terms of the deed of trust governing our Series A 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, 2014.

**ITEM 9: The Offer and Listing**

**A. Offer and Listing Details**

**Stock Price History**

The prices set forth below are high and low closing market prices for our ordinary shares as reported by OTC Markets, Inc., the NYSE MKT and the Tel Aviv Stock Exchange, as applicable, for the fiscal year ended December 31 of each year indicated below, for each fiscal quarter indicated below, and for each month for the last six-month period. Such quotations reflect inter-dealer prices, without retail markup, markdown, or commission and may not necessarily represent actual transactions. Our ordinary shares were listed on the NYSE MKT under the symbol “ELLO” on August 22, 2011 and until such date were quoted in the over-the-counter market in the OTCQB market under the symbol “EMYCF.PK.” On October 27, 2013, our ordinary shares were listed for trading on the Tel Aviv Stock Exchange under the symbol “ELOM” and the TASE closing prices set forth below are commencing such date.

All share prices have been retroactively adjusted to reflect the one-for-ten reverse share split effected on June 9, 2011.

Year	NYSE MKT		Tel Aviv Stock Exchange	
	High (US\$)	Low (US\$)	High (NIS)	Low (NIS)
2010	7.5	5.1	--	--
2011	8.00	5.41	--	--
2012	7.7	4.25	--	--
2013	11.37	6.1	40.69	31.39
2014	10.59	8.56	39.91	29.72

<b>2013</b>	<b>NYSE MKT</b>		<b>Tel Aviv Stock Exchange</b>	
	<b>High (US\$)</b>	<b>Low (US\$)</b>	<b>High (NIS)</b>	<b>Low (NIS)</b>
First Quarter	7.47	6.1	--	--
Second Quarter	7.73	7.1	--	--
Third Quarter	9	7.7	--	--
Fourth Quarter	11.37	8.39	40.69	31.39
<b>2014</b>	<b>NYSE MKT</b>		<b>Tel Aviv Stock Exchange</b>	
	<b>High (US\$)</b>	<b>Low (US\$)</b>	<b>High (NIS)</b>	<b>Low (NIS)</b>
First Quarter	10.59	9.3	37.13	33.12
Second Quarter	10.59	9.5	36.48	32
Third Quarter	10.02	8.6	36.4	29.72
Fourth Quarter	9.91	8.56	39.91	32.36
<b>2015</b>	<b>NYSE MKT</b>		<b>Tel Aviv Stock Exchange</b>	
	<b>High (US\$)</b>	<b>Low (US\$)</b>	<b>High (NIS)</b>	<b>Low (NIS)</b>
First Quarter	9.5	7.73	37.22	33.56
<b>Most Recent Six Months</b>	<b>NYSE MKT</b>		<b>Tel Aviv Stock Exchange</b>	
	<b>High (US\$)</b>	<b>Low (US\$)</b>	<b>High (NIS)</b>	<b>Low (NIS)</b>
October 2014	9.86	9.47	36.34	34.7
November 2014	9.91	8.56	36.5	32.36
December 2014	9.8	9	39.91	34.55
January 2015	9.5	8.65	37.22	33.56
February 2015	9.12	8.5	35.59	33.95
March 2015	9.18	7.73	36.89	33.95

Due to the limited period since the listing of our ordinary shares on the NYSE MKT and the TASE, our ordinary shares are not yet regularly covered by securities analysts and the media and the liquidity of our ordinary shares is very limited. Such limited liquidity 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.

**B. Plan of Distribution**

Not Applicable.

**C. Markets**

Our ordinary shares were listed on the NYSE MKT on 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 “ELOM.”

Our ordinary shares were traded on The NASDAQ National Market between October 1995 and July 2003, traded on The NASDAQ Capital Market between July 2003 and May 2005 and quoted on the over the counter market in OTCQB market, operated by OTC Markets, Inc. until August 19, 2011.

**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**

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.

As approved at our annual general meeting held on December 22, 2010, following the approval of our Board of Directors, we effected a ten-for-one reverse share split of our ordinary shares on June 9, 2011. All fractional shares resulting from such reverse split which were one-half share or more were increased to the next higher whole number of shares and all fractional shares which were less than one-half share were decreased to the next lower whole number of shares. The purpose of the reverse share split was to increase the price of our ordinary shares in order to enable us to meet the minimum bid price initial listing requirements of the NYSE MKT.

### *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 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 recently adopted dividend distribution policy see “Item 8.A: Financial Information – Consolidated Statements and Other Financial information,” under the heading “Dividends.”

#### *Redemption Provisions*

We may, subject to any applicable law, issue redeemable securities and then redeem them.

#### *Liability to Capital Calls*

The liability of our shareholders for the indebtedness of the Company is limited to payment of the nominal value of the shares held by them.

#### *Certain Transactions with Controlling Persons*

No provision in the Articles discriminates against an existing or prospective holder of securities, as a result of such shareholder owning a substantial amount of shares. However, the Companies Law extends the disclosure requirements applicable to office holders as described in “Item 6.C: Board Practices,” 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 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. 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 “Item 6.C: Board Practices”) 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” under “Audit Committee.” 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 Companies Regulations (Relief from Related Party Transactions), 2000, promulgated under the Companies Law, or 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. The relief provided by the Relief Regulations will not be available if one or more shareholders holding at least 1% of the issued and outstanding share capital of the company or of the company’s voting rights objects to the use by the company of such relief, provided that such objection is submitted to the company in writing not later than fourteen (14) days from the date in which the company reported the adoption of the resolution pursuant to the Relief Regulations to its shareholders. If such objection is duly and timely submitted, then the transaction or compensation arrangement will require shareholders’ approval as detailed above.



#### *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 become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% or greater shareholder of 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 a 45% interest in the company, unless there is another shareholder holding more than a 45% interest 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 25% or greater shareholder of the company which resulted in the acquiror becoming a 25% or greater shareholder of the company, or (3) was from a shareholder holding more than a 45% interest in the company which resulted in the acquiror becoming a holder of more than a 45% interest 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*

At the annual shareholders meeting held on December 30, 2008, our shareholders approved the terms of a management services agreement among us, Kanir and Meisaf, effective as of March 31, 2008, or the Management Services Agreement.

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 of the performance of the management services and the Board services, we have agreed to pay to Meisaf and Kanir, in equal parts, an aggregate annual fee in the amount of \$250,000, to be paid on a quarterly basis. Such annual fee was increased to \$400,000 at the 2013 Shareholders Meeting. Meisaf and Kanir will also be 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.

The term of the Management Services Agreement was extended at our shareholders meetings held in 2009, 2010 and 2011. At our 2013 Shareholders Meeting, following the approval of our Audit Committee, Compensation Committee and Board, our shareholders approved a further extension of the term of the Management Services Agreement and the revision of its termination provision, so that it shall remain in effect until the earlier of: (i) June 17, 2016, (ii) the termination of service of either of the Kanir and Nechama Investments affiliates on our Board of Directors, or (iii) a date that is six (6) months following the delivery of a written termination notice by Meisaf and Kanir to the Company or by the Company to Meisaf and Kanir. Any revision or amendment of the Management Services Agreement, or extension of its term, will require the approvals set forth under applicable law and our Articles.

The foregoing description of the Management Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the Management Agreement filed by us as Exhibit 4.6 and the amendment to the Management Agreement filed by us as Exhibit 4.23 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 4.15, 4.16 and 4.17 under Item 19, a summary of the Dori Addendum is included in “Item 4.B: Business Overview” and updates in connection with the Discount Agreement are included in “Item 5.B: Liquidity and Capital Resources.”

*Series A Deed of Trust*

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

The descriptions of the Series A Deed of Trust is only a summary and does not purport to be complete and is qualified by reference to the convenience translation of the Series A Deed of Trust filed by us as Exhibit 4.28 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*

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislation Amendments for Implementation of the 2009 and 2010 Economic Plan) – 2009, which provided, inter alia, a gradual reduction in the company tax rate to 18% as from the 2016 tax year. In accordance with the aforementioned amendments, the company tax rate in 2010 and 2011 was 25% and 24%, respectively.

On December 5, 2011 the Knesset approved the Law to Change the Tax Burden (Legislative Amendments) – 2011. According to the law the tax reduction that was provided in the Economic Efficiency Law, as aforementioned, was cancelled and the company tax rate will be 25% as from 2012.

On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014), 2013, by which, inter alia, the corporate tax rate would be raised by 1.5% to a rate of 26.5% as from 2014.

#### *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.

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.

#### **U.S. Tax Considerations Regarding Ordinary Shares**

The following is a general summary of the material United States federal income tax consequences relating to the acquisition, ownership and disposition of our ordinary shares by an investor that holds those ordinary shares as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, or the Code. The 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. The summary does not purport to address all federal income tax consequences that may be relevant to particular investors, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks and financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, investors liable for alternative minimum tax, investors that own or are treated as owning 10% or more of our voting stock, investors that hold ordinary shares as part of a straddle, hedge, conversion transaction or other integrated transaction, U.S. expatriates and investors whose functional currency is not the U.S. dollar) may be subject to special tax rules. ACCORDINGLY, PERSONS CONSIDERING THE PURCHASE OF ORDINARY SHARES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE APPLICATION OF UNITED STATES FEDERAL INCOME 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 shares of our ordinary shares that, for U.S. federal income tax purposes, is:

- (1) an individual citizen or resident of the United States,
- (2) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organized in or under the laws of the United States or any political subdivision thereof,
- (3) an estate the income of which is subject to U.S. federal income tax without regard to its source, or
- (4) a trust, if such trust was in existence on August 20, 1996 and has validly elected to be treated as a U.S. person for U.S. federal income tax purposes, or if (a) a court within the U.S. can exercise primary supervision over its administration and (b) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

If a partnership (including for this purpose any entity treated as a partnership for U.S. tax purposes) is a beneficial owner of our ordinary shares, the U.S. tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. A holder of our ordinary shares that is a partnership and partners in such partnership should consult their individual tax advisors about the U.S. federal income tax consequences of holding and disposing of our ordinary shares.

A “Non-U.S. Holder” is any beneficial owner of our ordinary shares that is not a U.S. Holder and is not a partnership (or its partners).

#### *Taxation of U.S. Holders*

*Distributions on Ordinary Shares.* Subject to the discussion in “Passive Foreign Investment Companies” below, distributions made by us with respect to ordinary shares generally will constitute dividends for federal income tax purposes and will be taxable to a U.S. Holder as a dividend to the extent of our undistributed current or accumulated earnings and profits (as determined for United States federal income tax purposes). Distributions in excess of our current and accumulated earnings and profits will be treated first as a nontaxable return of capital reducing the U.S. Holder’s tax basis in the ordinary shares, thus increasing the amount of any gain (or reducing the amount of any loss) which might be realized by such U.S. Holder upon the sale or exchange of such ordinary shares. Any such distributions in excess of the U.S. Holder’s tax basis in the ordinary shares will be treated as capital gain to the U.S. Holder and will be either long-term or short-term capital gain depending upon the U.S. Holder’s federal income tax holding period for the ordinary shares. Dividends paid by us generally will not be eligible for the dividends received deduction available to certain United States corporate shareholders under Code Sections 243 and 245. If you are a noncorporate U.S. Holder, dividends paid to you will be taxable to you at a maximum rate of 20% provided that you hold ordinary shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements.



A dividend paid in New Israeli Shekel will be included in gross income in a U.S. dollar amount based on the Israeli NIS/U.S. dollar exchange rate in effect on the date the dividend is included in the income of the U.S. Holder, regardless of whether the payment, in fact, is converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is included in the gross income of a U.S. Holder through the date that payment is converted into U.S. dollars (or otherwise disposed of) will be treated as U.S. source ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income.

Subject to certain conditions and limitations, any Israeli withholding tax imposed upon distributions which constitute dividends under United States federal income tax law will be eligible for credit against a U.S. Holder's federal income tax liability. Alternatively, a U.S. Holder may claim a deduction for such amount, but only for a year in which a U.S. Holder elects to do so with respect to all foreign income taxes. The overall limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed with respect to our ordinary shares will generally constitute "passive income."

*Sale or Exchange of Ordinary Shares.* Subject to the discussion in "Passive Foreign Investment Companies" 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. 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 Contribution.* In general, high-income individuals, estates and trusts generally will be subject to a 3.8% Medicare tax (in addition to otherwise applicable federal income tax) on their investment income and gain, with limited exceptions. You should consult with your tax advisor regarding the effect, if any, of this tax on your ownership and disposition of our ordinary shares.

*Passive Foreign Investment Company.* A foreign corporation generally will be treated as a "passive foreign investment company," or PFIC, if, after applying certain "look-through" rules, either (i) 75% or more of its gross income is passive income or (ii) 50% or more of the average value of its assets is attributable to assets that produce or are held to produce passive income. Passive income for this purpose generally includes dividends, interest, rents, royalties and gains from securities and commodities transactions. The look-through rules require a foreign corporation that owns at least 25%, by value, of the stock of another corporation to treat a proportionate amount of assets and income as held or received directly by the foreign corporation. We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change. The determination of whether or not we are a PFIC depends on the composition of our income and assets, including goodwill, from time to time.

Based on our income and/or assets, we believe that we were a PFIC from 2008 through 2012. Since PFIC shares are subject to the PFIC rules even in future years in which we are no longer a PFIC, our ordinary shares will be PFIC shares with respect to any U.S. shareholder that held our ordinary shares in 2008 through 2012. Based on our income and assets, we do not believe that we were a PFIC for 2013 and 2014. However, because the determination of whether we are, or will be, a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to various interpretations, there is a risk that the Internal Revenue Service may disagree with our determinations regarding our prior or present PFIC status. In addition, depending on future events, we could become a PFIC in future years.

U.S. Holders who own our ordinary shares during a taxable year in which we are a PFIC generally will be subject to increased U.S. tax liabilities and reporting requirements for that taxable year and all succeeding years, regardless of whether we continue to meet the income or asset test for PFIC status, although shareholder elections may apply in certain circumstances. U.S. Holders should consult their own tax advisors regarding our status as a PFIC and the consequences of investment in a PFIC.

If we are a PFIC for any taxable year during which you hold ordinary shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ordinary shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ordinary shares will be treated as an excess distribution. Under these special tax rules:

- (1) the excess distribution or gain will be allocated ratably over your holding period for the ordinary shares,
- (2) the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- (3) the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses, and gains (but not losses) realized on the sale of the ordinary shares cannot be treated as capital, even if you hold the ordinary shares as capital assets.

You may not avoid taxation under the rules described above by making a “qualified electing fund” election to include your share of our income on a current basis because we do not presently intend to prepare or provide information necessary to make such election.

Alternatively, a U.S. Holder of “marketable stock” in a PFIC may make a mark-to-market election for stock of a PFIC to elect out of the tax treatment discussed three paragraphs above. If you make a mark-to-market election for the ordinary shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the ordinary shares as of the close of your taxable year over your adjusted basis in such ordinary shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the ordinary shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the stock included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the ordinary shares, as well as to any loss realized on the actual sale or disposition of the ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ordinary shares. Your basis in the ordinary shares will be adjusted to reflect any such income or loss amounts. The tax rules that apply to distributions by corporations which are not passive foreign investment companies generally would apply to distributions by us.

The mark-to-market election is available only for stock which is regularly traded on a national securities exchange that is registered with the Securities and Exchange Commission or on Nasdaq, or an exchange or market that the U.S. Secretary of the Treasury determines has rules sufficient to ensure that the market price represents a legitimate and sound fair market value. Please consult your tax advisor as to the availability of the mark-to-market election, based on the exchange on which we trade and the amount of trading of our ordinary shares, and the tax ramifications of such election (including the special rules that may apply to the gain realized in the year of the election).

Dividends paid by a PFIC (or by a company that was a PFIC in the year preceding the dividend) are not “qualified dividend income” for purposes of the preferential tax rate on dividends discussed above.

Special limitations may apply to use of foreign tax credits arising in connection with distributions on PFIC shares as to which you should consult your tax advisor.

If you hold ordinary shares in any year in which we are a PFIC, you would be required to file Internal Revenue Service Form 8621 regarding distributions received on the ordinary shares and any gain realized on the disposition of the ordinary shares as well as under certain other circumstances.

Annual reporting will be required by every PFIC shareholder when Treasury regulations are published. Please consult your tax advisor regarding your PFIC shareholder reporting obligation in connection with your investment.

United States return disclosure obligations (and related penalties) are imposed on U.S. individuals who hold certain specified foreign financial assets in excess of certain dollar thresholds. The definition of specified foreign financial assets would include our ordinary shares, unless they are held in an account at a domestic financial institution. Please consult with your tax advisor regarding the requirements of filing IRS Form 8938 under these rules.

#### *Taxation of Non-U.S. Holders*

*Distributions on Ordinary Shares.* Distributions made with respect to our ordinary shares to non-U.S. Holders who are not engaged in the conduct of a trade or business within the United States generally will not be subject to United States withholding tax.

*Sale or Exchange of Ordinary Shares.* A Non-U.S. Holder will not be subject to United States federal income tax on any gain realized upon the sale or exchange of ordinary shares unless (i) the gain is effectively connected with a trade or business in the United States of the Non-U.S. Holder (which gain, under certain circumstances, could be deemed to be effectively connected if a substantial portion of our assets were to ever consist of United States real property interests), or (ii) the Non-U.S. Holder is an individual who was present in the United States for 183 days or more in the taxable year of the disposition and other conditions exist.

*United States Business.* Dividends and gains that are effectively connected with a Non-U.S. Holder's conduct of a trade or business in the United States generally will be subject to tax in the same manner as they would be for U.S. Holder. Effectively connected dividends and gains received by a corporate Non-U.S. Holder may also be subject to an additional branch profits tax at a 30% rate or a lower tax treaty rate.

*Backup Withholding and Information Reporting*

In general, information reporting requirements will apply to dividends in respect of our ordinary shares or the proceeds received on the sale, exchange or redemption of our ordinary shares paid within the United States (and in certain cases, outside the United States) to U.S. Holders other than certain exempt recipients, such as corporations, and backup withholding tax may apply to such amounts if the U.S. Holder fails to provide an accurate taxpayer identification number or to report interest and dividends required to be shown on its U.S. federal income tax returns. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as credit against the U.S. Holder's U.S. federal income tax liability provided that the appropriate returns are timely filed.

A Non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status to the payor, under penalties of perjury, on an applicable IRS Form W-8.

**F. Dividends and Paying Agents**

Not Applicable.

**G. Statement by Experts**

Not Applicable.

**H. Documents on Display**

We are subject to certain of the reporting requirements of the Securities and Exchange Act of 1934, as amended, or the Exchange Act, as applicable to "foreign private issuers" as defined in Rule 3b-4 under the Exchange Act. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, and transactions in our equity securities by our officers and directors are exempt from reporting and the "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file with the Securities and Exchange Commission an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also submit to the Securities and Exchange Commission reports on Form 6-K containing (among other things) press releases and unaudited financial information. We post our annual report on Form 20-F on our website (<http://www.ellomay.com>) promptly following the filing of our annual report with the Securities and Exchange Commission. The information on our website is not incorporated by reference into this annual report.

Any statement in this report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to this report or any of our annual reports or to a registration statement or other documents filed by us, the contract or document is deemed to modify the description contained in this report. You must review the exhibits themselves for a complete description of the contract or document. In the event any of the documents that are filed as exhibits to our annual reports are not in English, the original language version is on file in our offices and is available upon request.

You may review a copy of our filings with the SEC, including exhibits and schedules, and obtain copies of such materials at the SEC's public reference room at Room 1580, 100 F Street, N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that we file electronically with the SEC. These SEC filings are also available to the public from commercial document retrieval services. Our filings commencing October 2013 may also be found at the TASE's website at <http://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, restricted cash, short-term deposits and marketable securities in various currencies, including US\$, Euro and NIS. Our investments in the Italian and Spanish PV Plants are denominated in Euro and our investments in Dori Energy are denominated in NIS. The financing we have in connection with four of our PV Plants bears interest that is based on EURIBOR rate and our Series A Debentures are denominated in NIS and are to be repaid (principal and interest) in NIS. In addition, the functional currency of us and a majority of our subsidiaries is the Euro but our presentation currency is the US\$, exposing our balance sheet to the effects of presentation currency translation adjustments.

##### *Inflation and Fluctuation of Currencies*

As noted under "Item 4.B: Business Overview," we have raised funds in Israel in January and in June 2014 by the issuance of our Series A Debentures, in the aggregate principal amount of NIS 200.341 million. As a result, we are exposed to the impact of exchange rate fluctuations of the NIS/EUR. In order to manage this foreign exchange exposure, we executed currency interest rate swap transactions with an aggregate NIS denominated principal of NIS 85 million used to exchange the NIS denominated Series A Debentures notional principle with a Euro notional principal.

As a result of our operations, we are exposed to the impact of exchange rate fluctuations of the EUR/USD and NIS/USD on our balance sheet. In order to manage the foreign exchange exposure we executed several forward transactions. As of December 31, 2014 we entered into forward EUR/USD contracts with an aggregate EUR denominated principal of EUR 17.5 million, with a weighted average rate of approximately 1.3 USD/EUR and expiration dates in September 2016 and January 2019. For more information see “Item 5.A: Impact of Inflation and Fluctuation of Currencies.”

#### *Interest Rate*

As noted under “Item 4.B: Business Overview,” we entered into the Leasing Agreements with Leasint on December 30, 2010, the Finance Agreement with Centrobanca on February 17, 2011, the Loan Agreement with Unicredit on December 20, 2011. The amounts received in connection with these Agreements are based on EURIBOR rate and therefore we may be affected by adverse movements in interest rates.

In order to manage and limit the interest-rate risk resulting from financing secured or about to be secured from local financing institutions in Italy for our PV operations, we executed the following swap transactions:

A Euro 8 million interest swap transaction with a decreasing notional principle amount based on the amortization table. The interest swap transaction is for a period of 17 years, amortized semi-annually (Euro 250,000) every payment date commencing on March 7, 2011, whereby we are the fixed rate payer (the fixed rate is set at 2.67%) and the financing institute is the floating rate payer.

A Euro 10 million interest swap transaction with a decreasing notional principle amount based on the amortization table. The interest swap transaction is for a period of 17 years, amortized quarterly (Euro 149,253.73) every payment date commencing on October 3, 2011, whereby we are the fixed rate payer (the fixed rate is set at 3.595%) and the financing institute is the floating rate payer.

A Euro 3.75 million interest swap transaction. The interest swap transaction is for a period of 15 years, semi-annually. Every payment date commencing on June 30, 2012, whereby we are the fixed rate payer (the fixed rate is set at 2.53%).

In February 2012, a Euro 5.046 million interest swap transaction, with a decreasing notional principle amount based on the amortization table. The interest swap transaction is for a period of 18 years, semi-annually. Every payment date commencing on June 30, 2012 and until December 31, 2016, whereby we are the fixed rate payer (the fixed rate is set at 1.723%). Every payment date commencing on December 31, 2016 and until December 31, 2029, whereby we are the fixed rate payer (the fixed rate is set at 3.353%). As of December 31, 2014 all outstanding amounts under this interest swap transaction and related Loan Agreement with UniCredit were repaid by us in full.

### 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) profit or loss and 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, 2014	
	Increase	Decrease
	Profit or loss	Profit or loss
	US\$ thousands	
Change in the exchange rate of:		
5% in the Euro	16	(16)
5% in NIS	(7,414)	7,414

	December 31, 2013	
	Increase	Decrease
	Profit or loss	Profit or loss
	US\$ thousands	
Change in the exchange rate of:		
5% in the Euro	(1,209)	1,209
5% in NIS	873	(873)

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

	December 31,	
	2014	2013
	Profit or loss	Profit or loss
	US\$ thousands	
Increase of 1%	1,001	280
Increase of 3%	2,886	849
Decrease of 1%	(884)	(292)
Decrease of 3%	(2,770)	(861)

The goal of our forward and swap transactions as detailed above is to limit the impact of exchange rate and interest rate fluctuations on our balance sheet. 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 balance sheet date. Accordingly, these differences could result in significant fluctuations in our reported net income. We will consider executing further transactions in the future.

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 Series A 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 annual 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 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, 2014. 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 1992.

Based on this assessment, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2014, 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, 2014 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**

In February 2010, our Board determined that it has at least one Audit Committee financial expert, as defined in Item 16A of Form 20-F, serving on the Audit Committee. Barry Ben Zeev has been designated as the Audit Committee financial expert and was also determined to be “independent” under the applicable SEC and NYSE MKT regulations.

**ITEM 16B: Code of Ethics**

We adopted a code of business conduct and ethics which is applicable to all of our officers, directors and employees, including our principal executive, financial and accounting officers and persons performing similar functions, or the Code of Ethics.

The Code of Ethics, in its current form, is posted on our website at the following web address: [http://www.ellomay.com/files/company/code\\_of\\_conduct.pdf](http://www.ellomay.com/files/company/code_of_conduct.pdf). We will provide a copy of the Code of Ethics to any person, without charge, upon written request addressed to our Chief Financial Officer at our office in Tel Aviv, Israel.

**ITEM 16C: Principal Accountant Fees and Services****Fees paid to the Independent Registered Public Accounting Firm**

Somekh Chaikin, an independent registered public accounting firm and a member firm of KPMG International, served as our principal independent registered public accounting firm since December 2011.

The following table sets forth, for each of the years indicated, the aggregate fees paid for professional audit services and other services rendered by our principal independent registered public accounting firms.

	2014	2013
	(US\$ in thousands)	
Audit Fees <sup>(1)</sup>	\$ 98	\$ 184
Audit-Related Fees <sup>(2)</sup>	\$ 49	\$ 23
Tax Fees <sup>(3)</sup>	\$ 18	\$ 32
All Other Fees	-	-
Total	\$ 165	\$ 239

(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) Professional services related to due diligence investigations.

(3) Professional services rendered by our independent registered public accounting firm for international and local tax compliance, tax advice services and tax planning.

**Audit Committee's pre-approval policies and procedures**

Our Audit Committee nominates and engages our registered public accounting firm to audit our financial statements. See also the description under the heading in "Item 6.C: Board Practices." In July 2003, our Audit Committee also adopted a policy requiring management to obtain the Audit Committee's approval before engaging our independent auditors worldwide to provide any other audit or permitted non-audit services to us. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the Audit Committee pre-approves all specific audit and non-audit services and related fees in the categories audit service, audit-related service and tax services that may be performed by our independent auditors worldwide.

**ITEM 16D: Exemptions from the Listing Standards for Audit Committees**

Not Applicable.

**ITEM 16E: Purchase of Equity Securities by the Company and Affiliated Purchasers**

Not Applicable.

**ITEM 16F: Change in Registrant's Certifying Accountants**

Not Applicable.

## ITEM 16G: Corporate Governance

### *NYSE MKT Company Guide and Home Country Laws*

Section 110 of the NYSE MKT Company Guide provides that the NYSE MKT 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 MKT in connection with the quorum required for shareholders meetings. While the NYSE MKT 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 MKT 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 MKT 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 MKT Company Guide. As a result, we are exempt from certain of the NYSE MKT 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 MKT Company Guide, we may elect to follow "home country laws" (i.e. Israeli law) instead of some or all of the applicable NYSE MKT 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**

See Financial Statements included at the end of this report.

**ITEM 19: Exhibits**

<b><u>Number</u></b>	<b><u>Description</u></b>
1.1	Memorandum of Association of the Registrant (translated from Hebrew), reflecting amendments through June 9, 2011*(1)
1.2	Second Amended and Restated Articles of the Registrant, reflecting amendments through June 20, 2012(1)
2.1	Specimen Certificate for ordinary shares(2)
4.1	1998 Share Option Plan for Non-Employee Directors
4.2	2000 Stock Option Plan(1)
4.3	Form of Indemnification Agreement between the Registrant and its officers and directors(1)
4.4	Form of Exemption Letter between the Registrant and its officers and directors(1)
4.5	Form of Registration Rights Agreement, dated September 12, 2005, among the Registrant, certain investors, Bank Hapoalim, Bank Leumi and Israel Discount Bank(3)
4.6	Management Services Agreement, by and among the Registrant, Kanir Joint Investments (2005) Limited Partnership and Meisaf Blue & White Holdings Ltd., effective as of March 31, 2008(4)
4.7	Engineering Procurement & Construction Contract for the Construction of a Photovoltaic System in Cingoli, between Ellomay PV One S.R.L. and Ecoware S.p.A., dated March 4, 2010 (portions translated from Italian)(5)*
4.8	Engineering Procurement & Construction Contract for the Construction of a Photovoltaic System in Senigallia, between Ellomay PV One S.R.L. and Ecoware S.p.A., dated March 4, 2010 (portions translated from Italian)(5)*
4.9	Side Agreement, between Ellomay PV One S.R.L. and Ecoware S.p.A., dated March 5, 2010(6)
4.10	Giaché Building Right Agreement (summary of Italian version)(7)*
4.11	Massaccesi Building Right Agreement (summary of Italian version)(7)*
4.12	Settlement Agreement and Release, dated July 27, 2010, between Ellomay Capital Limited and Hewlett-Packard Company(7)
4.13	Troia 8 Building Right Agreement (summary of Italian version)(7)*
4.14	Troia 9 Building Right Agreement (summary of Italian version)(7)*
4.15	Investment Agreement, among U. Dori Group Ltd., U. Dori Energy Infrastructures Ltd. and Ellomay Clean Energy Ltd. , dated November 25, 2010 (summary of Hebrew version)(7)*
4.16	Shareholders Agreement, among U. Dori Group Ltd., Ellomay Clean Energy Ltd. and U. Dori Energy Infrastructures Ltd., dated November 25, 2010 (summary of Hebrew version)(7)*
4.17	Agreement, between U. Dori Energy Infrastructures Ltd. and Israel Discount Bank Ltd., dated January 26, 2011 (summary of Hebrew version)(7)*
4.18	Engineering Procurement & Construction Contract for the Construction of a Photovoltaic Plant, between Urbe Techno S.r.l. and Pedale S.r.l., dated March 25, 2011 (portions translated or summarized from Italian)(includes a summary of the Building Rights Agreement)(7)*

<b><u>Number</u></b>	<b><u>Description</u></b>
4.19	Acquafresca Building Right Agreement (summary of Italian version)(2)*
4.20	D'Angella Building Right Agreement (summary of Italian version)(2)*
4.21	Rinconada II Building Right Agreement (summary of Spanish version)(2)*
4.22	Directors and Officers Compensation Policy, adopted June 2013(8)
4.23	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(9)
4.24	Veneto PV Plants Framework Acquisition Agreement, dated March 28, 2013, as amended on May 2, 2013 (summary of German version)(9)*
4.25	Soleco Building Right Agreement (summary of Italian version)(9)*
4.26	Tecnoenergy Building Right Agreement (summary of Italian version)(9)*
4.27	Warrant issued to Mr. Zohar Zisapel, dated August 7, 2013(9)
4.28	Deed of Trust between the Registrant and Hermetic Trust (1975) Ltd., dated December 30, 2013 (translation of Hebrew version)(9)*
4.29	Rodríguez I Lease Agreements (summary of Spanish version)*
4.30	Rodríguez II Lease Agreements (summary of Spanish version)*
4.31	Fuente Librilla Lease Agreement (summary of Spanish version)*
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 BDO with respect to the financial statements of Ellomay Spain S.L.
15.3	Consent of BDO with respect to the financial statements of Rodríguez I Parque Solar, S.L.
15.4	Consent of BDO with respect to the financial statements of Rodríguez II Parque Solar, S.L.

---

\* The original language version is on file with the Registrant and is available upon request.

- (1) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2012 and incorporated by reference herein.
- (2) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2011 and incorporated by reference herein.
- (3) Included in the Registrant's Form 6-K dated October 14, 2005 and incorporated by reference herein.
- (4) Included in the Registrant's Form 6-K dated December 1, 2008 and incorporated by reference herein.
- (5) Previously filed with Amendment No. 2 to the Registrant's Form 20-F for the year ended December 31, 2009 and incorporated by reference herein.
- (6) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2009 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) Included in Exhibit 2 of the Registrant's Form 6-K dated May 13, 2013 and incorporated by reference herein.
- (9) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2013 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 30, 2015

Ellomay Capital Ltd. and its Subsidiaries

Consolidated Financial Statements  
As at December 31, 2014

---



**Consolidated Financial Statements as at December 31, 2014**

---

**Contents**

	<b>Page</b>
<a href="#"><u>Report of Independent Registered Public Accounting Firm</u></a>	F-3
<a href="#"><u>Consolidated Statements of Financial Position</u></a>	F-4
<a href="#"><u>Consolidated Statements of Profit or Loss and Other Comprehensive Income (Loss)</u></a>	F-5
<a href="#"><u>Consolidated Statements of Changes in Equity</u></a>	F-6
<a href="#"><u>Consolidated Statements of Cash Flows</u></a>	F-7-F-8
<a href="#"><u>Notes to the Consolidated Financial Statements</u></a>	F-9-F-73

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Shareholders  
Ellomay Capital Ltd.**

We have audited the accompanying consolidated statements of financial position of Ellomay Capital Ltd. and its subsidiaries (hereinafter the "Company") as of December 31, 2014 and 2013, and 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, 2014. 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 did not audit the financial statements of consolidated subsidiaries which financial statements reflect total assets constituting 12% percent and 5% percent as of December 31, 2014 and 2013, respectively, and total revenues constituting 14% percent, 10% percent and 6% percent for each of the years in the three-year period ended December 31, 2014, respectively, of the related consolidated totals. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such consolidated subsidiaries, is based solely on the report of the other auditors.

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

In our opinion based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

*/s/ Somekh Chaikin*

Somekh Chaikin  
Certified Public Accountants (Isr.)  
Member firm of KPMG International

Tel-Aviv, Israel  
April 30, 2015

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Ellomay Capital Ltd.

We have audited the accompanying consolidated statements of financial position of Ellomay Spain, S.L. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of profit or loss and other comprehensive income (loss), consolidated changes in equity and consolidated cash flows for the years ended December 31, 2014 and 2013. These consolidated financial statements are the responsibility of the Ellomay Spain, S.L. management. Our responsibility is to express an opinion on these consolidated financial statement based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ellomay Spain, S.L. and subsidiaries as of December 31, 2014 and 2013 and the consolidated results of its operations and its cash flow for the years ended December 31, 2014 and 2013, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

/s/ BDO Auditores S.L.  
BDO Auditores S.L.

Madrid, Spain  
April 29, 2015

---

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Ellomay Capital Ltd.

We have audited the accompanying consolidated statement of financial position of Ellomay Spain, S.L. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statement of profit or loss and other comprehensive income (loss), consolidated changes in equity and consolidated cash flows for the year ended as of December 31, 2013 and for the six month period ended December 31, 2012. These consolidated financial statements are the responsibility of the Ellomay Spain, S.L. management. Our responsibility is to express an opinion on this consolidated financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statements presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion the consolidated financial statement referred to above present fairly, in all material respects, the consolidated financial position of Ellomay Spain, S.L. and subsidiaries as of December 31, 2013 and 2012 and the consolidated results of its operations and its cash flow for the year ended as of December 31, 2013 and for the six month period ended December 31, 2012, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

/s/ BDO Auditores S.L.

BDO Auditores S.L.

Madrid, (Spain)

March 31, 2014

---

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Ellomay Capital Ltd.

We have audited the accompanying statement of financial position of Rodríguez I Parque Solar, S.L. as of December 31, 2014 (the Company), and the related statements of comprehensive loss, changes in equity and cash flows for the six month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statements presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion the financial statement referred to above present fairly, in all material respects, the financial position of Rodríguez I Parque Solar, S.L. as of December 31, 2014 and the results of its operations and its cash flow for the six month period then ended, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

/s/ BDO Auditores S.L.  
BDO Auditores, S.L.  
Madrid, Spain  
April 29, 2015

---

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Ellomay Capital Ltd.

We have audited the accompanying statement of financial position of Rodríguez II Parque Solar, S.L. as of December 31, 2014 (the Company), and the related statements of comprehensive loss, changes in equity and cash flows for the six month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Rodríguez II Parque Solar, S.L. as of December 31, 2014 and the results of its operations and its cash flow for the six month period then ended, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

/s/ BDO Auditores S.L.  
BDO Auditores, S.L.  
Madrid, Spain  
April 29, 2015

---

## Consolidated Statements of Financial Position as at

		December 31 2014	December 31 2013
	Note	US\$ in thousands	
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	3	15,758	7,238
Marketable securities	4	3,650	-
Short-term deposits	4	3,980	5,153
Restricted cash	4	283	5,653
Trade receivables		214	134
Other receivables and prepaid expenses	5	5,929	4,357
		29,814	22,535
<b>Non-current assets</b>			
Investment in equity accounted investee	6	27,237	24,601
Financial assets	6B	1,912	389
Property, plant and equipment, net	7	93,513	93,671
Restricted cash and deposits	4	5,134	4,315
Other assets		1,477	1,419
		129,273	124,395
<b>Total assets</b>		159,087	146,930
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Loans and borrowings	9	677	19,454
Debentures	12	4,884	-
Accounts payable		1,229	2,154
Accrued expenses and other payables	8	4,134	5,311
		10,924	26,919
<b>Non-current liabilities</b>			
Finance lease obligations	10	5,646	6,814
Long-term loans	11	4,039	11,050
Debentures	12	40,042	-
Other long-term liabilities	13	4,310	2,386
		54,037	20,250
<b>Total liabilities</b>		64,961	47,169
<b>Equity</b>			
Share capital		26,180	26,180
Share premium		76,932	76,932
Treasury shares		(522)	(522)
Reserves		(8,127)	4,154
Accumulated deficit		(353)	(7,011)
Total equity attributed to shareholders of the Company		94,110	99,733
Non-Controlling Interest		16	28
<b>Total equity</b>		94,126	99,761
<b>Total liabilities and equity</b>		159,087	146,930

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

## Consolidated Statement of Profit or Loss and Other Comprehensive Income (Loss)

	Note	For the year ended December 31		
		2014	2013	2012
		US\$ in thousands (except per share data)		
Revenues		15,782	12,982	8,890
Operating expenses	18B	(3,087)	(2,381)	(1,954)
Depreciation expenses	18B	(5,452)	(4,021)	(2,717)
<b>Gross profit</b>		<b>7,243</b>	<b>6,580</b>	<b>4,219</b>
General and administrative expenses	18C	(4,253)	(3,449)	(3,110)
Company's share of income (losses) of investee accounted for at equity		1,819	(540)	(232)
Other income (expense), net	18D	1,438	*(42)	*146
Gain on bargain purchase	6	3,995	10,237	-
Capital loss, net		-	-	(394)
<b>Operating Profit</b>		<b>10,242</b>	<b>*12,786</b>	<b>* 629</b>
Financing income	18A	2,245	204	550
Financial income (expenses) in connection with derivatives, net	18A	(1,048)	*1,543	*(2,277)
Financing expenses	18A	(4,592)	(4,201)	(2,046)
Financing expenses, net		(3,395)	*(2,454)	*(3,773)
<b>Profit (loss) before taxes on income</b>		<b>6,847</b>	<b>10,332</b>	<b>(3,144)</b>
Tax benefit (taxes on income)	19	(201)	(245)	1,011
<b>Net income (loss) for the year</b>		<b>6,646</b>	<b>10,087</b>	<b>(2,133)</b>
<b>Income (Loss) attributable to:</b>				
Shareholders of the Company		6,658	10,068	(2,110)
Non-controlling interests		(12)	19	(23)
<b>Net income (loss) for the year</b>		<b>6,646</b>	<b>10,087</b>	<b>(2,133)</b>
<b>Other comprehensive income (loss)</b>				
<b>Items that are or may be reclassified to profit or loss:</b>				
Foreign currency translation adjustments		(3,199)	6,038	1,620
<b>Items that would not be reclassified to profit or loss:</b>				
Presentation currency translation adjustments		(9,082)	-	-
<b>Total other comprehensive income (loss)</b>		<b>(12,281)</b>	<b>6,038</b>	<b>1,620</b>
<b>Total comprehensive income (loss)</b>		<b>(5,635)</b>	<b>16,125</b>	<b>(513)</b>
<b>Net earnings per share</b>				
<b>Basic earnings (loss) per share</b>	20	<b>0.62</b>	<b>0.94</b>	<b>(0.20)</b>
<b>Diluted earnings (loss) per share</b>		<b>0.62</b>	<b>0.94</b>	<b>(0.20)</b>

\* Reclassified - see Note 2C

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	Accumulated deficit	Treasury shares	Translation Reserve From Foreign operations	Presentation Currency Translation Reserve	Total		
	US\$ in thousands								
Balance as at January 1, 2014	26,180	76,932	(7,011)	(522)	4,154	-	99,733	28	99,761
Net income for the year	-	-	6,658	-	-	-	6,658	(12)	6,646
Other comprehensive loss	-	-	-	-	(3,199)	(9,082)	(12,281)	-	(12,281)
Total comprehensive loss	-	-	6,658	-	(3,199)	(9,082)	(5,623)	(12)	(5,635)
Balance as at December 31, 2014	26,180	76,932	(353)	(522)	955	(9,082)	94,110	16	94,126
Balance as at January 1, 2013	26,180	76,410	(17,079)	(522)	(1,884)	-	83,105	9	83,114
Net income for the year	-	-	10,068	-	-	-	10,068	19	10,087
Other comprehensive income	-	-	-	-	6,038	-	6,038	*	6,038
Total comprehensive income	-	-	10,068	-	6,038	-	16,106	19	16,125
Transactions with owners of the Company, recognized directly in equity:									
Cost of share-based payments	-	522	-	-	-	-	522	-	522
Balance as at December 31, 2013	26,180	76,932	(7,011)	(522)	4,154	-	99,733	28	99,761
Balance as at January 1, 2012	26,180	76,403	(14,969)	(49)	(3,504)	-	84,061	-	84,061
Loss for the year	-	-	(2,110)	-	-	-	(2,110)	(23)	(2,133)
Other comprehensive income	-	-	-	-	1,620	-	1,620	*	1,620
Total comprehensive loss	-	-	(2,110)	-	1,620	-	(490)	(23)	(513)
Transactions with owners of the Company, recognized directly in equity:									
Treasury shares	-	-	-	(473)	-	-	(473)	-	(473)
Cost of share-based payments	-	7	-	-	-	-	7	-	7
Non-controlling interests in respect of business combination	-	-	-	-	-	-	-	32	32
Balance as at December 31, 2012	26,180	76,410	(17,079)	(522)	(1,884)	-	83,105	9	83,114

\* Less than \$1 thousand

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

## Consolidated Statements of Cash Flows

	For the year ended December 31		
	2014	2013	2012
	US\$ in thousands		
<b>Cash flows from operating activities</b>			
Net income (loss)	6,646	10,087	(2,133)
<b>Adjustments for:</b>			
Financing expenses , net	3,395	*2,454	*3,469
Gain on bargain purchase	(3,995)	(10,237)	-
Capital loss	-	-	394
Depreciation	5,452	4,021	2,717
Loss from disposal of property and equipment, net of insurance income	-	-	338
Cost of share-based payment	-	522	7
Company's share of losses (income) of investees accounted for at equity	(1,819)	540	232
Decrease (increase) in trade receivables	95	218	(1)
Decrease (increase) in other receivables and prepaid expenses	(1,631)	1,783	4,404
Decrease (increase) in other assets	(797)	*54	*147
Increase (decrease) in accrued severance pay, net	(29)	22	6
Increase (decrease) in accounts payable	(498)	376	(122)
Increase (decrease) in other payables and accrued expenses	498	(1,450)	(1,639)
Taxes on income (Tax benefit)	201	245	(1,011)
Taxes on income paid	(461)	(458)	(55)
Interest received	212	137	427
Interest paid	(3,933)	(1,925)	(1,274)
	(3,310)	(3,698)	8,039
Net cash provided by operating activities	3,336	6,389	5,906

\* Reclassified - see Note 2C

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

## Consolidated Statements of Cash Flows (cont'd)

	For the year ended December 31		
	2014	2013	2012
	US\$ in thousands		
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(709)	(9,152)	(1,212)
Acquisition of subsidiary, net of cash acquired (see Note 6F)	(13,126)	(30,742)	(6,472)
Investment in equity accounted investees	(4,058)	(4,372)	(6,481)
Disposal of an investee accounted for at equity method	-	-	114
Proceeds from (Investment in) deposits, net	1,173	137	4,710
Investment in marketable securities	(3,687)	-	-
Settlement of forward contract	-	(169)	112
Proceeds from restricted cash, net	4,342	1,519	7,379
Net cash used in investing activities	(16,065)	(42,779)	(1,850)
<b>Cash flows from financing activities:</b>			
Short-term loans, net	(18,550)	-	(5,821)
Repayment of long-term loans and financial lease obligation	(7,152)	(7,818)	(1,286)
Repayment of Debentures	(5,151)	-	-
Treasury shares	-	-	(473)
Proceeds from financial lease obligation	-	-	1,086
Proceeds from long term loans	-	17,692	6,460
Proceeds from debentures, net	55,791	-	-
Net cash provided by (used in) financing activities	24,938	9,874	(34)
Exchange differences on balances of cash and cash equivalents	(3,689)	462	353
Increase (decrease) in cash and cash equivalents	8,520	(26,054)	4,375
Cash and cash equivalents at the beginning of year	7,238	33,292	28,917
Cash and cash equivalents at the end of the year	15,758	7,238	33,292

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

Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 1 – General**

- A. Ellomay Capital Ltd. (hereinafter - the "Company"), is an Israeli Company operating in the business of energy and infrastructure, and its operations currently mainly include production of renewable and clean energy. The Company owns sixteen photovoltaic plants (each, a "PV Plant" and, together, the "PV Plants") that are connected to their respective national grids and operating as follows: (i) twelve photovoltaic plants in Italy with an aggregate installed capacity of approximately 22.6 MWp, (ii) three photovoltaic plants in Spain with an aggregate installed capacity of approximately 5.6 MWp, and (iii) 85% of one photovoltaic plant in Spain with an installed capacity of approximately 2.3 MWp. In addition, the Company indirectly owns 7.5% of Dorad Energy Ltd. (hereinafter - "Dorad") and holds an option to increase its indirect holdings in Dorad under certain conditions to 9.375%.

The ordinary shares of the Company are listed on the NYSE MKT (under the symbol "ELLO") and on the Tel Aviv Stock Exchange (under the symbol "ELOM"). The address of the Company's registered office is 9 Rothschild Blvd., Tel Aviv, Israel.

**B. Definitions:**

In these financial statements:

IFRS - Standards and interpretations that were adopted by the International Accounting Standards Board ("IASB") and which include International Financial Reporting Standards and International Accounting Standards ("IAS") along with the interpretations to these standards of the International Financial Reporting Interpretations Committee ("IFRIC") or interpretations of the Standing Interpretations Committee ("SIC"), respectively.

Subsidiaries – Companies, including a partnership, 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 "US dollar," "dollars" and "\$" are to United States dollars, all references to "NIS" are to New Israeli Shekels and all references to "€" "Euro" or "EUR" are to the legal currency of the European Union.

Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 2 – Significant Accounting Policies****A. Basis of preparation of the financial statements**

1. The consolidated financial statements of the Company as of December 31, 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the IASB.

The consolidated financial statements were authorized for issue on April 30, 2015.

2. Consistent accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3. Measurement basis

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) Derivative financial instruments and other receivables measured at fair value through profit or loss; and

**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 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 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 computed by the Company that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Legal claims*

When assessing the possible outcomes of legal claims that were filed against the Company and its subsidiaries, the Company relied on the assessments of legal counsel. The assessments of legal counsel are based on the best of their professional judgment, and take into consideration the current stage of the proceedings and the legal experience accumulated with respect to the various matters. As the results of the claims will ultimately be determined by the courts, they may be different from such estimates. See Note 14B.

Notes to the Consolidated Financial Statements as at December 31, 2014

---

## Note 2 – Significant Accounting Policies (cont'd)

**B. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements (cont'd)***Classification of leases:*

In order to determine whether to classify a lease as a finance or operating lease, the Company evaluates whether the lease transfers substantially all the risks and benefits incidental to ownership of the leased asset. In this respect, the Company evaluates such criteria as the existence of a "bargain" purchase option, the lease term in relation to the economic life of the asset and the present value of the minimum lease payments in relation to the fair value of the asset. See Note 10.

*Uncertain tax positions:*

The Company recognizes a provision for tax uncertainties. In determining the amount of the provision, assumptions and estimates are made in relation to the probability that the position will be sustained upon examination and the amount that is likely to be realized upon settlement, using the facts, circumstances, and information available at the reporting date. The Company records an additional tax charge in a period in which it determines that a recorded tax liability is less than it expects ultimate assessment to be. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evaluation of regulations and court rulings. Therefore, the actual tax liability may be materially different from the Company's estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

*Purchase price allocation:*

The Company is required to allocate the purchase price of investments in investee and subsidiaries to the assets and liabilities acquired, on the basis of its estimated fair value. This valuation requires management to use significant estimates and assumptions. Management's assessments regarding the fair value and useful life are based on assumptions management considered reasonable, but involve uncertainty, therefore actual results may be different. See Note 6A(1) and 6F.

*Fair value measurement of non-trading derivatives*

Within the scope of the valuation of derivatives not traded on an active market, management makes assumptions about unobserved data using valuation models. For information on a sensitivity analysis of level 3 financial instruments carried at fair value see Note 21F(5) regarding financial instruments.

Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 2 – Significant Accounting Policies (cont'd)****C. Reclassification**

Following the expansion of the Company's activities during 2014, including the commencement of the Dorad operation, during the current period the Company changed the comprehensive income statement classification of the Company's investments related to its energy and infrastructure projects, so that the results of such investments are recorded within as operating results. Accordingly, the share of income (losses) of investee accounted for under the equity method, re-evaluation of option to acquire additional shares in the investee and other related energy transactions (see Note 6) are included within its Operating Profit. The Company believes that such a change reflects more appropriately the Company's operations as a holding company, operating in the business of energy and infrastructure. Comparative amounts were reclassified for consistency. Comparative amounts were reclassified for consistency, which resulted in \$ 42 thousand and \$ 146 thousand being reclassified from financing expenses to other income (expense), net in 2013 and 2012, respectively.

**D. Functional and presentation currency**

1. These consolidated financial statements are presented in US dollars, and have been rounded to the nearest thousand, except when otherwise indicated.
2. The functional currency is examined for the Company and for each of the subsidiaries separately. As a result of the significant funds raised in Israel in the beginning of 2014 and the related currency interest rate swap transactions used to exchange the NIS denominated Series A Debentures notional principal with a Euro notional principal (see Note 12) together with the increasing influence of the Euro over the primary economic environment in which the Company operates and the increase in the Company's holdings of photovoltaic operations in Italy and Spain, the Company has re-evaluated its functional currency. Following that re-evaluation, the Company's management has determined that the functional currency of the Company has changed from the US Dollar to the Euro with effect from January 1, 2014. The change of the Company's functional currency has been accounted for prospectively in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates".
3. Items included in the financial statements of each of the Company's subsidiaries and investee are measured using their functional currency. When a company's functional currency differs from 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:
  - a) Assets and liabilities of foreign operations, including adjustments arising on acquisition, are translated at exchange rates at the reporting date.
  - b) 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.
  - c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing at the date of issuance.
  - d) Retained earnings are translated based on the opening balance translated at the exchange rate at that date and other relevant transactions during the period are translated as described in b and c above.

Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 2 – Significant Accounting Policies (cont'd)****D. Functional and presentation currency (cont'd)**

- e) All resulting translation differences are recognized as a separate component of other comprehensive income (loss) in equity "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).

Intergroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in that foreign operation and are accounted for as part of the investment. As a result, the exchange differences arising on such loans are recognized in the same component of equity as discussed above.

3. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into 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 that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated to the functional currency using the exchange rate prevailing at the date when the fair value was determined.

4. The Company elected the US dollar as its presentation currency.

Translation to presentation currency is as follows:

- Assets and liabilities are translated and presented at the exchange rate at the date of the balance sheet.
- Income and expenses are translated at the average exchange rate of the period.

The resulting exchange differences are recognized in a 'presentation currency translation reserve'.

No reclassification to profit or loss of the 'presentation currency translation reserve' with respect to our Euro functional currency subsidiaries would be recognized upon their disposal.



Notes to the Consolidated Financial Statements as at December 31, 2014

---

## Note 2 – Significant Accounting Policies (cont'd)

E. **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.

The Company holds 100% of all subsidiaries, except for Ellomay Spain which is held at 85%. See Note 6.

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 (equity accounted investees)*

Associates are those entities in which the Company has significant influence, but not 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.

Associates are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs. 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's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term interests that form a part thereof, is reduced to zero. When the Company's share of long-term interests that form a part of the investment in the investee is different from its share in the investee's equity, the Company continues to recognize its share of the investee's losses, after the equity investment was reduced to zero, according to its economic interest in the long-term interests. The recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 2 – Significant Accounting Policies (cont'd)**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 their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

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.

Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 2 – Significant Accounting Policies (cont'd)****F. Cash and cash equivalents**

Cash and cash equivalents are comprised of cash at hand and unrestricted short-term deposits with original maturity of three months or less from the date of acquisition, that are redeemable on demand without penalty and that form part of the Company's cash management. Cash and cash equivalents' value is as provided by bank statements that, due to the short maturity, approximates their fair value.

**G. Short term deposits**

Short-term bank deposits are deposits with an original maturity of more than three months but less than one year from the date of deposit.

**H. Available-for-sale financial assets**

The Company's investment in marketable securities is classified as available-for-sale financial assets. Available-for-sale financial assets are recognized initially at fair value. 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, are recognized directly in other comprehensive income (loss) and presented within equity.

**I. Property, plant and equipment****(1) Recognition and measurement**

Property, plant and equipment items are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Project licenses are included in the cost of photovoltaic plants.

**(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, as this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance lease agreements including lands are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 2 – Significant Accounting Policies (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
Leasehold improvements	Over the shorter of the lease period or the life of the asset	7

Depreciation methods and useful lives are reviewed at each financial year-end and adjusted if appropriate.

The estimated useful life of the project licenses of photovoltaic plants that are carried at cost is 20 years for the Italian subsidiaries and 25 years for the Spanish subsidiaries.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted if appropriate.

## J. Financial instruments

### Non-derivative Financial assets:

The Company's financial assets include cash and cash equivalents, short-term and long-term deposits, marketable securities, restricted cash, trade receivables and other receivables and prepaid expenses.

The Company initially recognizes loans and receivables and deposits on the date that they are created. 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 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.

#### *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.

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.

Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 2 - Significant Accounting Policies (cont'd)****J. Financial instruments (cont'd)**Financial liabilities:

The Company's financial liabilities include loans and borrowings, accounts payables, accrued expenses and other payables, finance lease obligations, debentures, long-term loans and other long-term liabilities.

The Company initially recognizes debt securities issued on the date 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. Financial liabilities (other than financial liabilities at fair value through profit or loss) are recognized initially at fair value minus any directly attributable transaction costs (such as loan raising costs).

Subsequent to initial recognition, interest-bearing loans and borrowings are measured based on their terms at amortized cost using the effective interest method, taking into account directly attributed transaction costs. Short-term borrowings (such as other payables) are measured based on their terms, normally at face value. Financial liabilities are derecognized when the obligation of the Company, as specified in the agreement, expires or when it is discharged or cancelled.

The Company holds derivative financial instruments to manage its interest rate and currency risk exposures, and an option to acquire additional shares in an investee.

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.

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.

**K. Impairment of non-financial assets**

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount.

Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 2 - Significant Accounting Policies (cont'd)**

The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. 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 since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

**L. Share-based payment transactions**

The Company's employees and directors are entitled to remuneration in the form of equity-settled share-based payment transactions. The Company applies the provisions of IFRS 2, "*Share-Based Payment*".

The cost of equity-settled transactions with employees and directors is measured at the fair value of the equity instruments at the date on which they are granted. The fair value is determined by using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the instruments were granted, additional details are included in Note 16.

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in share premium, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees 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.

**M. Employee benefits****1. Short-term employee benefits:**

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. 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 a reliable estimate of the amount can be made.

**2. Post-employment benefits:**

The plans are normally financed by contributions to 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") under which the Company pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all severance-related employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed simultaneously with receiving the employee's services and no additional provision is required in the financial statements.

Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 2 - Significant Accounting Policies (cont'd)**

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 presented in the statements of financial position presents the present value of the defined benefit obligation less the fair value of the plan assets, less past service costs.

**N. Leases**

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and classification is made at the inception of the lease.

Operating leases: Lease agreements are classified as operating leases if they do not transfer substantially all the risks and rewards incidental to ownership of the leased asset and the leased assets are not presented in the Company's statement of financial position.. Payments made under operating leases are recognized in the statements of profit or loss and other comprehensive income (loss) on a straight-line basis over the term of the lease, including the option period, when on the date of the transaction it was reasonably certain that the option will be exercised.

Finance leases: Finance leases transfer to the Company substantially all the risks and rewards incident to ownership of the leased asset. 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 liability for lease payments is presented at its present value and the lease payments are apportioned between finance charges and a reduction of the lease obligation using the effective interest method.

**O. Revenue recognition**

Revenue is measured according to the fair value of the consideration that was received and/or the consideration the Company is entitled to receive from the sale of electricity in the ordinary course of business.

Revenues from the sale of electricity are recognized when the units of power produced are transferred to the power company at connection points on the basis of a counter reading. Revenues in respect of power produced and transferred to the power company in the period between the most recent meter reading and the date of the statement of financial position, are included based on an estimate.

Seasonality:

Solar power production has a seasonal cycle due to its dependency on the direct and indirect sunlight and the effect the amount of sunlight has on the output of energy produced. Thus, low radiation levels during the winter months decrease power production.

**Notes to the Consolidated Financial Statements as at December 31, 2014**

---

**Note 2 - Significant Accounting Policies (cont'd)****P. Income tax**

Income tax comprises of current and deferred taxes. The tax results in respect of current or deferred taxes are recognized in the statement of comprehensive income (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.

Deferred income taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes, except for a limited number of exceptions.

Temporary differences (such as carry forward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability has become probable. Any resulting reduction or reversal is recognized in the line item, "tax benefit (taxes on income)".

Deferred tax balances are measured at the tax rates that are expected to apply to the period when the taxes are reversed in profit or loss, comprehensive income or equity, based on tax laws that have been enacted or substantively enacted by the balance sheet date.

**Q. 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 convertible debentures, share warrants and share options granted to employees and directors.

**R. Financial income and expenses**

Financial income includes interest income on bank deposits and marketable securities, an increase in the fair value of financial instruments recognized at fair value through profit or loss and exchange rate differences. Interest income is recognized as it accrues in profit or loss.

Financial expenses include bank charges, interest expenses on loans and debentures and exchange rate differences.

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.



Notes to the Consolidated Financial Statements as at December 31, 2014

---

## Note 2 - Significant Accounting Policies (cont'd)

**S. Provisions**

A provision in accordance with IAS 37 is recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

*Legal claims:*

A provision for legal claims is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Company to settle the obligation and a reliable estimate can be made of the amount of the obligation. For further details, refer to Note 14B.

**T. Standards issued but not yet effective****(1). IFRS 9 (2014), *Financial Instruments* (hereinafter – “IFRS 9 (2014)”)**

The IFRS 9 includes revised guidance on the classification and measurement of financial instruments, and a new model for measuring impairment of financial assets. This guidance has been added to the chapter dealing with general hedge accounting requirements issued in 2013.

*Classification and measurement*

In accordance with IFRS 9 (2014), there are three principal categories for measuring financial assets: amortized cost, fair value through profit and loss and fair value through other comprehensive income. The basis of classification for debt instruments is the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. Investments in equity instruments will be measured at fair value through profit and loss (unless the entity elected at initial recognition to present fair value changes in other comprehensive income).

IFRS 9 (2014) requires that changes in fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in its credit risk, should usually be recognized in other comprehensive income.

*Hedge accounting – general*

Under IFRS 9 (2014), additional hedging strategies that are used for risk management will qualify for hedge accounting. IFRS 9 (2014) replaces the present 80%-125% test for determining hedge effectiveness, with the requirement that there be an economic relationship between the hedged item and the hedging instrument, with no quantitative threshold. In addition, IFRS 9 (2014) introduces new models that are alternatives to hedge accounting as regards credit exposures and certain contracts outside the scope of IFRS 9 (2014), sets new principles for accounting for hedging instruments and provides new disclosure requirements.

*Impairment of financial assets*

IFRS 9 (2014) presents a new ‘expected credit loss’ model for calculating impairment. For most financial assets, the new model presents a dual measurement approach for impairment: if the credit risk of a financial asset has not increased significantly since its initial recognition, an impairment provision will be recorded in the amount of the expected credit losses that result from default events that are possible within the twelve months after the reporting date.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 2 - Significant Accounting Policies (cont'd)

## T. Standards issued but not yet effective (cont'd)

If the credit risk has increased significantly, in most cases the impairment provision will increase and be recorded at the level of lifetime expected credit losses of the financial asset. IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018 with early adoption being permitted. It will be applied retrospectively with some exemptions. The Company is examining the effects of applying IFRS 9 (2014) on the financial statements and has no plans for early application.

(2). IFRS 15, *Revenue from Contracts with Customers* (hereinafter – “IFRS 15”)

IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. IFRS 15 provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. Furthermore, IFRS 15 provides new and more extensive disclosure requirements than those that exist under current guidance. IFRS 15 is applicable for annual periods beginning on or after January 1, 2017 and earlier application is permitted.

The Company is examining the effects of applying IFRS 15 on the financial statements and has no plans for early application.

## (3). Improvements to IFRSs 2010-2012 and 2011-2013 projects (hereinafter “Improvements”)

An amendment to IAS 24, “Related Party Disclosures”, regarding the definition of the term “related party”. The definition of the term was expanded as at to include entities that provide key management personnel (KMP) services to the reporting entity, directly or through another entity of the Group. Separate disclosure is to be provided of the amounts recognized as an expense in respect of the management services provided by the management entity. Nevertheless, there is no requirement to disclose the amounts paid to specific people in the management entity who provide such services. The amendments are applicable for annual periods beginning on or after July 1, 2014 with earlier application being permitted. In the opinion of the Company, application of the improvements did not have a material effect on the financial statements.

## Note 3 - Cash and Cash Equivalents

	December 31	
	2014	2013
	US\$ in thousands	
Cash available for immediate withdrawal	9,777	4,909
Cash equivalents bank deposits (*)	5,981	2,329
	<b>15,758</b>	<b>7,238</b>

(\*) The annual interest rate for deposits as of December 31, 2014 is 0.14%-0.731% (0.42%-0.87% as of December 31, 2013).

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 4 - Restricted Cash, Deposits and Marketable Securities

	December 31	
	2014	2013
	US\$ in thousands	
Short-term deposits (1)	3,980	5,153
Marketable securities (2)	3,650	-
Short-term restricted cash (3)	283	5,653
Long-term bank deposits (4)	861	1,011
Restricted cash and long-term bank deposits (5)	4,273	3,304
Long-term restricted cash and deposits	5,134	4,315

(1) The annual interest rate as of December 31, 2014 is 0.64%-0.7%.

(2) During 2014, the Company invested in a traded Corporate Bond (rated Baa3 by Moody's) with a coupon rate of 2.803% and a maturity date of December 30, 2016.

(3) Current accounts and bank deposits securing the Company's short term bank loans as of December 31, 2014 (see Note 9).

(4) Deposits used to secure obligations towards the land owners and to secure obligations under financial leasing agreements of two of the Company's photovoltaic plants.

(5) Bank deposits securing the Company's swap and Forward contracts (see Notes 10 and 11). The annual interest rate as of December 31, 2014 is 0.35% - 0.56%.

## Note 5 - Other Receivables and Prepaid Expenses

	December 31	
	2014	2013
	US\$ in thousands	
Government authorities	3,390	2,000
Income receivable	1,713	1,269
Interest receivable	18	67
Current tax, net	273	199
Prepaid expenses and other	535	822
	5,929	4,357

The Company's exposure to credit and currency risks is disclosed in Note 21.

Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 6 - Investee Companies****Equity accounted investees****A. Information about investee companies and other investments****1. 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"), and Dori Energy, with respect to an investment in Dori Energy. Dori Energy holds 18.75% of the share capital of Dorad Energy Ltd. ("Dorad"), which owns an approximate 850 MWp bi-fuel operated power plant in the vicinity of Ashkelon, Israel (the "power plant"). On January 27, 2011 (the "Dori Closing Date"), Ellomay Energy invested a total amount of NIS 50,000 thousand (approximately \$14,000 thousand) in Dori Energy, and received 40% in Dori Energy's share capital (the "Dori Investment").

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.

Following the consummation of the Dori Investment, the holdings of Ellomay Energy in Dori Energy were transferred to Ellomay Clean Energy Limited Partnership ("Ellomay Energy LP"), an Israeli limited partnership whose general partner is Ellomay Energy and whose sole limited partner is the Company. Ellomay Energy LP replaced Ellomay Energy with respect to the Dori Investment Agreement and the Dori SHA.

Concurrently with the consummation of the Dori Investment, Dori Energy entered into an agreement with Israel Discount Bank ("Discount Bank") pursuant to which Discount Bank extended to Dorad, as per Dori Energy's request, a NIS 120,000 thousand (approximately \$ 34,570 thousand) bank guarantee that was required to allow Dori Energy to extend its pro rata share of the equity required by Dorad in connection with Dorad's power plant project. The Company was committed to provide 40% of the funds of Dori Energy towards Discount Bank under the agreement with Discount Bank. In addition, each of Ellomay Energy and Dori Group pledged their holdings in Dori Energy in favor of Discount Bank as a security for the fulfillment of Dori Energy's obligations to Discount Bank under the agreement with Discount Bank.

Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 6 - Investee Companies (cont'd)****A. Information about investee companies and other investments (cont'd)****1. U. Dori Energy Infrastructures Ltd. ("Dori Energy") (cont'd)–**

Dori Energy invested its remaining pro rata share of the equity required by Dorad to establish the power plant, amounting to approximately NIS 35,402 thousand (approximately \$ 10,145 thousand), by way of interest bearing shareholder loans it received from the Company and the Dori Group. Upon completion of provision of Dori Energy's share in equity required by Dorad, the Discount Bank guarantee provided to secure the injection of its share of the equity to Dorad was cancelled.

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. On August 12, 2014 the Company filed a request to extend the supply license for an additional 19 more years. On March 2, 2015 a plenum of Public Utilities Authority - Electricity ("the Electricity Authority") approved extending the license for the additional 19 years and transferred it to the Minister for signing. Thus far the Minister has not yet signed the license.

The Dori Investment Agreement also grants Ellomay Energy an option to acquire additional shares of Dori Energy that, if exercised, will increase Ellomay Energy's percentage holding in Dori Energy to 49% ("first option") and, subject to the obtainment of certain regulatory approvals to 50% ("second option"). The first option is exercisable starting from issuance and shall expire within twelve (12) months following the completion and delivery of the power plant and the second option shall commence at this date and expire within 2 years following the completion and delivery of the power plant. 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). The total consideration of the Dori Investment Agreement was allocated to the option to acquire additional shares of Dori Energy based on its estimated fair value as at the Dori Closing Date, in the amount of \$ 98 thousand and to the 40% in Dori Energy's capital shares in the amount of \$ 13,805 thousand (including capitalized expenses in the amount of approximately \$ 97 thousand).

During 2014, the Company extended approximately \$ 4,058 thousand subordinated shareholder loans to Dori Energy. The shareholder loans are linked to the CPI and bear an annual interest rate of 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" (5.5% as of December 31, 2014).

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 6 - Investee Companies (cont'd)

## A. Information about investee companies and other investments (cont'd)

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

The investment in Dori Energy is accounted for under the equity method.

The option to purchase additional shares of Dori Energy is measured based on its fair value in every reported period and changes are recorded as other income or expenses. As of December 31, 2014, the fair value of the option is approximately \$ 17 thousand and it is recorded as financial asset in long-term assets. The revaluation of the option was recognized as other expenses in the amount of \$ 372 thousand for the year ended December 31, 2014.

During 2014 Dorad provided, through its shareholders at their proportionate holdings, additional guarantees in favor of the Electricity Authority in order to comply with its license conditions and as required by its agreement with the Israel Electric Corporation. Total additional performance guarantees provided by Dorad amounted to approximately NIS 180 million (approximately \$ 52.4 million), of which, indirectly, the Company's share is approximately NIS 13.5 million (approximately \$ 3.9 million).

## 2. Pumped Storage Projects ("PSP") –

On July 17, 2013 the Company entered into a loan agreement with Erez Electricity Ltd. ("Erez 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 (\$ 213 thousand) was loaned to Erez Electricity. In November 2013 in connection with the sale of Erez Electricity's holdings in PSP to third parties, the Company and Erez 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 (\$ 283 thousand) and maybe entitled to additional compensation in the aggregate amount of NIS 6,700 thousand (approximately \$ 1,930 thousand) which will be linked to the Israeli CPI and will be paid in 2 installments of approximately NIS 1,200 thousand (approximately \$ 349 thousand) upon financial closing of PSP Gilboa and NIS 5,500 thousand (approximately \$ 1,584 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 \$ 349 thousand) in July 2014 and believes it will also be entitled to receive the second installment amounting to NIS 5,500 thousand (approximately \$ 1,414 thousand). As at December 31, 2014, the Company estimated the fair value of the second installment to be paid at approximately NIS 4,815 thousand (approximately \$ 1,238 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.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 6 - Investee Companies (cont'd)

## A. Information about investee companies and other investments (cont'd)

Pumped-storage project in the Manara Cliff in Israel ("Manara project")-

On January 19, 2014, the Company entered into an agreement (the "Agreement") with the Galilee Development Cooperative Ltd., an Israeli cooperative of the Upper Galilee Kibutzim (the "Cooperative"), pursuant to which, subject to the fulfillment of conditions, the Company shall acquire the Cooperatives' holdings (24.75%) in Agira Sheuva Electra, L.P. (the "Partnership"), an Israeli Limited Partnership that is promoting a prospective pumped-storage project in the Manara Cliff in Israel, as well as its holdings in Chashgal Elyon Ltd. (the "GP"), an Israeli private company, which is the general partner of the Partnership (25%). On January 28, 2014, the Company entered into an agreement with Ortam, an Israeli publicly listed company, pursuant to which, subject to the fulfillment of conditions, the Company shall acquire Ortam's holdings (24.75%) in the Partnership as well as Ortam's holdings: (i) in the GP (25%), and (ii) in the engineering, procurement and construction contractor (the "EPC") of the aforementioned project (50%). In addition to the aforementioned agreements, on May 20, 2014 the Company entered into an agreement with Electra, an Israeli publicly listed company, pursuant to which, subject to the fulfillment of conditions, the Company shall acquire Electra's holdings (24.75%) in the Partnership as well as Electra's holdings: (i) in the GP (25%), and (ii) in the EPC (50%). In addition, the Company entered into an agreement with Electra on May 20, 2014 pursuant to which Electra shall, upon closing of the transactions contemplated by the aforementioned agreements, acquire the Company's holdings in the EPC. In addition, pursuant to this agreement, the Company was granted a call option to acquire the EPC from Electra, and Electra was granted a put option to sell the EPC to the Company, in each case within 12 months as of the aforementioned closing.

On November 3, 2014, the acquisition of 75% of the limited partnership rights in the Partnership as well as 75% of the GP, from Electra, Ortam and from the Cooperative was consummated. The remaining 25% of the Partnership and the GP are held by Sheva Mizrakot Ltd., an Israeli private company. The Company did not pay any consideration upon the acquisition, and undertook to pay upon the fulfillment of certain conditions precedent an aggregate consideration amount of approximately NIS 65,000 thousands (approximately \$17,000 thousand, as of December 31, 2014). On the same date the Company 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.

The Manara Project was issued a conditional license by the Electricity Authority to operate a pumped storage power plant with a capacity of 200 MW, which has since expired, and therefore the advancement of the Manara Project depends, among other factors, on the issuance of a new license by the Authority. As of the reporting date, new license has not yet been received. The Company may, for various reasons including changes in the applicable regulation and adverse economic conditions, resolve not to continue the advancement of the Manara Project without further liability to the other parties under the aforementioned agreements.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 6 - Investee Companies (cont'd)

## 3. Pre-Bid Agreement –

On June 10, 2014 the Company entered into a Pre-Bid Agreement (the “Pre-Bid Agreement”) with several other companies (together with the Company, the “Consortium”) in connection with the possible submission of an offer (the “Offer”) for the acquisition of the participating interest in the 364/“Alon A” License and the 366/“Alon C” License, both exploration and drilling licenses offshore Israel, from Noble Energy Mediterranean Ltd., Delek Drilling L.P. and Avner Oil Exploration L.P. Pursuant to the Pre-Bid Agreement, the Company could choose whether or not to join the Offer but was required to participate in the costs of preparing and submitting the Offer, regardless of whether or not it chose to join the Offer. The Company joined the Offer that was submitted and is expected to hold approximately 20% of the Consortium. In connection with the submission of the Offer, the Company recorded related expenses of approximately \$ 156 thousand during the year ended December 31, 2014. There is no assurance that the Offer will be accepted and under what terms.

## B. Composition of the investments

	December 31	
	2014	2013
	US\$ in thousands	
Investment in shares	12,148	12,927
Long-term loans	16,239	12,732
Deferred interest	(1,150)	(1,058)
	<u>27,237</u>	<u>24,601</u>

## C. Composition of financial assets

	December 31	
	2014	2013
	US\$ in thousands	
Option to acquire additional shares in Dori Energy	17	389
Income receivable in connection with the Erez electricity pumped storage project	1,238	-
Forward contracts (see Note 21)	657	-
	<u>1,912</u>	<u>389</u>



## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 6 - Investee Companies (cont'd)

## D. Changes in investments

	2014	2013
	US\$ in thousands	
Changes in equity and loans:		
Balance as at January 1	24,601	19,198
Grant of long term loans	4,058	4,372
Interest on long term loans	1,346	963
Deferred interest	(230)	(649)
Elimination of interest on loan from related party	(1,158)	(315)
The Company's share of income (losses)	1,819	(540)
Foreign currency translation adjustments	(3,199)	1,572
Balance as at December 31	27,237	24,601
Changes in option to acquire additional shares:		
Balance as at January 1	389	485
Foreign currency translation adjustments	(*)	140
Reevaluation of option to acquire additional shares	(372)	(236)
Balance as at December 31	17	389

\* Less than \$1 thousand

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 6 - Investee Companies (cont'd)

## E. Summary financial data for investees, not adjusted for the percentage ownership held by the Company

## (a) Summary information on financial position

	<u>Rate of ownership %</u>	<u>Current Assets</u>	<u>Non- current assets</u>	<u>Total assets</u>	<u>Current liabilities</u>	<u>Non- current liabilities</u>	<u>Total liabilities</u>	<u>Equity attributable to the owners of the Company</u>	<u>Company's share</u>	<u>Surplus Costs and goodwill</u>	<u>Other Adjustments</u>	<u>Carrying Amount of investment</u>
2014												
Dori Energy	40	59	62,221	62,280	(12)	(41,993)	(42,005)	20,275	8,110	3,900	138	12,148
2013												
Dori Energy	40	57	58,853	53,910	(14)	(33,517)	(33,531)	20,379	8,152	4,623	152	12,927

## (b) Summary information on operating results

	<u>Rate of Ownership %</u>	<u>Income (Loss) for the year US\$ in thousands</u>	<u>Company's share</u>	<u>Elimination of interest on loan from related party</u>	<u>Other adjustments</u>	<u>Company's share of income (loss) of investee</u>
2014						
Dori Energy	40	2,268	907	1,158	(246)	1,819
2013						
Dori Energy	40	(2,135)	(854)	314	-	(540)

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 6 - Investee Companies (cont'd)

## C. Subsidiaries - Business combinations

1. On July 17, 2014, the Company consummated the acquisition of three photovoltaic (solar) plants with an aggregate installed capacity of approximately 5.6 MWp (the "Spanish PV Plants"). The Spanish PV Plants were already constructed and operating and were connected to the Spanish national grid in 2011. The Spanish PV Plants were acquired from a Spanish company whose German parent company has entered into insolvency proceedings. The Spanish PV Plants and all associated assets and rights were purchased by Ellomay for an aggregate purchase price of Euro 9.5 million (approximately \$13,000 thousand), subject to certain purchase price adjustments. The final consideration paid for the Spanish PV Plants and the related licenses was approximately Euro 9.8 million (approximately \$13.3 million).

The Company performed an analysis of the fair value of identifiable assets acquired and liabilities assumed by applying a discounted cash-flow method recorded gain on bargain purchase (negative goodwill) in the amount of approximately \$4 million based upon management's best estimate of the value as a result of such analysis. Negative goodwill represents the excess of the Company's share in the fair value of acquired identifiable assets, liabilities and contingent liabilities over the cost of an acquisition.

Identifiable assets acquired and liabilities assumed (based on amounts as described hereunder):

	<u>Acquisition date</u> <u>US\$ in</u> <u>thousands</u>
Property, plant and equipment	17,866
Working Capital, net (excluding cash and cash equivalents)	146
Deferred tax	(891)
Gain on bargain purchase	(3,995)
Total net identifiable assets	<u>13,126</u>

The aggregate cash flows derived for the Company as a result of the acquisition:

	<u>US\$ in</u> <u>thousands</u>
Cash and cash equivalents paid	13,327
Less - cash and cash equivalents of the subsidiary	201
	<u>13,126</u>

**Gain on Bargain Purchase (Negative Goodwill)**

Gain on bargain purchase (negative goodwill) was recognized as a result of the acquisition under insolvency proceedings as follows:

	<u>US\$ in</u> <u>thousands</u>
Consideration transferred	13,126
Less fair value of identifiable net assets	(17,121)
Gain on bargain purchase (negative goodwill)	<u>(3,995)</u>

Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 6 - Investee Companies (cont'd)****F. Subsidiaries - Business combinations (cont'd)**

The Spanish PV Plants were acquired in a tender process from Gerlicher Solar Espana S.L, the subsidiary of a German company, Gerlicher Solar AG, in insolvency proceedings. The Company's management believes that the factors that contributed to the bargain purchase price were: (a) as noted, the seller was in insolvency proceedings and was therefore under pressure to realize the assets and repay its creditors; (b) the complexity of a cross-border transaction (with due diligence efforts required in both Spain and Germany), (c) one of the critical considerations upon which the liquidator selected the top proposals was the issue of funding, with preference provided to proposals that included full self-financing over proposals that included obtaining financing as a condition on the part of the bidder, and the Company's bid was not conditioned on obtaining additional financial resources in order to fully fund the purchase price; and (d) the liquidator was interested in selling the three plants together, mainly due to the complexity of splitting the existing contracts between the three plants (insurance contracts, security, maintenance, etc.) and for reasons of efficiency and time constraints, and the Company's bid entailed the purchase of the three plants. The Company's management believe that these factors, combined with the Company's experience in the Spanish and Italian photovoltaic field, provided the liquidator with the assurance that the transaction, if executed with the Company, would be consummated swiftly and efficiently. Taking into account the liquidator's interest in realizing the assets under receivership and advancing the insolvency proceedings, the liquidator was willing to sell the Spanish PV Plants to the Company at a bargain price.

The results presented in the statements of comprehensive income (loss) do not include the results of the Spanish PV Plants for the entire fiscal year, as the closing date of the acquisition was in July 2014. If the acquisition had occurred on January 1, 2014, the consolidated revenue for the year ended December 31, 2014 would have been \$16,927 thousand and consolidated income for the same period would have been \$7,853 thousand.

**Acquisition-related costs**

During the year ended December 31, 2014 the Company incurred acquisition-related costs of approximately \$400 thousand related to legal fees and due diligence costs. These costs have been included in general and administrative expenses in the statement of income.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 6 - Investee Companies (cont'd)

## F. Subsidiaries - Business combinations (cont'd)

2. On June 26, 2013, the Company consummated the acquisition of two photovoltaic plants with fixed technology in the Veneto Region, Italy (Northern Italy), with an aggregate nominal capacity of approximately 12MWp (the "Veneto PV Plants"). The Veneto PV Plants, which constitute a business, are fully constructed and operating and were connected to the Italian national grid in August 2011 under the applicable Feed-in-Tariff. The final consideration paid for the Veneto PV Plants and the related licenses was approximately Euro 23.5 million (approximately \$30.7 million). The Veneto PV Plants were purchased under insolvency proceedings. The results presented in the statements of comprehensive income (loss) do not include the results of the Veneto PV Plants for the entire fiscal year, as the closing date of the acquisition was in June 2013. If the acquisition had occurred on January 1, 2013, management estimates that consolidated revenue for the year ended December 31, 2013 would have been \$15,689 thousand and consolidated income for the same period would have been \$9,574 thousand.

The Company performed an analysis of the fair value of identifiable assets acquired and liabilities assumed by applying a discounted cash-flow method recorded gain on bargain purchase (negative goodwill) in the amount of approximately \$10.2 million based upon management's best estimate of the value as a result of such analysis. Negative goodwill represents the excess of the Company's share in the fair value of acquired identifiable assets, liabilities and contingent liabilities over the cost of an acquisition.

Identifiable assets acquired and liabilities assumed:

	<b>30/06/2013</b>
	<b>US\$ in thousands</b>
Restricted cash	25
Property, plant and equipment	39,660
Working Capital, net (excluding cash and cash equivalents)	890
Deferred tax assets	404
Bargain Purchase gain	(10,237)
Total net identifiable assets	<u>30,742</u>

The aggregate cash flows derived for the Company as a result of the acquisition:

	<b>US\$ in thousands</b>
Cash and cash equivalents paid	30,778
Less - cash and cash equivalents of the subsidiary	36
	<u>30,742</u>

**Gain on Bargain Purchase (Negative Goodwill)**

Gain on bargain purchase (negative goodwill) was recognized as a result of the acquisition under insolvency proceedings as follows:

	<b>US\$ in thousands</b>
Consideration transferred	30,742
Less fair value of identifiable net assets	(40,979)
Gain on bargain purchase (negative goodwill)	<u>(10,237)</u>

Notes to the Consolidated Financial Statements as at December 31, 2014

---

## Note 6 - Investee Companies (cont'd)

## F. Subsidiaries - Business combinations (cont'd)

**Acquisition-related costs**

During the year ended December 31, 2013 the Company incurred acquisition-related costs of approximately \$500 thousand related to legal fees and due diligence costs. These costs have been included in general and administrative expenses in the statement of income.

The Veneto PV Plants were acquired in a tender process from Solibra Solar Solutions GmbH, a German company in insolvency proceedings. The Company's management believes that the factors that contributed to the bargain purchase price were: (a) as noted, the seller was in insolvency proceedings and was therefore under pressure to realize the assets and repay its creditors; (b) for various reasons, including the complexity of a cross-border transaction (with due diligence efforts required in both Italy and Germany), a limited number of bids were submitted, and only a few of those were actually considered; (c) one of the critical considerations upon which the liquidator selected the top proposals was the issue of funding, with preference provided to proposals that included full self-financing over proposals that included obtaining financing as a condition on the part of the bidder, and the Company's bid was not conditioned on obtaining additional financial resources in order to fully fund the purchase price; (d) the liquidator was interested in selling the two plants together, mainly due to the complexity of splitting the existing contracts between the two plants (insurance contracts, security, maintenance, etc.) and for reasons of efficiency and time constraints, and the Company's bid entailed the purchase of both plants; (e) the Company was already familiar with the Veneto PV Plants due to the Company's interest in acquiring them in the past, and therefore the Company could more easily complete the due diligence process and structure a bid that would be acceptable to the liquidator; and (f) due to the limited number of bids considered by the liquidator, the Company was also able to enter into direct negotiations with the liquidator following the tender process, which eventually resulted in an additional price reduction as the liquidator believed a further reduction would contribute to the efficient consummation of the acquisition. The Company's management believes that these factors, combined with the Company's experience in the Italian photovoltaic field and the Company's familiarity with the Veneto PV Plants, provided the liquidator with the assurance that the transaction, if executed with the Company, would be consummated swiftly and efficiently. Taking into account the liquidator's interest in realizing the assets under receivership and advancing the insolvency proceedings, the liquidator was willing to sell the Veneto PV Plants to the Company at a bargain price.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 6 - Investee Companies (cont'd)

## F. Subsidiaries - Business combinations (cont'd)

3. On July 1, 2012 (the "closing date"), Ellomay Spain S.L. ("Ellomay Spain"), a subsidiary in which the Company indirectly owns 85% of the outstanding shares, consummated the acquisition of a photovoltaic plant located in Municipality of Córdoba, Andalusia, Spain with a total nominal capacity of approximately 2.3 MWp, (the "Spanish PV Plant") and of related licenses. The remaining 15% of Ellomay Spain are held by a Spanish company engaged in providing construction, operating and maintenance services for photovoltaic plants in Europe and elsewhere, whose subsidiary has built and is currently providing operation and maintenance services for several of the Company's Italian PV Plants. The Spanish PV Plant is constructed and operational and has been connected to the Spanish national grid since July 2010. The consideration paid by the Company in connection with the acquisition of the Spanish PV Plant and the related licenses, including all applicable taxes and expenses, amounts to approximately \$ 7,316 thousand.

In the six months ended December 31, 2012 Ellomay Spain contributed approximately \$ 500 thousand and approximately \$ 100 thousand (net of non-controlling interest) to the Company's consolidated revenue and consolidated profit, respectively. If the acquisition had occurred on January 1, 2012, management estimates that consolidated revenue would have been approximately \$ 9,780 thousand and net loss for the year would have been approximately \$ 2,270 thousand.

The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed at the closing date:

	<b>June 30, 2012</b>
	<b>US\$ in thousands</b>
Property and equipment	\$ 6,914
Working capital, net (excluding cash and cash equivalents)	(410)
Non-controlling interests	(32)
Total cash paid, net	<u>\$ 6,472</u>

## G. Subsidiaries – Regulatory updates

## Italy

- In addition to the FiT ("feed-in tariffs " incentives to promote the use of solar energy) payment, the Italian PV Plants are eligible to receive the price paid for the electricity generated by the plant ("ritiro dedicato") equal to the applicable electricity market price. Until December 31, 2013 Italian PV plants with a capacity under 1 MW were eligible to receive a minimum market price guarantee, as a function of supply and demand, on an hourly basis for different zones within Italy. Resolution no. 618/2013/R/EFR dated December 19, 2013 set a replacement, starting 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).

Notes to the Consolidated Financial Statements as at December 31, 2014

---

## Note 6 - Investee Companies (cont'd)

## G. Subsidiaries – Regulatory updates (cont'd)

- Following the approval by the Italian parliament in August 2014, a decree executed by the Italian president in June was converted into law ("Law 116/2014") providing for a decrease in the FiT guaranteed to existing photovoltaic plants with installed capacity of more than 200 kW. Pursuant to Law 116/2014, operators of existing photovoltaic plants, such as the Company, which received a guaranteed 20-year FiT under Italian legislation, were required to choose between the following four alternatives: (i) a reduction of 6%-8% in the FiT (depending on the installed capacity of the relevant plant); (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; (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; or (iv) the sale of 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 (with the selected buyer becoming eligible to receive the original FiT and not subject to the changes set forth in alternatives (i) through (iii) above). The Company chose the first option for all its Italian PV Plants. Therefore, the FiT for eight of its Italian PV Plants has been cut by 8% and the FiT for the remaining four Italian PV Plants has been cut by 7%, all effective as of January 1, 2015.
- Article 26 of Law 116/2014, provides that, the incentives will be paid through equal monthly installments in an amount of 90% of the average production of each plant in the relevant solar calendar year, 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 shall be paid within 60 days from the sending of the actual production data and in any event within June 30th of the subsequent year.
- On January 1, 2013, AEEGSI Resolution n. 281/2012 (subsequently also implemented by Resolution n. 343/2012) (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 the national energy handler (GSE).



Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 6 - Investee Companies (cont'd)****G. Subsidiaries – Regulatory updates (cont'd)**

- The Italian Tax Agency provided relevant clarifications as to cadastral and tax issues regarding photovoltaic plants in its Resolution n. 36/E dated December 19, 2013, which provides a 4% depreciation rate for tax purposes.

**Spain**

- Since July 2013, a new remunerative regime for photovoltaic plants is in force pursuant to RDL 9/2013. The former feed-in tariff has been replaced by the so-called "specific retribution" system that provides the owner of a renewable installation with a defined yield to be calculated as 10-year government bonds plus 300 basis points. The "specific retribution" includes (i) the proceeds for the sale of electricity according to market price, (ii) an "investment retribution" enough 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 (iii) an "operational retribution" enough to cover the difference, if any, between the operational income and costs of a standard plant that participates in the market. The "specific retribution" is calculated according to the formula and parameters established in RD 413/2014 and Order 1045/2014 (approved and published in the Official Gazette in June 2014). The amounts received in terms of feed-in tariff since July 14, 2013 are subject to a final settlement that will be conducted during the first nine monthly payments following July 2014. The sixth provisional settlement of 2014 (corresponding to the energy produce in June 2014) is the first payment calculated pursuant to the new methodology set forth in RD 413/2014 and Order 1045/2014.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 7 - Property, Plant and Equipment

	Photovoltaic Plants	Office furniture and equipment	Leasehold Improvements	Total
	US\$ in thousands			
<b>Cost</b>				
Balance as at January 1, 2013	58,135	131	72	58,338
Additions	25	13	-	38
PV Plant acquired in a business combination (see Note 6F)	39,660	-	-	39,660
Disposals	(384)	-	-	(384)
Effect of changes in exchange rates	5,037	-	-	5,037
Balance as at December 31, 2013	102,473	144	72	102,689
Balance as at January 1, 2014	102,473	144	72	102,689
Additions	-	11	-	11
PV Plant acquired in a business combination (see Note 6F)	17,866	-	-	17,866
Effect of changes in exchange rates	(13,574)	(19)	(8)	(13,601)
Balance as at December 31, 2014	106,765	136	64	106,965
<b>Depreciation</b>				
Balance as at January 1, 2013	4,396	51	31	4,478
Depreciation for the year	4,000	11	10	4,021
Effect of changes in exchange rates	519	-	-	519
Balance as at December 31, 2013	8,915	62	41	9,018
Balance as at January 1, 2014	8,915	62	41	9,018
Depreciation for the year	5,429	13	10	5,452
Effect of changes in exchange rates	(1,004)	(10)	(4)	(1,018)
Balance as at December 31, 2014	13,340	65	47	13,452
<b>Carrying amounts</b>				
As at January 1, 2013	53,739	80	41	53,860
As at December 31, 2013	93,558	82	31	93,671
As at December 31, 2014	93,425	71	17	93,513

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 7 - Property, Plant and Equipment (cont'd)

## Investment in Photovoltaic Plants

Since March 4, 2010, the Company has acquired sixteen photovoltaic plants located in Italy and in Spain.

In connection with the establishment of the Company's PV Plants, the Company recorded as of December 31, 2014, property, plant and equipment at an aggregate value of approximately \$ 109,723 thousand, in accordance with actual costs incurred.

During the year ended December 31, 2014 the Company invested in PV Plants an aggregate of approximately \$ 17,866 thousand. Depreciation with respect to the PV Plants in Italy is calculated using the straight-line method over 20 years commencing from the connection to the national grid that represent the estimated useful lives of the assets. Depreciation with respect to the PV Plant 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, 2014, the Company had recorded depreciation expenses with respect to its PV Plants in Italy and Spain of approximately \$ 5,429 thousand.

Presented hereunder are data regarding the Company's investments in photovoltaic plants as at December 31, 2014:

PV Plant Title	Capacity*	Connection to Grid	Cost included in the
			Book value as
			December 31, 2014
			US\$ in thousands
"Troia 8"	995.67 kWp	January 14, 2011	4,254
"Troia 9"	995.67 kWp	January 14, 2011	4,225
"Del Bianco"	734.40 kWp	April 1, 2011	2,548
"Giaché"	730.01 kWp	April 14, 2011	3,349
"Costantini"	734.40 kWp	April 27, 2011	2,568
"Massaccesi"	749.7 kWp	April 29, 2011	3,328
"Galatina"	994.43 kWp	May 25, 2011	4,993
"Pedale"	2,993 kWp	May 31, 2011	13,672
"Acquafresca"	947.6 kWp	June 2011	3,845
"D'Angella"	930.5 kWp	June 2011	3,789
"Soleco"	5,924 kWp	August, 2011**	18,632
"Technoenergy"	5,900 kWp	August, 2011**	18,464
"Ellomay Spain – Rinconada II"	2,275 kWp	June 2010 **	6,691
"Rodríguez I"	1,675 kWp	November 2011 **	4,449
"Rodríguez II"	2,691 kWp	November 2011 **	8,056
"Fuente Librilla"	1,248 kWp	June 2011 **	3,902

\* As per the contracts.

\*\* See Note 6F

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 8 - Accrued Expenses and Other Payables

	December 31	
	2014	2013
	US\$ in thousands	
Employees and payroll accruals	155	68
Provision for Legal Claims	-	85
Accrued Interest	42	171
Government authorities	138	-
SWAP and forward related balances	708	472
Current tax, net	1,518	2,247
Payable in connection with photovoltaic plants	-	491
Accrued expenses	1,573	1,777
	<b>4,134</b>	<b>5,311</b>

## Note 9 - Loans and borrowings

## A. Composed as follows:

	Linkage terms	Interest rate	Interest rate	December 31	December 31
		2014	2013	2014	2013
		%		US\$ in thousands	
Current maturities of long term loans (refer to Notes 10 and 11)	EURIBOR	1.6-3.5	1.6-5.15	677	855
Short term bank loans <sup>(1)</sup>	EUROLIBOR	-	4.7	-	18,599
				<b>677</b>	<b>19,454</b>

(1) To secure the payments under this loan agreement, the Company placed the following first ranking unlimited pledges and provided the following undertakings:

- A fixed pledge and mortgage on the Company's holdings of Ellomay Clean Energy, Limited Partnership, the holdings of such partnership in U. Dori Energy Infrastructures Ltd. and the holdings of the Company in the general partner of said partnership, Ellomay Clean Energy Ltd as well as on the rights (including shareholders loans) of said general partner in and/or towards the partnership.
- A fixed pledge on Ellomay Clean Energy, Limited Partnership and Ellomay Clean Energy Ltd's bank accounts.
- A floating lien on Ellomay Clean Energy Ltd.'s rights, assets, registered and non-issued capital and goodwill.
- A fixed pledge on Ellomay Luxembourg Holdings S.a.r.l.'s holdings of four of the Company's subsidiaries in Italy -Pedale S.r.l, Ellomay PV Seven (formerly, Energy Resources Galatina) S.r.l, Luma Solar S.r.l and Murgia Solar s.r.l. (together, the "Pledged entities") as well as on all the rights (including shareholders loans) of Ellomay Luxembourg Holdings S.a.r.l towards each of the Pledged Entities.
- An undertaking by each of the Pledged entities not to dispose of their assets other than in their regular course of business
- A guarantee by Ellomay Luxembourg Holdings S.a.r.l.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 9 - Loans and borrowings (cont'd)

- An undertaking by Ellomay Luxembourg Holdings, S.a.r.l not sell or dispose its holdings in the Pledged Entities, except as provided for or approved pursuant to the Loan Agreement.
- A fixed pledge on the Company's and the General Partner's Discount Bank accounts that are used solely for the purposes of this loan.
- Undertaking by Ellomay Luxembourg Holdings, S.a.r.l, Ellomay Clean Energy Ltd and Ellomay Clean Energy, Limited Partnership not to take any financial liabilities and not to place any liens on assets, except as permitted under the Loan Agreement.

During the year ended December 31, 2014, the Company repaid a loan from Discount bank in the amount of Euro 13.5 million (approximately \$ 18,600 thousand) and a wholly-owned Italian subsidiary of the Company repaid a loan to an Italian bank (Unicredit S.p.A.) in the amount of Euro 4.6 million (approximately \$ 6,347 thousand).

## Note 10 – Finance Lease Obligation

## A. Composed as follows:

	Linkage terms	Interest rate 2013 and 2014	December 31 2014	December 31 2013
		%	US\$ in thousands	
Leasing institution	EURIBOR	3.5	5,646	6,814

- On December 31, 2010, two wholly-owned Italian subsidiaries of the Company entered into financial leasing agreements, (the “Leasing Agreements”) in the amount of Euro 3,000 thousand each (Euro 6,000 thousand in total) for the financing of the subsidiaries, with a nominal annual interest rate of 3.43%. The Company is required to make monthly payments in the amount of Euro 20 thousand each, commencing 210 days after issuance, for the duration of the Leasing Agreements (17 years) which are linked to the 3 months EURIBOR. As of December 31, 2011, the first two drawdowns under the Leasing Agreements were received in the aggregate amount of approximately Euro 5 million (approximately \$6,483 thousand) net of expenses capitalized in the amount of approximately Euro 1.142 million (approximately \$1,476 thousand) comprised mainly of Cadastral tax and VAT paid in connection with the Leasing Agreements. In March 2012, the final drawdown under the Leasing Agreements was received in the amount of approximately Euro 818.5 thousand (approximately \$1,080 thousand).
- The Leasing Agreements include the following covenants:
  - A declaration that the shareholders credit towards the two Italian wholly-owned subsidiaries will be subordinated to the leasing company’s credit;
  - The Company undertook not to transfer the entire holdings in two wholly-owned Italian subsidiaries and shares not exceeding 20% of its holdings in the wholly-owned Luxembourgian subsidiary that wholly-owns the two Italian subsidiaries;
  - The Company undertook to assign (as guarantee) the receivables from GSE; and
  - The Company undertook to encumber in favor of the leasing company the rights in connection with the guarantees provided under the EPC Contracts and the Operation and Maintenance agreements.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 10 – Finance Lease Obligation (cont'd)

3. The Company accounted for the transaction as a sale and a finance leaseback as the Company retained the significant risks and benefits of ownership related to its relevant PV Plants. The carrying value of the photovoltaic plants was left unchanged, with the sales proceeds recorded as a finance lease obligation accounted for under IAS 39.

As of December 31, 2014 financial covenants were met.

## B. The aggregate annual maturities are as follows:

	December 31 2014	December 31 2013
	US\$ in thousands	
First year (current maturities)	362	396
Second year	374	411
Third year	387	424
Fourth year	401	439
Fifth year	415	455
Sixth year and thereafter	4,069	5,085
	6,008	7,210
Less current maturities	362	396
Long-term finance lease obligation	5,646	6,814

## Note 11 - Long-term Loans

## A. Composed as follows:

	Linkage terms	Interest rate 2014	December 31 2014
		%	US\$ in thousands
Bank loans	EURIBOR	1.6-2	3,087
Other long-term loans	EURIBOR	5.15	952

  

	Linkage terms	Interest rate 2013	December 31 2013
		%	US\$ in thousands
Bank loans	EURIBOR	1.6-5.15	9,875
Other long-term loans	EURIBOR	5.15	1,175

1. On February 17, 2011, one of the Company's Italian subsidiaries entered into a project finance facilities credit agreement (the "Finance Agreement") with an Italian bank (Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A.). Pursuant to the Finance Agreement, two lines of credit in the aggregate amount of Euro 4.65 million were provided:
- (i) A Senior Loan, to be applied to the costs of construction of the PV Plants (up to 80% of the relevant amount), in the amount of Euro 4.1 million, accruing interest at the EURIBOR rate, increased by a margin of 200 basis points per annum, to be repaid in six-monthly installments with a maturity date of December 31, 2027.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 11 - Long-term Loans (cont'd)

## A. Composed as follows: (cont'd)

- (ii) A VAT Line, for payment of VAT due on the costs of construction in the amount of Euro 0.55 million, accruing interest at the EURIBOR rate, increased by 160 basis points per annum. As of December 31, 2013, the entire VAT Line was repaid.

The Finance Agreement also requires the payment of commitment fees equal to 0.5% per annum calculated on the undrawn and un-cancelled amount of both the Senior Loan and the VAT Line and certain additional payments, including an arranging fee and an annual agency fee.

The Company's Italian subsidiary undertook to comply with the following financial covenants verified at each repayment date starting from the first installment of the Senior Loan and up to the final redemption date:

DSCR (Debt Rate Cover Ratio): equal or greater than 1.25:1;  
 LLCR (Loan Life Coverage Ratio): equal or greater than 1.25:1; and  
 Debt/Equity: equal or less than 80:20.

On November 30, 2011, an amount of Euro 4.4 million (approximately \$ 5,640 thousand) was drawn down on account of these credit lines. Related expenses capitalized to the loan comprised mainly of related notary fee and bank charges amount to approximately Euro 171 thousand (approximately \$221 thousand).

As of December 31, 2014, the financial covenants were met.

2. On December 20, 2011, one of the Company's Italian subsidiaries, entered into a loan agreement (the "Loan Agreement") with an Italian bank (Unicredit S.p.A.). Pursuant to the Loan Agreement, a line of credit was set up in an amount of Euro 5.047 million bearing an interest at the EURIBOR 6 month rate plus a range of 5.15%-5.35% per annum, depending on the period in which interest is accrued during the term of the Loan Agreement. The principal and interest on the loan are repaid semi-annually. The final maturity date of this loan is December 31, 2029. The Loan Agreement provides for mandatory prepayment upon the occurrence of certain events, including in the event the borrower receives insurance or indemnity compensation and in the event of a change in control of the borrower without the bank's consent.

The Company's Italian subsidiary undertook to comply with the following financial parameters verified at each repayment date starting from the first installment of the Senior Loan and up to the final redemption date:

Minimum DSCR (Debt Rate Cover Ratio): equal or greater than 1.25:1;  
 Average DSCR (Debt Rate Cover Ratio): equal or greater than 1.3:1;  
 LLCR (Loan Life Coverage Ratio): equal or greater than 1.4:1; and  
 Debt/Equity: equal or less than 82:18.

On January 31, 2012, Euro 4.9 million (approximately \$ 6,460 thousand) were drawn down on account of these credit lines. Related expenses capitalized to the loan were comprised mainly of related notary fee and bank charges and amount to approximately Euro 148 thousand (approximately \$195 thousand).

As of December 31, 2014, the entire loan was repaid.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 11 - Long-term Loans (cont'd)

## A. Composed as follows: (cont'd)

3. Effective as of March 8, 2012, the Company's 85% owned Spanish subsidiary entered into a loan agreement with the owner of the remaining 15% of its outstanding shares. Pursuant to the Loan Agreement, a line of credit was set up in an amount of Euro 8 million bearing interest at the EURIBOR 6 month rate plus a range of 5.15% per annum for a period of 5 years, and renewable for additional 5 year periods. As of December 31, 2014, the credit facility balance used amounts of approximately Euro 784 thousand (approximately \$ 952 thousand) including accumulated interests.

## B. The aggregate annual maturities are as follows:

	December 31 2014	December 31 2013
	US\$ in thousands	
First year (current maturities)	315	459
Second year	217	486
Third year	1,181	510
Fourth year	241	1,711
Fifth year	253	569
Sixth year and thereafter	2,147	7,774
	<u>4,354</u>	<u>11,509</u>
Less current maturities	315	459
Long-term loans	<u>4,039</u>	<u>11,050</u>

- C. In order to minimize the interest-rate risk resulting from liabilities to banks and financing institutions in Italy linked to the Euribor, the Company executed swap transactions. See note 20.

## Note 12 - Debentures

## A. Composed as follows:

Original amount US\$ in thousands	Interest rate %	Payment date of principal	December 31, 2014	
			Face value	Carrying amount
			US\$ in thousands	
(*) 57,725	4.6	December 31	46,363	44,926
Less current maturities			5,151	4,884
Total long-term debentures			41,212	40,042

(\*) The exchange rate is as at the issuance date.



## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 12 – Debentures (cont'd)

**B. Series A Debentures – Details**

On January 13, 2014, the Company issued NIS 120,000 thousand (approximately \$ 34,404 thousand based on the U.S. Dollar/NIS exchange rate at that time) principal amount of unsecured non-convertible Series A Debentures ("Series A Debentures") through a public offering that was limited to residents of Israel at a price of NIS 973 per unit (each unit comprised of NIS 1,000 principal amount of Series A Debentures). The gross proceeds of the offering were approximately NIS 116,760 thousand (approximately \$33,474 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 \$32,885 thousand).

On June 19, 2014, the Company issued additional NIS 80,341 thousand principal amount of Series A Debentures (approximately \$ 23,321 thousand based on the U.S. Dollar/NIS exchange rate at that time) to Israeli classified investors in a private placement at a price of NIS 1010 per unit. The gross proceeds of the private placement were approximately NIS 81,144 thousand (approximately \$23,554 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 \$ 22,900 thousand).

The Series A Debentures are traded on the TASE (Tel Aviv Stock Exchange) and have been rated ilA-, on a local scale, by Standard & Poor's Maalot Ltd. 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:

- (i) The Company's equity, on a consolidated basis, shall not be less than \$55 million; (ii) the ratio of (a) the short-term and long-term debt from banks, in addition to the debt to holders of debentures issued by the Company 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 subsidiaries of the Company, or, together, the Net Financial Debt, to (b) the equity of the Company, on a consolidated basis, plus the Net Financial Debt, shall not exceed a rate of 65%; and (iii) 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%.

As at December 31, 2014, all financial covenants were met.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 12 – Debentures (cont'd)

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 order to minimize the currency risk resulting from the Series A Debentures, the Company executed currency interest rate swap transactions. In February and July 2014, the Company exchanged Series A Debentures NIS denominated notional principal in the aggregate amount of NIS 86 million (approximately \$ 22 million) with a Euro notional principal (currency swap transactions). Such currency swap transactions do not qualify for hedge accounting. The currency swaps are measured at fair value with all changes in fair value recognized in profit or loss.

## C. The aggregate annual maturities are as follows:

	December 31 2014 US\$ in thousands
First year (current maturities)	4,884
Second year	4,902
Third year	4,932
Fourth year	4,959
Fifth year	4,987
Sixth year and thereafter	20,262
	<u>44,926</u>
Less current maturities	4,884
Long-term loans	<u>40,042</u>

## Note 13 - Other Long-term Liabilities

	December 31 2014 US\$ in thousands	December 31 2013
Deferred Tax (see Note 19E)	1,008	40
Government authorities	182	248
Swap contracts	3,099	2,048
Liabilities for employees benefits	21	50
	<u>4,310</u>	<u>2,386</u>

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 14 - Commitments and Contingent Liabilities

## A. Operating lease commitments

The PV Plants are constructed on land leased for 20-25 years under operating lease agreements, which expire on various dates, ranging from 2031 to 2036. In respect to several of the leases the Company has the option to extend the lease for different terms, the latest of which is until 2051. The Company leases its office space under an operating lease that expires in April 2016. The following table summarizes the minimum annual rental commitments as of the periods indicated under the non-cancelable operating leases and sub-lease arrangements with initial or remaining terms of more than one year, reflecting the terms that were in effect as of December 31, 2014:

	Operating lease US\$ in thousands
<u>Year ended December 31</u>	
2015	346
2016	297
2017	259
2018	259
2019 and thereafter	3,732
Total minimum lease payments	<u>4,893</u>

## B. Legal proceedings:

The following is a summary of legal proceedings filed against the Company or its subsidiaries. All amounts are converted to US Dollars at the exchange rate as of December 31, 2014.

1. In December 2003, a customer of a subsidiary filed a lawsuit alleging that a machine purchased by it failed to perform. The customer sought reimbursement of the purchase price paid by it in the amount of approximately \$ 350 thousand (as of December 31, 2014). During 2006 the Company launched a counter claim to this lawsuit for the collection of unpaid outstanding invoices which was settled between the parties in May 2010. In January 2010 the court dismissed the customer's lawsuit and in June 2010 the customer filed an appeal. Based on management's estimation and the assessment of its legal counsel, no provision was recorded with respect to this claim.
2. In February 2007, a claim was filed against the Company and one of its former officers by a person claiming to have been an agent of the Company in West Africa for commissions on sales of printers. The claim was for NIS 3,000 thousand (\$ 864 thousand as of December 31, 2013). The Company filed a statement of defense denying all claims, both with respect to the causes of action and with respect to the factual allegations in the claim. The plaintiff filed a motion with the Court to strike the Company's Statement of Defense, which was rejected. The plaintiff's filed a motion to appeal to the Supreme Court. That motion was rejected in July 2010. In October 2012, the district court rendered its ruling and rejected the plaintiff's claims in their entirety. In November 2012 an appeal was filed in the Supreme Court by the plaintiff. Written summaries were submitted by the plaintiff and by the defendants by

---

**Notes to the Consolidated Financial Statements as at December 31, 2014**


---

**Note 14 - Commitments and Contingent Liabilities (cont'd)**

September 2013 and November 4, 2013, respectively. On March 5, 2014 an appeal hearing was held at the Israeli Supreme Court. In accordance with the court's recommendation, the parties agreed to end all their disputes on a settlement for the amount of \$ 85 thousand in favor of the plaintiff. The settlement amount was paid in March 2014.

3. In September 2010 a claim was filed with the Court of Brescia, Italy against the Company and against HP and several of its subsidiaries by a former customer asking the declaration of invalidity or voidness or termination of the supply of agreements in connection with five printers it purchased between 2004 - 2006 alleging the defectiveness of the printers (in particular, the lack of the essential safety qualifications and relevant certifications) and requesting damages in the aggregate amount of Euro 2,500 thousand plus VAT (approximately \$ 3,295 thousand plus VAT, as of December 31, 2012). The Company was sued based on its past ownership of the seller of the printers, NUR Europe (which was sold to HP in connection with the HP Transaction). The Company has required that HP pay its legal fees in connection with this claim based on the settlement agreement executed with HP in July 2010. The parties reached a settlement in November 2012 and the case was dismissed. In addition, the Company reached a settlement with HP concerning the payment of legal fees.

**Note 15 - Transactions and Balances with Related Parties**

- A. On December 30, 2008, the Company's shareholders approved the terms of a management services agreement entered into among the Company, Kanir Joint Investments (2005) Limited Partnership ("Kanir") and Meisaf Blue & White Holdings Ltd. ("Meisaf"), a company controlled by the Company's chairman of the board and controlling shareholder, effective as of March 31, 2008 (the "Management Agreement"). According to the Management Agreement, Kanir and Meisaf, through their employees, officers and directors, provide assistance to the Company in all aspects of the new operations process, including but not limited to, any activities to be conducted in connection with identification and evaluation of the business opportunities, the negotiations and the integration and management of any new operations and including discussions with the Company's management to assist and advise them on such matters and on any matters concerning the Company's affairs and business. In consideration of the performance of the management services and the board services pursuant to the Management Agreement, the Company agreed to pay Kanir and Meisaf an aggregate annual management services fee in the amount of \$ 250 thousand.

This annual amount was increased to \$400,000 in June 2013 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. In addition, in June 2013 the term of the Management Agreement was extended until June 17, 2016 subject to certain rights of early termination.

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, 2014

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

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

Executive officers and directors participate in the Company's share option programs. For further information see Note 16 regarding share-based payments.

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

	Year ended December 31					
	2014		2013		2012	
	Number of people	Amount	Number of people	Amount	Number of people	Amount
		US\$ thousands		US\$ thousands		US\$ thousands
Short-term employee Benefits	2	603	2	461	2	443
Post-employment Benefits	2	29	2	29	2	27
Share-based payments	1	*	1	*	1	*

\* Less than \$1 thousand

Compensation to key management personnel (including directors) that are not employed by the Company:

	Year ended December 31					
	2014		2013		2012	
	Number of people	Amount	Number of people	Amount	Number of people	Amount
		US\$ thousands		US\$ thousands		US\$ thousands
Total compensation to directors not employed by the Company	3	76	4	90	4	79
share-based payments	3	*	4	9	4	7

\* Less than \$1 thousand

## 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	2014	2013	2014	2013	2012
					US\$ thousands		
Dori Energy	8.5(*)	NIS+CPI	16,239	12,732	1,158	314	-

(\*) See note 6A

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 16 - Equity

## A. Composition of share capital

	December 31, 2014		December 31, 2013		December 31, 2012	
	Authorized	Issued and Outstanding(1)	Authorized	Issued and outstanding(1)	Authorized	Issued and Outstanding
	Number of shares					
Ordinary shares of NIS 10.00 par value each	17,000,000	10,692,371(1)	17,000,000	10,692,371(1)	17,000,000	10,692,371(1)

(1) Net of treasury shares. 85,655 Ordinary shares as of December 31, 2014 and 2013, have been purchased according to a share buyback program that was authorized by the Company's Board of Directors.

## B. Rights attached to shares:

1. Voting rights at the general meeting, right to dividend and rights upon liquidation of the Company.
2. The Ordinary shares of the Company were traded until May 2005 on the NASDAQ Capital Market. From May 19, 2005, the Company's Ordinary shares have been quoted over-the-counter in the "pink sheets" and, commencing August 22, 2011, have been listed on the NYSE MKT (formerly 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. Warrants

In August 2013, the Company issued a warrant to purchase 308,427 ordinary shares at an exercise price of \$7.97 per share to Mr. Zohar Zisapel that includes a contractual provision that prohibits Mr. Zisapel from exercising such warrant during a 12 month period following the effective date of such warrant if such exercise would result in the Mr. Zisapel beneficially owning more than 4.99% of the Company's ordinary shares. The warrant further provides that it may only be exercised via cashless exercise methods described in the Warrant.

The grant date fair value of the fully vested warrant was recorded as an expense in profit or loss. The fair value of the warrant was estimated using a Black-Scholes pricing model with the following assumptions: dividend yield – 0%, expected volatility – 0.37, risk-free interest – 0.32%, contractual life – 2 years.

## D. Translation reserve from foreign operation

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

## E. 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.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 16 - Equity (cont'd)

2. To ensure adequate return for the shareholders by making reasonable investment decisions based on the level of internal rate of return that is in line with the Company's business activity.
3. To maintain healthy capital ratios in order to support business activity and maximize shareholders value.

## Note 17 - Share-Based Payment

## A. Expenses recognized in the financial statements

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

	Year ended December 31		
	2014	2013	2012
	US\$ thousand		
Expenses arising from share-based payment transactions	*	9	7

\* Less than \$1 thousand

The share-based payments that the Company granted to its employees are described below. Other than the revision to the 1998 Plan (as hereinafter defined) during 2013, there have been no modifications or cancellations to any of the employee stock options plans during 2014, 2013 or 2012. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

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	
	2014	2013
Dividend yield	0%	0%
Expected volatility	0.334	0.374
Risk-free interest	0.475%	0.35%
Expected life (in years)	2-3	2-3

All options granted during 2014 and 2013 were granted with exercise price equal 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	
	2014	2013
	US\$	
Weighted average exercise prices	9.37	8.48
Weighted average fair value on grant date	1.8	1.8

Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 17 - Share-Based Payment (cont'd)****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 is 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. Following the reverse share split an aggregate amount of not more than 75,000 ordinary shares is reserved for grants under the 1998 Plan. The original expiration date of the 1998 Plan pursuant to its terms was December 8, 2008 (10 years after its adoption). At the General Meeting of the Company's shareholders, held on January 31, 2008, the term of the 1998 Plan was extended and as a result it will expire on December 8, 2018, 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.

In August 2000, the Company's board of directors adopted the 2000 Stock Option Plan (the "2000 Plan" and, together with the 1998 Plan, the "Plans"). The initial reserve to the 2000 Plan was 200,000 options that may be granted to officers, directors, employees and consultants of the Company and its subsidiaries. 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 the Company's board of directors extended the 2000 Plan by an additional 10 years and the current expiration date of the 2000 Plan is August 31, 2018.

Following increases in shares reserved for issuance under the Company's 2000 Plan, the Company reserved for issuance 1,772,459 ordinary shares under such plan. As a result of a repurchase and cancellation of employee options following with the HP Transaction, the number of shares reserved for issuance under the 2000 was decreased by 987,645.

As of December 31, 2014, 25,502 options are outstanding and 41,081 ordinary shares are available for future grants under the 1998 Plan and 132,319 options are outstanding and 594,885 Ordinary shares are available for future grants under the 2000 Plan. Options that are cancelled or forfeited become available for future grant.

During 2014, 2013 and 2012, the Company granted to directors 3,000, 4,000 and 4,000 options, respectively.

During 2014, 2013 and 2012 the Company granted to one of its senior employee 34, 45 and 45 options, respectively. There were no other option grants during 2014, 2013 and 2012.



## Notes to the Consolidated Financial Statements as at December 31, 2014

## 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:

	2014		2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		US\$		US\$		US\$
Outstanding at beginning of year	155,787	8.24	151,742	8.24	153,364	8.2
Granted during the year	3,034	9.37	4,045	8.48	4,045	5.24
Exercised during the year	-	-	-	-	(5,667)	5.72
Expired during the year	(1,000)	8.48	-	-	-	-
Outstanding at end of year	157,821	8.26	155,787	8.24	151,742	8.24
Exercisable at end of year	156,745	8.32	153,708	8.24	151,663	8.24

- D. The weighted average remaining contractual life for the share options outstanding as of December 31, 2014 was 2.56- 4.15 years (as of December 31, 2013: 4.76-6.89 years and as of December 31, 2012: 5.76-7.89 years).
- E. The range of exercise prices for share options outstanding as of December 31, 2014 was \$3.1- \$9.37 (as of December 31, 2013: \$ 3.1- \$ 9.2 and as of December 31, 2012: \$ 3.1- \$ 9.2).

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 18 - Details to the Statements of Comprehensive Income (Loss)

## A. Financing income and expenses:

## 1. Financing income

	For the year ended December 31		
	2014	2013	2012
	US\$ in thousands		
Interest income	230	204	438
Change in fair value of derivatives	-	1,543	-
Forward gain	-	-	112
Gain from exchange rate differences, net	2,015	-	-
Total financing income	2,245	1,747	550

## 2. Financing expenses

	For the year ended December 31		
	2014	2013	2012
	US\$ in thousands		
Change in fair value of derivatives	1,048	-	1,973
Swap interest	1,383	768	511
Debentures interest and related expenses	2,336	-	-
Share-based payment	-	513	-
Interest on loans	782	1,258	1,028
Loss from exchange rate differences, net	-	1,434	485
Bank charges and other commissions	91	228	22
Total financing expenses	5,640	4,201	4,019

## B. Operating Costs and Depreciation

	For the year ended December 31		
	2014	2013	2012
	US\$ in thousands		
Depreciation	5,452	4,021	2,717
Professional services	163	165	268
Annual rent	263	215	205
Operating and maintenance services	1,708	1,251	922
Insurance	261	250	153
Other	692	500	406
Total operating costs	8,539	6,402	4,671

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 18 - Details to the Statements of Comprehensive Income (Loss) (Cont'd)

## C. General and administrative expenses

	For the year ended December 31		
	2014	2013	2012
	US\$ in thousands		
Salaries and related compensation	1,503	1,100	963
Professional services	2,709	2,608	1,547
Loss from disposal of fixed assets, net of insurance income	-	-	338
Income from Bond enforcement (*)	-	(596)	-
Other	41	337	262
Total general and administrative expenses	4,253	3,449	3,110

(\*) The contractor of four of the Company's photovoltaic plants (Del Bianco, Giache, Constantini and Massaccesi) has entered into insolvency proceedings during 2012 that are subject to an arrangement with its creditors. In connection with such insolvency proceedings, the Company enforced the bonds received from the contractor as part of its obligations under the EPC agreements and received an amount of approximately \$ 596 thousand.

## D. Other income (expense), net

	For the year ended December 31		
	2014	2013	2012
	US\$ in thousands		
Other income in connection with the Erez electricity pumped storage project (see Note 6)	1,704	-	-
Reevaluation of option to acquire additional shares	(372)	(236)	-
Other	106	194	146
Total operating costs	1,438	(42)	146

## Note 19 - Taxes on Income

## A. Israeli taxation

Corporate tax rate

Presented hereunder are the tax rates relevant to the Company in the years 2012-2014:

2012 – 25%, 2013 – 25%, 2014 – 26.5%

On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, by which, inter alia, the corporate tax rate would be raised by 1.5% to a rate of 26.5% as from 2014.

Current taxes for the reported periods are calculated according to the tax rates presented above.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 19 - Taxes on Income (cont'd)

**Luxembourg taxation**

## Corporate tax rate

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**

## Corporate tax rate

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%. Both resident and non-resident companies are subject to regional income tax (IRAP), but only on income arising in Italy at the rate from 3.90% 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 30%. Small sized Spanish entities, with an aggregate turnover of less than EUR 10 million, pay a tax rate of 25%. The Company's Spanish subsidiaries pay a tax rate of 25%.

*New taxation of revenues from energy generation-*

The Spanish Parliament has enacted the Spanish Law No. 15/2012, dated December 27, 2012 ("Law No. 15/2012"), on fiscal measures for the sustainability of the energy sector, which entered into force on January 1, 2013. Law No. 15/2012 sets forth a new tax on energy generation of 7% from the total amount received.

**B. Composition of income tax benefit (taxes on income):**

	For the year ended December 31		
	2014	2013	2012
	US\$ in thousands		
<b>Current tax income (expense)</b>			
Current year	(806)	(1,045)	(526)
Previous years	40	71	24
Reverse of uncertain tax positions	469	209	1,316
	(297)	(765)	814
<b>Deferred tax income</b>			
Creation and reversal of temporary differences	96	520	197
<b>Tax benefit (taxes on income)</b>	(201)	(245)	1,011

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 19 - Taxes on Income (cont'd)

## C. Theoretical tax:

Statutory rate applied to corporations in Israel and the actual tax expense, is as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	US\$ in thousands		
Profit (loss) before taxes on income	6,847	10,332	(3,144)
Primary tax rate of the Company	26.5%	25%	25%
Theoretical tax benefit (tax on income)	(1,814)	(2,583)	786
Profit (loss) subject to different tax rate	(94)	117	70
Foreign exchange differences	142	(82)	92
Differences in connection with gain on bargain purchases	(999)	(2,267)	-
Creation of deferred taxes for tax losses and benefits from previous years for which deferred taxes were not created in the past	(357)	-	-
Unrecognized tax profit (losses) and reserve of uncertain tax position and others	(305)	(106)	(387)
Actual tax benefit (tax on income)	<u>(201)</u>	<u>(245)</u>	<u>1,011</u>

## D. Carry forward tax losses:

As of December 31, 2014, Ellomay Capital Ltd. had available carry forward tax losses, carry forward capital tax losses and deductions aggregating to approximately \$ 30,490 thousand, which have no expiration date.

Deferred taxes of the Company have not been recognized as the Company and its non-operating subsidiaries' carry forward tax losses. 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.

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 all losses carry forward will not be utilized in the foreseeable future.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 19 - Taxes on Income (cont'd)

## E Deferred taxes:

	Property and equipment	Finance lease obligations and Long term loans	Swap contract	Losses on income	Total
	US\$ in thousands				
<b>Balance of deferred tax asset (liability) as at January 1, 2013</b>	<b>(3,028)</b>	<b>2,994</b>	<b>321</b>	<b>-</b>	<b>287</b>
Changes recognized in profit or loss	290	(90)	(151)	471	520
Changes recognized due to business combination	-	404	-	-	404
Changes recognized in in other comprehensive income	15	86	8	(7)	102
<b>Balance of deferred tax asset (liability) as at December 31, 2013</b>	<b>(2,723)</b>	<b>3,394</b>	<b>178</b>	<b>464</b>	<b>1,313</b>

  

	Financial Asset	Property and equipment	Finance lease obligations and Long term loans	Swap contract	Losses on income	Total
	US\$ in thousands					
<b>Balance of deferred tax asset (liability) as at January 1, 2014</b>	<b>-</b>	<b>(2,723)</b>	<b>3,394</b>	<b>178</b>	<b>464</b>	<b>1,313</b>
Changes recognized in profit or loss	(1,276)	71	93	(5)	1,213	96
Changes recognized due to business combination	-	(1,616)	-	-	691	(925)
Changes recognized in other comprehensive income	-	497	(248)	(20)	(296)	(67)
<b>Balance of deferred tax asset (liability) as at December 31, 2014</b>	<b>(1,276)</b>	<b>(3,771)</b>	<b>3,239</b>	<b>153</b>	<b>2,072</b>	<b>417</b>

## F. Provision for tax uncertainties:

As of December 31, 2014, the total amount of unrecognized tax benefits was \$ 1,255 thousand, which, if recognized, would affect the effective tax rates in future periods. Management performs a comprehensive review of its global tax positions on an annual basis and accrues amounts for contingent tax liabilities. Based on these reviews, the result of discussions and resolutions of matters with certain tax authorities and the closure of tax years subject to tax audit, reserves are adjusted as necessary. However, future results may include favorable or unfavorable adjustments to estimated tax liabilities in the period the assessments are determined or resolved.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 20 - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	For the year ended December 31		
	2014	2013	2012
	US\$ in thousands (other than share and per share data)		
Net income (loss) attributed to owners of the Company	<u>6,658</u>	<u>10,068</u>	<u>(2,110)</u>
Weighted average ordinary shares outstanding (1)	<u>10,692,371</u>	<u>10,692,371</u>	<u>10,709,294</u>
Dilutive effect:			
Stock options and warrants	<u>115,917</u>	<u>60,437</u>	<u>-</u>
Diluted weighted average ordinary shares			
Outstanding	<u>10,808,288</u>	<u>10,752,808</u>	<u>10,709,294</u>
Basic profit (loss) per share from continuing operations	<u>0.62</u>	<u>0.94</u>	<u>(0.20)</u>
Diluted profit (loss) per share from continuing operations	<u>0.62</u>	<u>0.94</u>	<u>(0.20)</u>

(1) Net of treasury shares.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## 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	
	2014	2013
	US\$ in thousands	
<b>Derivatives presented under non-current assets</b>		
Forward contracts	657	-
<b>Derivatives presented under current liabilities</b>		
SWAP contracts	(708)	(472)
<b>Derivatives presented under non-current liabilities</b>		
SWAP contracts	(3,099)	(2,048)

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

	December 31, 2014			
	Currency linkage/interest rate receivable	Currency Linkage/interest rate payable	Date of expiration	Fair value - US\$ in thousand
EUR 8 million interest swap transaction for a period of 17 years, amortized semi-annually	Euribor 6 months	Fixed 2.67%	September 7, 2027	(1,066)
Euro 10 million interest swap transaction for a period of 17 years, amortized quarterly	Euribor 3 months	Fixed 3.595%	April 3, 2028	(1,939)
Euro 3.75 million interest swap transaction for a period of 15 years, semi-annually.	Euribor 6 months	Fixed 2.53%	June 30, 2027	(487)
Currency interest rate SWAP contracts with an aggregate NIS denominated principal of NIS 85 million	3.93%-3.98%	4.6%	December 29, 2023	(315)
Forward EUR/USD contracts with an aggregate EUR denominated principal of EUR 17.5 million	Euro interest	NIS interest		
	weighted average rate of approximately 1.3		September 2016-January 2019	657



Notes to the Consolidated Financial Statements as at December 31, 2014

---

**Note 21 - Financial Instruments (cont'd)****B. Risk management framework**

The Company's management has overall responsibility for the establishment and oversight of the Company's risk management framework.

**C. Credit Risk**

As at December 31, 2014, the Company does not have any significant concentration of credit risk.

Cash and short-term deposits

As at December 31, 2014 and 2013, the Company had cash and cash equivalents in the amount of \$15,758 thousand and \$7,238 thousand, respectively, and short-term deposits in the amount of \$3,980 thousand and \$5,153 thousand, respectively. The Company's cash and cash equivalents and short-term deposits are deposited with financial institutions that received a credit rating (international rating scale). See also Note 3.

Marketable securities

As at December 31, 2014, the Company invested in a traded Bond in an amount of \$3,650 thousand with the intention to maintain the value of its liquid resources. See also Note 4.

Restricted cash

As at December 31, 2014 and 2013, the Company had a balance of current restricted cash of \$283 thousand and \$5,653 thousand, respectively, and a balance of non-current restricted cash of \$5,134 thousand and \$4,315 thousand, respectively. See also Note 4.

Trade and other receivables

As at December 31, 2014 and 2013, the Company had a balance of trade receivables of \$214 thousand and \$134 thousand, respectively. This balance mainly refers to invoices issued and unbilled to ENEL, the Italian national electricity grid operator and 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, 2014 and 2013, the Company had a balance of revenue receivables of \$1,713 thousand and \$1,269 thousand, respectively. This balance refers to amounts to be paid from GSE, Italy's energy regulation agency responsible and from the Spanish National Energy Commission, inter-alia, for incentivizing energy manufacturers, and is due within 90 days from the end of the month.

As at December 31, 2014 and 2013, the Company had a balance of government authorities' receivables of \$3,390 thousand and \$2,000 thousand, respectively. This balance refers to vat and withholding tax receivables in Italy and Spain.

**D. Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has contractual commitments due to financing agreements and EPC and O&M agreements of its subsidiaries in Italy and Spain. See also Note 14A.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 21 - 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 future rates forecasted at the reporting date, including estimated interest payments. This disclosure excludes the impact of netting agreements:

	December 31, 2014					
	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	US\$ in thousands					
<b>Non-derivative financial liabilities</b>						
Long term loans, including current maturities	4,354	5,120	432	286	2,058	2,344
Finance lease obligation including current maturities	6,008	7,558	571	571	1,708	4,708
Debentures	44,926	57,026	7,284	7,047	19,719	22,976
Trade payables and other accounts payable	2,774	2,774	2,774	-	-	-
	<u>58,062</u>	<u>72,478</u>	<u>11,061</u>	<u>7,904</u>	<u>23,485</u>	<u>30,028</u>
<b>Derivative finance liabilities</b>						
Swap contracts	3,807	3,807	708	1,154	736	1,209
	<u>3,807</u>	<u>3,807</u>	<u>708</u>	<u>1,154</u>	<u>736</u>	<u>1,209</u>
<b>Derivative finance Assets</b>						
Forward contracts	657	657	-	494	163	-
	<u>657</u>	<u>657</u>	<u>-</u>	<u>494</u>	<u>163</u>	<u>-</u>

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 21 - Financial Instruments (cont'd)

## D. Liquidity risk (cont'd)

	December 31, 2013					
	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	US\$ in thousands					
Non-derivative financial liabilities						
Long term loans, including current maturities	11,509	16,633	977	981	4,398	10,277
Finance lease obligation including current maturities	7,210	8,953	351	666	1,998	5,938
Loans and borrowings	18,599	18,836	18,836	-	-	-
Trade payables and other accounts payable	4,490	4,490	4,490	-	-	-
	41,808	48,912	24,654	1,647	6,396	16,215
Derivative finance liabilities						
Swap contracts	2,520	2,520	472	720	579	749
	2,520	2,520	472	720	579	749

**Notes to the Consolidated Financial Statements as at December 31, 2014**

---

**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 Electricity Authority in Italy and Spain, 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, the Company is exposed to the impact of exchange rate fluctuations of the EUR/USD and NIS/USD on the Company's balance sheet.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 21 - Financial Instruments (cont'd)

## E. Market risk (cont'd)

## (1) Linkage and foreign currency risks (cont'd)

## (a) The exposure to linkage and foreign currency risk

The Company's exposure to linkage and foreign currency risk except in respect of derivatives (see hereunder) was as follow:

	December 31, 2014				
	Non-monetary	NIS	Unlinked	EURO	Total
	US\$ in thousands				
<b>Current assets:</b>					
Cash and cash equivalents	-	6,184	5,850	3,724	15,758
Marketable securities	-	-	3,650	-	3,650
ST deposits	-	-	3,980	-	3,980
ST restricted cash	-	-	-	283	283
Trade receivables	-	-	-	214	214
Other accounts receivables	700	110	19	5,100	5,929
<b>Non-current assets:</b>					
Investments in equity accounted investees	27,237	-	-	-	27,237
Financial asset	17	1,238	-	657	1,912
Property, plant and equipment, net	93,513	-	-	-	93,513
LT restricted cash	-	-	4,273	861	5,134
Other assets	1,477	-	-	-	1,477
<b>Current liabilities:</b>					
Loans and borrowings	-	-	-	(677)	(677)
ST Debentures	-	(4,884)	-	-	(4,884)
Accounts payable	-	(55)	(102)	(1,072)	(1,229)
Accrued expenses and other payables	(1,262)	(832)	(600)	(1,440)	(4,134)
<b>Non-current liabilities:</b>					
Finance lease obligations	-	-	-	(5,646)	(5,646)
Long-term loans	-	-	-	(4,039)	(4,039)
LT Debentures	-	(40,042)	-	-	(40,042)
Other long-term liabilities	(1,008)	(163)	-	(3,139)	(4,310)
<b>Total exposure in statement of financial position in respect of financial assets and financial liabilities</b>	<b>120,674</b>	<b>(38,444)</b>	<b>17,070</b>	<b>(5,174)</b>	<b>94,126</b>

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 21 - Financial Instruments (cont'd)

## E. Market risk (cont'd)

## (1) Linkage and foreign currency risks (cont'd)

## (a) The exposure to linkage and foreign currency risk (cont'd)

	December 31, 2013				
	Non-monetary	NIS	Unlinked	EURO	Total
	US\$ in thousands				
<b>Current assets:</b>					
Cash and cash equivalents	-	1,497	224	5,517	7,238
ST deposits	-	-	5,153	-	5,153
ST restricted cash	-	3,805	-	1,848	5,653
Trade receivables	-	-	-	134	134
Other accounts receivables	871	30	67	3,389	4,357
<b>Non-current assets:</b>					
Investments in equity accounted investees	24,601	-	-	-	24,601
Financial asset	389	-	-	-	389
Property, plant and equipment, net	93,671	-	-	-	93,671
LT restricted cash	-	-	3,304	1,011	4,315
Other assets	1,419	-	-	-	1,419
<b>Current liabilities:</b>					
Loans and borrowings	-	-	-	(19,454)	(19,454)
Accounts payable	-	(108)	(20)	(2,026)	(2,154)
Accrued expenses and other payables	(2,299)	(195)	(1,217)	(1,600)	(5,311)
<b>Non-current liabilities:</b>					
Finance lease obligations	-	-	-	(6,814)	(6,814)
Long-term loans	-	-	-	(11,050)	(11,050)
Other long-term liabilities	(90)	-	-	(2,296)	(2,386)
<b>Total exposure in statement of financial position in respect of financial assets and financial liabilities</b>	<b>118,562</b>	<b>5,029</b>	<b>7,511</b>	<b>(31,341)</b>	<b>99,761</b>

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 21 - Financial Instruments (cont'd)

## E. Market risk (cont'd)

## (1) Linkage and foreign currency risks (cont'd)

## (a) The exposure to linkage and foreign currency risk (cont'd)

Information regarding significant exchange rates:

For the year ended December 31				
2014		2013		
	Rate of change		Rate of change	
	%	USD	%	USD
1 Euro	(11.8)	1.215	4.6	1.378
1 NIS	(10.7)	0.257	7.5	0.288

## (b) 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) profit or loss and 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, 2014	
		Increase	Decrease
		Profit or loss	Profit or loss
		US\$ thousands	
Change in the exchange rate of:			
5% in the Euro		16	(16)
5% in NIS		(7,414)	7,414

  

		December 31, 2013	
		Increase	Decrease
		Profit or loss	Profit or loss
		US\$ thousands	
Change in the exchange rate of:			
5% in the Euro		(1,209)	1,209
5% in NIS		873	(873)

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 21 - Financial Instruments (cont'd)

## E. Market risk (cont'd)

## Interest rate risk

The Company is exposed to changes in fair value, as a result of changes in interest rate in connection with its loans and borrowings. The debt instruments of the Company bear interest at variable rates.

## Sensitivity analysis

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

	December 31,	
	2014	2013
	Profit or loss	Profit or loss
	US\$ in thousands	
Increase of 1%	1,001	280
Increase of 3%	2,886	849
Decrease of 1%	(884)	(292)
Decrease of 3%	(2,770)	(861)

## 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, 2014					Valuation techniques for determining fair value	Inputs used to determine fair value
	Carrying amount	Fair value					
		Level 1	Level 2	Level 3			
		US\$ in thousands					
Non-current liabilities:							
Debentures	44,926	45,468					
Loans from banks and others (including current maturities)	4,354	-	4,297	-	Future cash flows by the market interest rate on the date of measurement.		Discount rate of Euribor+ 2.85%
Finance lease obligations (including current maturities)	6,008	-	5,850	-	Future cash flows by the market interest rate on the date of measurement.		Discount rate of Euribor+ 2.85%
	55,288	45,468	10,147	-			



## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 21 - Financial Instruments (cont'd)

## F. Fair value

## (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	
	2014	2013
	%	
<b>Non-current liabilities:</b>		
Loans from banks	Euribor+2.85%	Euribor+5-6%
Finance lease obligations	Euribor+2.85%	Euribor+5-6%

## (3) Fair value 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 input used in measuring fair value:

- 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 (valuation techniques which use inputs that are not based on observable market data).

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	US\$ in thousands			
Option to acquire additional shares in investee	-	-	17	(1) 17
Income receivable in connection with the Erez electricity pumped storage project (see Note 6)			1,238	(2) 1,238
Marketable securities		3,650		3,650
Forward contracts		657		657
Swap contracts	-	(3,807)		(3,807)

(1) The fair value of non-marketable options is determined based on valuations on a regular basis. The valuations are presented to the Company's Audit Committee.

Unobservable inputs relate to the fair value of the option to acquire additional shares in investee was calculated based on a binomial option pricing model considering estimates and parameters such as NAV (net asset value) of Dori Energy, which was determined based on the value of Dorad, estimated according to the discounted cash flows of Dorad, discounted by the return on equity of Dorad and net of its financial liabilities as of December 31, 2014.

(2) The fair value of the income receivable in connection with the Erez 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.

## Notes to the Consolidated Financial Statements as at December 31, 2014

## 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:

## Income receivable in connection with the Erez electricity pumped storage project

	Financial assets	
	Option to purchase Additional shares in investee	Income receivable in connection with the Erez electricity Pumped storage project
	US\$ in thousands	
Balance as at December 31, 2012	485	-
Total income recognized in profit or loss	(236)	-
Foreign Currency translation adjustments	140	-
Balance as at December 31, 2013	389	-
Total income recognized in profit or loss	(372)	1,704
Paid		(349)
Foreign Currency translation adjustments	(*)	(117)
Balance as a December 31, 2014	17	1,238

\* Less than \$1 thousand

## (5) Fair value sensitivity analysis of level 3 financial instruments carried at fair value

Even though the Company believes that the fair values determined for measurement and/or disclosure purposes are appropriate, the application of different assumptions or different measurement methods may change such fair values. As regards fair value measurements classified in level 3 of the fair value hierarchy, a reasonably possible change in one or more unobservable inputs would have increased (decreased) profit or loss and equity as follows (after tax):

	December 31, 2014			
	Increase		Decrease	
	Profit or loss	Equity	Profit or loss	Equity
	US\$ in thousands			
Option to purchase additional shares in investee:				
Change in volatility of 10%	11	11	(30)	(30)
Change in volatility of 20%	55	55	(35)	(35)
Change in interest rate of 1%	(17)	(17)	(17)	(17)
Change in interest rate of 2%	(14)	(14)	(17)	(17)

## Notes to the Consolidated Financial Statements as at December 31, 2014

## Note 22 - Segments Information

The Company's chief operating decision maker (CODM) reviews internal management reports on a consolidated basis. The Company has only one strategic business unit.

## Geographical information

The Company is domiciled in Israel and it operates in Italy and in Spain through its subsidiaries that own sixteen PV Plants and in Israel through Dori Energy.

The following table lists the revenues from the company's operation in Italy and Spain:

	For the year ended December 31		
	2014	2013	2012
	US\$ in thousands		
Italy	13,259	11,673	8,387
Spain	2,523	1,309	503
Total income	15,782	12,982	8,890

The following table lists the Property, plant and equipment, net from the company's operation:

	For the year ended December 31	
	2014	2013
	US\$ in thousands	
Israel	88	112
Italy	71,927	86,470
Spain	21,498	7,089
Total Property, plant and equipment, net	93,513	93,671

## Major customer

Revenues are mainly derived from one customer in each of the Italian and Spanish subsidiaries (government agencies).

## Note 23 - Subsequent Events

Since January 1, 2015 the Company has entered into additional Forward EUR/USD contracts with an aggregate EUR denominated principal of EUR 12.5 million with a weighted average rate of approximately 1.149 USD/EUR and expiration dates in September 2016 and September 2018.

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 dividend and the dividend amounts 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.

**Notes to the Consolidated Financial Statements as at December 31, 2014**

---

**Note 23 - Subsequent Events (cont'd)**

In April 2015, the Company provided a notice of exercise of the first option to acquire additional share capital of Dori Energy. Following the exercise of this first option, the Company's holdings in Dori Energy will increase from 40% to 49% and the Company's indirect ownership of Dorad will increase from 7.5% to 9.1875%. The aggregate amount that will be paid by the Company in connection with the exercise of the first option is expected to be approximately NIS 28,100 thousand (approximately \$7,100 thousand) and includes the exercise price and the amount required in order to realign the shareholders loans provided to Dori Energy by its shareholders with the new ownership structure.

## Exhibit Index

<u>Number</u>	<u>Description</u>
1.1	Memorandum of Association of the Registrant (translated from Hebrew), reflecting amendments through June 9, 2011*(1)
1.2	Second Amended and Restated Articles of the Registrant, reflecting amendments through June 20, 2012(1)
2.1	Specimen Certificate for ordinary shares(2)
4.1	1998 Share Option Plan for Non-Employee Directors
4.2	2000 Stock Option Plan(1)
4.3	Form of Indemnification Agreement between the Registrant and its officers and directors(1)
4.4	Form of Exemption Letter between the Registrant and its officers and directors(1)
4.5	Form of Registration Rights Agreement, dated September 12, 2005, among the Registrant, certain investors, Bank Hapoalim, Bank Leumi and Israel Discount Bank(3)
4.6	Management Services Agreement, by and among the Registrant, Kanir Joint Investments (2005) Limited Partnership and Meisaf Blue & White Holdings Ltd., effective as of March 31, 2008(4)
4.7	Engineering Procurement & Construction Contract for the Construction of a Photovoltaic System in Cingoli, between Ellomay PV One S.R.L. and Ecoware S.p.A., dated March 4, 2010 (portions translated from Italian)(5)*
4.8	Engineering Procurement & Construction Contract for the Construction of a Photovoltaic System in Senigallia, between Ellomay PV One S.R.L. and Ecoware S.p.A., dated March 4, 2010 (portions translated from Italian)(5)*
4.9	Side Agreement, between Ellomay PV One S.R.L. and Ecoware S.p.A., dated March 5, 2010(6)
4.10	Giaché Building Right Agreement (summary of Italian version)(7)*
4.11	Massaccesi Building Right Agreement (summary of Italian version)(7)*
4.12	Settlement Agreement and Release, dated July 27, 2010, between Ellomay Capital Limited and Hewlett-Packard Company(7)
4.13	Troia 8 Building Right Agreement (summary of Italian version)(7)*
4.14	Troia 9 Building Right Agreement (summary of Italian version)(7)*
4.15	Investment Agreement, among U. Dori Group Ltd., U. Dori Energy Infrastructures Ltd. and Ellomay Clean Energy Ltd. , dated November 25, 2010 (summary of Hebrew version)(7)*
4.16	Shareholders Agreement, among U. Dori Group Ltd., Ellomay Clean Energy Ltd. and U. Dori Energy Infrastructures Ltd., dated November 25, 2010 (summary of Hebrew version)(7)*
4.17	Agreement, between U. Dori Energy Infrastructures Ltd. and Israel Discount Bank Ltd., dated January 26, 2011 (summary of Hebrew version)(7)*
4.18	Engineering Procurement & Construction Contract for the Construction of a Photovoltaic Plant, between Urbe Techno S.r.l. and Pedale S.r.l., dated March 25, 2011 (portions translated or summarized from Italian)(includes a summary of the Building Rights Agreement)(7)*

---

<b><u>Number</u></b>	<b><u>Description</u></b>
4.19	Acquafresca Building Right Agreement (summary of Italian version)(2)*
4.20	D'Angella Building Right Agreement (summary of Italian version)(2)*
4.21	Rinconada II Building Right Agreement (summary of Spanish version)(2)*
4.22	Directors and Officers Compensation Policy, adopted June 2013(8)
4.23	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(9)
4.24	Veneto PV Plants Framework Acquisition Agreement, dated March 28, 2013, as amended on May 2, 2013 (summary of German version)(9)*
4.25	Soleco Building Right Agreement (summary of Italian version)(9)*
4.26	Tecnoenergy Building Right Agreement (summary of Italian version)(9)*
4.27	Warrant issued to Mr. Zohar Zisapel, dated August 7, 2013(9)
4.28	Deed of Trust between the Registrant and Hermetic Trust (1975) Ltd., dated December 30, 2013 (translation of Hebrew version)(9)*
4.29	Rodríguez I Lease Agreements (summary of Spanish version)*
4.30	Rodríguez II Lease Agreements (summary of Spanish version)*
4.31	Fuente Librilla Lease Agreement (summary of Spanish version)*
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 BDO with respect to the financial statements of Ellomay Spain S.L.
15.3	Consent of BDO with respect to the financial statements of Rodríguez I Parque Solar, S.L.
15.4	Consent of BDO with respect to the financial statements of Rodríguez II Parque Solar, S.L.

---

\* The original language version is on file with the Registrant and is available upon request.

- (1) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2012 and incorporated by reference herein.
  - (2) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2011 and incorporated by reference herein.
  - (3) Included in the Registrant's Form 6-K dated October 14, 2005 and incorporated by reference herein.
  - (4) Included in the Registrant's Form 6-K dated December 1, 2008 and incorporated by reference herein.
  - (5) Previously filed with Amendment No. 2 to the Registrant's Form 20-F for the year ended December 31, 2009 and incorporated by reference herein.
  - (6) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2009 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) Included in Exhibit 2 of the Registrant's Form 6-K dated May 13, 2013 and incorporated by reference herein.
  - (9) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2013 and incorporated by reference herein.
-

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 15<sup>th</sup> 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, 2018, 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.

## SOLAR PHOTOVOLTAIC PLANT RODRÍGUEZ I (MURCIA, SPAIN)

LEASE AGREEMENTSENGLISH SUMMARY OF THE SPANISH VERSION<sup>1</sup>1. PRELIMINARY NOTE

Ellomay has acquired a solar photovoltaic plant called “Rodríguez I”, with an installed capacity of 1,5 MW and located in the Municipality of Lorca, Murcia Region, Spain (the “**Plant**”).

The site where the Plant is located consists of three plots of land with an aggregate surface area of 65,600 m<sup>2</sup> as follows: (i) number 28088 registered with the Property Registry of Lorca, num.1, Volume 2028, Book 1681, Sheet 78 (owned by Mrs. Ana Ruiz Ruiz), (ii) number 28084, registered with the Property Registry of Lorca, num.1, Volume 2028, Book 1681, Sheet 76 (donated in favor of Mrs. Maria Teresa Guirao Ruiz on December 23, 2013), and (iii) number 28086, registered with the Property Registry of Lorca, num.1, Volume 2028, Book 1681, Sheet 77 (donated in favor of Mrs. Maria Teresa Guirao Ruiz on December 23, 2013).

There are two lease agreements with respect to the Property, one with respect to the property set forth under (i) above and one with respect to the properties set forth under (ii) and (iii) above. Both lease agreements are registered with the Property Registry of Lorca.

2. MAIN CONTENT OF THE LEASE AGREEMENTS

<b>1. Execution date</b>	August 16, 2007, as amended on February 1, 2008, December 22, 2010 and April 19, 2012.
<b>2. Parties</b>	-Mrs. Ana Ruiz Ruiz -Rodríguez I Parque Solar, S.L.
<b>3. Term</b>	Twenty five (25) years since the registration at the RIPRE (November 18, 2011).
<b>4. Extension and Renewal</b>	The initial term can be automatically extended by successive periods of five (5) years, up to a maximum term extension of fifteen (15) years.
<b>5. Annual Rent</b>	EUR 4,750 per hectare annually.
<b>6. Easements</b>	Plot 28088: (i) right of way granted in favor of Rodríguez I Parque Solar, S.L., Rodríguez II Parque Solar, S.L. and Iberdrola Distribución Eléctrica, S.A.U., (ii) right of easement for the Installation of underground way for electric energy granted in favor of Rodríguez I Parque Solar, S.L., Rodríguez II Parque Solar, S.L. and (iii) right of easement for the personal use of the energy share point granted in favor of Iberdrola Distribución Eléctrica, S.A.U. Plot 28084: (i) Right of way and (ii) right of easement for the Installation of underground way for electric energy granted in favour of Rodríguez II Parque Solar, S.L. Plot 28086: (i) Right of way and (ii) right of easement for the Installation of underground way for electric energy granted in favour of Rodríguez II Parque Solar, S.L.

<sup>1</sup> The original language version is on file with the Registrant and is available upon request.

**SOLAR PHOTOVOLTAIC PLANT RODRÍGUEZ II (MURCIA, SPAIN)**  
**LEASE AGREEMENTS**  
**ENGLISH SUMMARY OF THE SPANISH VERSION**<sup>1</sup>

**1. PRELIMINARY NOTE**

Ellomay has acquired a solar photovoltaic plant called “Rodríguez II”, with an installed capacity of 2,5 MW and located in the Municipality of Lorca, Murcia Region, Spain (the “**Plant**”).

The site where the Plant is located consists of two plots of land with an aggregate surface area of 50,300 m<sup>2</sup> as follows: (i) number 27479, registered with the Property Registry of Lorca, num.1, Volume 2045, Book 1698, Sheet 3 (owned by Comunidad de Regantes de Lorca) and (ii) number 18214, registered with the Property Registry of Lorca, num.1, Volume 1352, Book 1188, Sheet 215 (donated in favor of Mrs. Eulalia Giner Ruiz on August 7, 2014).

There are two lease agreements with respect to the Property, which are registered with the Property Registry of Lorca, as follows:

**2. MAIN CONTENT OF THE LEASE AGREEMENT WITH RESPECT TO PLOT 27479**

<b>1. Execution date</b>	November 17, 2011.
<b>2. Parties</b>	-Comunidad de Regantes de Lorca -Rodríguez II Parque Solar, S.L.
<b>3. Term</b>	Twenty five (25) years since November 17, 2011.
<b>4. Extension and Renewal</b>	The initial term can be automatically extended by successive periods of two (2) years, up to a maximum term extension of sixteen (16) years.
<b>5. Annual Rent</b>	EUR 980 multiplied by the surface leased per annum.

<sup>1</sup> The original language version is on file with the Registrant and is available upon request.

**3. MAIN CONTENT OF THE LEASE AGREEMENT WITH RESPECT TO PLOT 18214**

1. Execution date	August 16, 2007, as amended on March 31, 2008, and December 22, 2010 and December 14, 2011.
2. Parties	-Mr. José Giner Gallego -Rodríguez II Parque Solar, S.L.
3. Term	Twenty five (25) years since the date of registration at the RIPRE (November 18, 2011).
4. Extension and Renewal	The initial term will be automatically extended by successive periods of five (5) years, up to a maximum term extension of fifteen (15) years.
5. Annual Rent	EUR 5,000 per hectare, annually.
6. Easements	(i) right of way and (ii) right of easement for the Installation of underground way for electric energy granted in favor of Iberdrola Distribución Eléctrica, S.A.U.

---

---



**SOLAR PHOTOVOLTAIC PLANT FUENTE LIBRILLA (MURCIA, SPAIN)****LEASE AGREEMENTS**  
**ENGLISH SUMMARY OF THE SPANISH VERSION<sup>1</sup>****1. PRELIMINARY NOTE**

Ellomay has acquired a solar photovoltaic plant called “Fuente Librilla”, with an installed capacity of 1,190 MW and located in the Municipality of Mula, Murcia Region, Spain (the “**Plant**”).

The Plant is located consists on plot number 19198, registered with the Property Registry of Mula, Volume 927, Book 160, Sheet 18 with a surface area of 64,000 m<sup>2</sup> owned by Mr. Andrés Montalbán Otarola, Mrs. Candelaria Belén Montalbán Otarola and Mrs. Laura Montalbán Otarola.

The lease agreement is not registered with the Property Registry of Mula.

**2. MAIN CONTENT OF THE LEASE AGREEMENT**

<b>1. Execution date</b>	April 6, 2011, as amended on April 6, 2012.
<b>2. Parties</b>	-Mr. Andrés Montalbán Otarola, Mrs. Candelaria Belén Montalbán Otarola and Mrs. Laura Montalbán Otarola -Seguisolar, S.L.
<b>3. Term</b>	Forty (40) years from April 6, 2011.
<b>4. Extension and Renewal</b>	The parties will re-negotiate the terms of the agreement in the event of an extension of the term of the agreement.
<b>5. Annual Rent</b>	EUR 24,500 per annum (paid in 12 equal monthly installments).
<b>6. Easements</b>	(i) right of way and (ii) right of easement for the Installation of underground way for electric energy granted in favour of Iberdrola Distribución Eléctrica, S.A.U.

---

<sup>1</sup> The original language version is on file with the Registrant and is available upon request.

---

---

## ELLOMAY CAPITAL LTD.

## List of Subsidiaries as of December 31, 2014

Name of Subsidiary	Percentage of Ownership	Jurisdiction of Incorporation
Ellomay Clean Energy Ltd.	100%	Israel
Ellomay Clean Energy LP	100%	Israel
Ellomay Luxemburg Holdings S.à.r.l.	100%	Luxemburg
Ellomay PV One S.r.l.	100% <sup>1</sup>	Italy
Ellomay PV Two S.r.l.	100% <sup>1</sup>	Italy
Ellomay PV Five S.r.l.	100% <sup>1</sup>	Italy
Ellomay PV Six S.r.l.	100% <sup>1</sup>	Italy
Ellomay PV Seven S.r.l. (formerly Energy Resources Galatina S.r.l.)	100% <sup>1</sup>	Italy
Pedale S.r.l.	100% <sup>1</sup>	Italy
Luma Solar S.r.l.	100% <sup>1</sup>	Italy
Murgia Solar S.r.l.	100% <sup>1</sup>	Italy
Soleco S.r.l.	100% <sup>1</sup>	Italy
Technoenergy S.r.l.	100% <sup>1</sup>	Italy
Ellomay Spain S.L. <sup>2</sup>	85% <sup>1</sup>	Spain
Rodríguez I Parque Solar, S.L.	100% <sup>1</sup>	Spain
Rodríguez II Parque Solar, S.L.	100% <sup>1</sup>	Spain
Seguisolar S.L.	100% <sup>1</sup>	Spain

1. Held by Ellomay Luxemburg Holdings S.à.r.l.
2. Ellomay Spain owns 21 Spanish companies, each holding a 90 kW solar installation portion of the Riconada II, the first named Energía Solar Fotovoltaica Parque 15, S.L. and the others bear a similar name with references to different numbers (16-34 and 69).

**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 30, 2015

/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 30, 2015

/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, 2014 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 30, 2015

---

---

**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 30, 2015, with respect to the consolidated statements of financial position of Ellomay Capital Ltd. as of December 31, 2014 and 2013 and 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, 2014, which report appears in the December 31, 2014 annual report on Form 20-F of Ellomay Capital Ltd.

*/s/ Somekh Chaikin*  
Somekh Chaikin

Certified Public Accountants (Isr).  
Member firm of KPMG International

Tel-Aviv, Israel

April 30, 2015

---

---

**[BDO Auditores S.L. letterhead]**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-187533, 333-102288 and 333-92491) pertaining to the Employee Stock Option plans of Ellomay Capital Ltd. (the “Company”) and Form F-3 (File Nos. 333-199696 and 333-144171) of the Company of our report dated April 29, 2015 and our report dated March 31, 2014 with respect to the consolidated financial statements of Ellomay Spain S.L. included in the Annual Report on Form 20-F of the Company for the year ended December 31, 2014.

*/s/ BDO Auditores S.L.*

BDO Auditores S.L.

Certified Public Accountants

Madrid, Spain

April 29, 2015

---

---

[BDO Auditores S.L. letterhead]

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-187533, 333-102288 and 333-92491) pertaining to the Employee Stock Option plans of Ellomay Capital Ltd. (the “Company”) and Form F-3 (File Nos. 333-199696 and 333-144171) of the Company of our report dated April 29, 2015 with respect to the financial statements of Rodríguez I Parque Solar, S.L. included in the Annual Report on Form 20-F of the Company for the year ended December 31, 2014.

*/s/ BDO Auditores S.L.*

BDO Auditores S.L.

Certified Public Accountants

Madrid, Spain

April 29, 2015

---

---



[BDO Auditores S.L. letterhead]

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-187533, 333-102288 and 333-92491) pertaining to the Employee Stock Option plans of Ellomay Capital Ltd. (the “Company”) and Form F-3 (File Nos. 333-199696 and 333-144171) of the Company of our report dated April 29, 2015 with respect to the financial statements of Rodríguez II Parque Solar, S.L. included in the Annual Report on Form 20-F of the Company for the year ended December 31, 2014.

*/s/ BDO Auditores S.L.*

BDO Auditores S.L.

Certified Public Accountants

Madrid, Spain

April 29, 2015

---

---