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, 2016

OR

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

OR

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

Date of event requiring this shell company report……

For the transition period from _____ to _____

Commission File Number 001-35284

ELLOMAY CAPITAL LTD.

(Exact Name of Registrant as specified in its charter)

ISRAEL
(Jurisdiction of incorporation or organization)

9 Rothschild Boulevard, 2nd floor
Tel Aviv 6688112, Israel
(Address of principal executive offices)

Kalia Weintraub, Chief Financial Officer
Tel: +972-3-797-1111; Facsimile: +972-3-797-1122
9 Rothschild Boulevard, 2nd floor
Tel Aviv 6688112, Israel
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, par value NIS 10.00 per share	NYSE 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: 10,677,3701 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 ☑

1 Does not include a total of 256,184 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

INTRODUCTION

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

All references to "$," "dollar," "US$" 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.

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:

- *Reduction or elimination, including retroactive amendments, of the government subsidies and economic incentives applicable to, or amendments to regulations governing the, renewable and other energy markets in which we operate or to which we may in the future enter;*
- *the market, economic and political factors in the countries in which we operate;*
- *weather conditions and various meteorological and geographic factors;*
- *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;*
- *changes in the prices of energy or in the components or raw materials required for the production of renewable energy;*
- *our ability to maintain and gain expertise in the energy market, and to track, monitor and manage the projects which we have undertaken;*
- *our ability to meet our undertakings under various financing agreements, including to our debenture holders, and our ability to raise additional equity or debt financing in the future;*
- *the risks we are exposed to due to our holdings in U. Dori Energy Infrastructures Ltd. and Dorad Energy Ltd.;*
- *the risks we are exposed to due to our involvement in WtE projects in the Netherlands;*
- *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

The following tables set forth our selected consolidated financial and other financial and operating data. Historical results are not indicative of the results to be expected in the future. Our financial statements have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board. The selected consolidated financial data set forth below should be read in conjunction with and is qualified by reference to our consolidated financial statements and the related notes, as well as "Item 5: Operating and Financial Review and Prospects." The consolidated statements of profit or loss and other comprehensive income (loss) for each of the years in the three-year period ended December 31, 2016 and the consolidated balance sheet data as of December 31, 2015 and December 31, 2016 are derived from our audited consolidated financial statements appearing elsewhere in this Report. The consolidated statements of profit or loss and other comprehensive income (loss) for each of the years in the two-year period ended December 31, 2012 and 2013 and the consolidated balance sheet data as of December 31, 2012, 2013 and 2014 are derived from our audited consolidated financial statements that are not included in 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,				
	2016	**2015**	**2014**	**2013**	**2012**
Revenues	$ 12,872	$ 13,817	$ 15,782	$ 12,982	$ 8,890
Operating expenses	(2,305)	(2,854)	(3,087)	(2,381)	(1,954)
Depreciation expenses	(4,884)	(4,912)	(5,452)	(4,021)	(2,717)
Gross profit	5,683	6,051	7,243	6,580	4,219
General and administrative expenses	(4,679)	(3,745)	(4,253)	(3,449)	(3,110)
Share of profits (losses) of equity accounted investee	1,505	2,446	1,819	(540)	(232)
Other income (expense), net	99	21	1,438	(42)	146
Gain on bargain purchase	-	-	3,995	10,237	-
Capital loss, net	-	-	-	-	(394)
Operating profit	2,608	4,773	10,242	12,786	629
Financing income	290	2,347	2,245	204	550
Financing income (expenses) in connection with derivatives, net	704	3,485	(1,048)	1,543	(2,277)
Financing expenses	(4,050)	(5,240)	(4,592)	(4,201)	(2,046)
Financing income (expenses), net	(3,056)	592	(3,395)	(2,454)	(3,773)
Profit (loss) before taxes on income	(448)	5,365	6,847	10,332	(3,144)
Tax benefit (taxes on income)	(625)	1,933	(201)	(245)	1,011
Profit (loss) for the year	(1,073)	7,298	6,646	10,087	(2,133)
Profit (Loss) attributable to:					
Owners of the Company	(603)	7,553	6,658	10,068	(2,110)
Non-controlling interests	(468)	(255)	(12)	19	(23)
Profit (loss) for the year	(1,073)	7,298	6,646	10,087	(2,133)
Other comprehensive income (loss) items that after initial recognition in comprehensive income (loss) were or will be transferred to profit or loss:					
Foreign currency translation differences for foreign operations	(267)	(141)	(3,199)	6,038	1,620
Other comprehensive income items that will not be transferred to profit or loss:					
Presentation currency translation adjustments	(1,542)	(6,947)	(9,082)	-	-
Total other comprehensive income (loss)	(1,809)	(7,088)	(12,281)	6,038	1,620
Total comprehensive income (loss) for the year	(2,882)	210	(5,635)	16,125	$ 513
Basic earnings (loss) per share	$ (0.06)	$ 0.7	$ 0.62	$ 0.94	$ (0.2)
Diluted earnings (loss) per share	$ (0.06)	$ 0.7	$ 0.62	$ 0.94	$ (0.2)
Weighted average number of shares used for computing basic earnings (loss) per share	10,677,700	10,715,634	10,692,371	10,692,371	10,709,294
Weighted average number of shares used for computing diluted earnings (loss) per share	10,677,700	10,758,370	10,808,288	10,752,808	10,709,294

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

	For Year ended December 31,				
	2016	**2015**	**2014**	**2013**	**2012**
EBITDA (1)	$ 7,492	$ 9,685	$ 15,694	$ 16,807	$ 3,346

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

Reconciliation of Net income (loss) to EBITDA (in thousands of U.S. Dollars)

	For Year ended December 31,				
	2016	2015	2014	2013	2012
Net income (loss) for the year	$ (1,073)	$ 7,298	$ 6,646	$ 10,087	$ (2,133)
Financing expenses (income), net	3,056	(592)	3,395	2,454	3,773
Taxes on income (tax benefit)	625	(1,933)	201	245	(1,011)
Depreciation and amortization	4,884	4,912	5,452	4,021	2,717
EBITDA	$ 7,492	$ 9,685	$ 15,694	$ 16,807	$ 3,346

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

	At December 31,				
	2016	2015	2014	2013	2012
Working capital (deficiency)	$ 23,539	$ 23,410	$ 18,890	$ (4,384)	$ 27,977
Total assets	$ 156,174	$ 160,327	$ 159,087	$ 146,930	$ 128,740
Total liabilities	$ 67,404	$ 66,262	$ 64,961	$ 47,169	$ 45,626
Total equity	$ 88,770	$ 94,065	$ 94,126	$ 99,761	$ 83,114
Capital stock	$ 102,339(1)	$ 102,348(2)	$ 102,590(3)	$ 102,590(3)	$ 102,068(3)
Ordinary shares outstanding	10,677,370(1)	10,678,888(2)	10,692,371(3)	10,692,371(3)	10,692,371(3)

(1) Net of 256,184 treasury shares that were purchased during 2011, 2012, 2015 and 2016 according to share buyback programs authorized by our Board of Directors.
(2) Net of 254,666 treasury shares that were purchased during 2011, 2012 and 2015 according to share buyback programs authorized by our Board of Directors.
(3) Net of 85,655 treasury shares that were purchased during 2011 and 2012 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 our Renewable Energy Operations

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

We may seek to invest in renewable energy facilities that have already been connected to the national grid and are eligible to receive the applicable regulatory incentive. These construction ready, constructed and connected renewable energy facilities may not be available for acquisition on terms beneficial to us or at all and, if available, may still be subject to retroactive changes through regulatory action. Acquisitions of renewable energy facilities that have already been constructed and are connected to the national grid currently provide relatively more certainty as to their economic potential compared to facilities that are still in the planning or construction stage. It may be difficult for us to locate suitable acquisition opportunities with attractive returns, and, even if we do locate them, the acquisition of an operating renewable energy facility may be less attractive as the renewable energy market matures and the remaining subsidy periods are shorter and as operating plants are generally more expensive. Our inability to locate and acquire additional renewable energy facilities and the higher cost of such renewable energy facilities may adversely affect our business and results of operations. Even if we do locate and acquire existing renewable energy facilities, changes in the regulation could be applied retroactively to existing plants and to the existing remuneration scheme, as has already 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 and restrictions to the construction and operation of renewable energy facilities, which may adversely affect our operations. The installation and operation of renewable energy facilities is subject to oversight and regulation in accordance with international, European, national and local ordinances, building codes, zoning (or permitting), environmental protection regulation, utility interconnection requirements and other rules and regulations. Various governmental, municipal and other regulatory entities require the issuance and continued effectiveness of relevant permits, licenses and authorizations for the construction and operation of renewable energy facilities. If such permits, licenses and authorizations are not issued on a timely basis, this could result in the interruption, cessation or abandonment of a newly constructed renewable energy facility, or may require making significant changes to such renewable energy facility, any of which may cause severe losses. In addition, if issued, these licenses and permits may be revoked by the authorities following their issuance in the event the authorities discover irregularities or deviations from the scope of the license or permit. Any revocation of existing licenses may obligate us to cease operating the relevant renewable energy facility for the period required in order to renew the relevant license or indefinitely and therefore will adversely affect our business and results of operations.

Success of our renewable energy facilities, from their construction through their commissioning and ongoing commercial operation, 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 renewable energy facilities, or the Contractors, and of the other third parties involved, including subcontractors, local advisors, financing entities, land owners, suppliers of parts and equipment, the energy grid regulator, governmental agencies and other potential purchasers of electricity. The construction and operation of a renewable energy facility requires timely input, often of a highly specialized technical nature, from several parties, including without limitation, the suppliers of the various system components (such as solar panels or CHP engine) and plant operators, other suppliers of relevant parts and materials (including replacement parts), feedstock suppliers, land owners, subcontractors, electricity brokers, financing entities and governmental and related agencies (as subsidizers and as regulators). In addition, as we use Contractors in order to operate and maintain our renewable energy facilities, we depend on the Contractors' expertise and experience, representations, warranties and undertakings regarding, *inter alia*: the operation, maintenance and performance of each of the facilities, the use of high-quality materials, strict compliance with applicable legal requirements and the Contractors' financial stability. If the Contractors' representations or warranties are inaccurate or untrue, or if any of the Contractors or other entities fail to perform their obligations properly, this could result in the interruption, cessation or abandonment of the relevant facility, or may require significant expenses to mitigate the damages or repair them, any of which may cause us severe losses.

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, such as acquisition of the waste-to-energy projects in the Netherlands pursuant to the Ludan Agreement. 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, cultural and language differences, crime, strikes, riots, civil disturbances, terrorist attacks and wars and deterioration of political relations with Israel. Our European operations subject us to a number of these risks, as well as the requirement to comply with Italian, Spanish and European Union law.

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

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

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

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

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

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

Risks Related to our PV Plants

Our PV Plants are located in Italy and 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. Although the economies of both Italy and Spain has improved since the global financial crisis in 2007, both countries remain in a state of financial crisis and commenced during 2013 and 2014 several legislation processes that revise or affect the remuneration scheme for photovoltaic plants (as described under "Business" below and our financial statements included elsewhere in this Report), and may do so again in the future. We cannot assure you that the continued economic crisis will not cause additional changes to the Italian government's photovoltaic energy incentive schemes or that no additional changes will be made to Spain's photovoltaic energy incentive scheme that may directly or indirectly affect the payments we receive and, therefore, our operations and revenues.

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

The performance of our PV Plants depends on the quality of the solar panels installed and on the reliability of the suppliers of solar panels. Our PV Plants' performance depends on the quality of the solar panels installed. Degradation in the performance of the solar panels above a certain level is guaranteed by the panel suppliers and we generally receive undertakings from the Contractor with respect to minimum performances. Therefore, one of the critical factors in the success of our PV Plants is the existence of reliable solar panel suppliers, who guarantee the performance and quality of the solar panels supplied and their ability to provide us with replacement and spare parts that are of sufficient quality. If the suppliers of solar panels will not meet their undertakings under the guarantees and no replacement panels will be available at a reasonable price, this could result in the interruption, cessation or abandonment of the relevant PV Plant, or may require significant expenses to mitigate the damages or repair them, any of which may cause us severe losses.

In the event we 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 several of our 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, the majority of which are based on the ongoing income derived from the relevant PV Plant, which may be adversely affected by the various risks detailed herein. 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.

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

Risks Related to Our Investment in Dori Energy

We have joint control in U. Dori Energy Infrastructures Ltd., or Dori Energy, who, in turn, holds a minority stake in Dorad. Therefore, we do not control the operations and actions of Dorad. We currently hold 50% of the equity of Dori Energy who, in turn, holds 18.75% of Dorad and accordingly our indirect interest in Dorad is 9.375%. Although we entered into a shareholders' agreement with Dori Energy and the other shareholder of Dori Energy, Amos Luzon Entrepreneurship and Energy Group Ltd. (f/k/a U. Dori Group Ltd.), or the Dori SHA and the Luzon Group, respectively, providing us with joint control of Dori Energy, should differences of opinion as to the management, prospects and operations of Dori Energy arise, such differences may limit our ability to direct the operations of Dori Energy. Moreover, Dori Energy holds a minority stake in Dorad and as of the date hereof is entitled to nominate only one director in Dorad, which, according to the Dori SHA, we are entitled to nominate. As we have one representative on the Dorad board of directors, which has a total of nine directors, we do not control Dorad's operations. In July 2015, Dori Energy filed a petition for approval of a derivative action on behalf of Dorad against several parties, including another shareholder of Dorad and, following the filing of this petition, other shareholders of Dorad have filed a petition for approval of a derivative action on behalf of Dorad against the Luzon Group, Dori Energy and Ellomay Clean Energy Ltd., or Ellomay Energy, our wholly-owned subsidiary that holds Dori Energy's shares, and have also filed a statement of claim against Dori Energy, the Luzon Group, Dorad and the remaining shareholders of Dorad, all as more fully described below. Therefore, we have joint control over Dori Energy and limited control over Dorad we may not be able to prevent certain developments that may adversely affect their business and results of operations. 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 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's only substantial asset is a combined cycle power (bi-fuel) plant running mainly 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 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, 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. The profitability of Dorad also depends on the accuracy of the proprietary forecasting system used by Dorad. Any defects or disruptions, or inaccuracies in forecasts, may result in an inability to provide the amount of electricity required by Dorad's customers or in over-production, both of which could have a material adverse effect on Dorad's operations and profitability.

- Dorad's operations are dependent upon the expertise and success of its operations and maintenance contractor, who is responsible for the day-to-day operations of the Dorad Power Plant. 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. The prices paid by Dorad to the IEC for system operation services provided 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. The updates and changes to the regulation and tariffs 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. Any changes in the tariffs, system charges or applicable regulations, failure by Dorad to maintain the required 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.

- The construction of the Dorad Power Plant was mainly financed by a consortium of financing entities pursuant to a long-term credit facility and such credit facility provides for pre-approval by the consortium of certain of Dorad's actions and contracts with third parties. Changes in the credit ratings of Dorad and its shareholders, non-compliance with financing and other covenants, delays in provision of required pre-approvals or disagreements with the financial entities and additional factors may adversely affect Dorad's operations and profitability.

- 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 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. Although measures were taken 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 natural gas supply agreement with the partners in the "Tamar" license, or Tamar, located in the Mediterranean Sea off the coast of Israel. This agreement includes a "take or pay" mechanism, subject to certain restrictions and conditions, that may result in Dorad paying for natural gas not actually required for its operations. In the event Dorad will be required to pay for natural gas that it does not need and cannot store for future use, Dorad's results of operations and profitability could be adversely affected. Tamar is currently Dorad's sole supplier of natural gas and has undertaken to supply natural gas to various customers and is permitted to export a certain amount of the natural gas to customers outside of Israel. Dorad's operations will depend on the timely, continuous and uninterrupted supply of natural gas from Tamar and on the existence of sufficient reserves throughout the term of the agreement with Tamar. In addition, the price of the natural gas under the supply agreement with Tamar is linked to production tariffs determined by the Israeli Electricity Authority but cannot be lower than the "final floor price" included in the agreement. Due to the reduction in fuel and energy prices and the resulting reduction in the production tariff during 2015, the price for natural gas under the agreement with Tamar reached the final floor price in March 2016 and will not be further reduced in the event of future reductions in the fuel and energy prices and the production tariff, as are currently contemplated by the Israeli Electricity Authority. Any delays, disruptions, increases in the price of natural gas under the agreement, or shortages in the gas supply from Tamar will adversely affect Dorad's results of operations. In addition, as future reductions in the production tariff will not affect the price of natural gas under the agreement with Tamar, Dorad's profitability may be adversely affected.

- The Dorad power plant is subject to environmental regulations, aimed at increasing the protection of the environment and reducing environmental hazards, including by way of imposing restrictions regarding noise, harmful emissions to the environment and handling of hazardous materials. Currently the costs of compliance with the foregoing requirements are not material. Any breach or other noncompliance with the applicable laws may cause Dorad to incur additional costs due to penalties and fines and expenses incurred in order to regain compliance with the applicable laws, all of which may have an adverse effect on Dorad's profitability and results of operations.

- As a result of the agreements with contractors of the Dorad Power Plant and the indexation included in the gas supply agreement, Dorad is exposed to changes in exchange rates of the U.S. dollar against the NIS. To minimize this exposure Dorad executed forward transactions to purchase U.S. dollars against the NIS. In addition, due to the indexing to the Israeli consumer price index under Dorad's credit facility, it is exposed to fluctuations in the Israeli CPI, which may adversely affect its results of operations and profitability. As the hedging performed by Dorad does not completely eliminate such exposures, Dorad's profitability might be adversely affected due to future changes in exchange rates or in the Israeli consumer price index.

Risks Related to our Other Operations

Risks Related to the Manara Project

We only recently received the Conditional License in connection with the Manara Project and if we do not timely meet any of the milestones the Conditional License could be revoked. The Conditional License includes several milestones and deadlines for reaching such milestones (including a financial closing, the provision of guarantees and the construction of the pumped storage hydro power plant). The Israeli Public Utilities Authority – Electricity, or the Israeli Electricity Authority, could revoke the Conditional License if we do not timely meet milestones under the Conditional License or refuse to issue an electricity production license if it claims that we are in default of the terms of the Conditional License. Any such attempted revocation could prevent us from completing the Manara Project, resulting in a loss of some or all of the funds invested in the Manara Project.

The Israeli electricity market is highly regulated and, as noted above, is dominated by the IEC. Our ability to receive a permanent license for the Manara Project depends, among other things, on our success in meeting the conditions of the Conditional License before our competitors or on the increase in the pumped storage quota determined by the Israeli Electricity Authority. The current quota determined by the Israeli Electricity Authority for pumped storage projects in Israel is 800 MW. There is one entity that is currently in the final construction stages of a 300 MW pumped storage project in the Gilboa, Israel and another entity that is in the planning stages and is attempting to reach financial closing. In the event these or other entities that hold a valid conditional license for the construction of a pumped storage facility in Israel comply with the requirements of their conditional license before we comply with the terms of the Conditional License, they may receive an electricity production license, decreasing the remaining quota and affecting the Manara Project's right to receive such license under the 800 MW quota. Although there were discussions concerning the increase of the quota to above 1,000 MW, there can be no assurance as to whether and when the increase will be authorized. If we will not be eligible to receive an electricity production license due to the issuance of such licenses to competitors and the insufficient quota, we will not be able to complete or operate the Manara Project, resulting in a loss of some or all of the funds invested in the Manara Project.

Risks Related to WtE Facilities

We only recently entered into the Ludan Agreement and although we will contribute to the Approved Projects from our existing and accumulated expertise, we are only now gaining experience in the WtE field. We entered into the Ludan Agreement in July 2016 and, although we expect to contribute to the Approved Projects from our renewable energy managerial, operational and project finance expertise, we do not yet have a substantial experience with WtE projects and in the Netherlands renewable energy market. The Ludan Agreement includes several conditions precedent to our obligation to invest in WtE projects and there is no assurance as to how many projects will comply with these conditions and as to the timing of such compliance. Although we will hold a majority of the shares of each project company, Ludan received minority holder protective rights under the Ludan Agreement and will also act as the EPC and O&M contractor of the Approved Projects (except for the first Gasification Approved Project), based on agreements to be mutually agreed with us. Future disagreements with Ludan may have a material adverse effect on the operations of the Approved Projects and, as a result, on our results of operations.

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

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

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

Risks Related to our Operations

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 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 several of our PV Plants and raised significant funds in Israel during 2014 by the issuance of our Series A Debentures and in March 2017 by the issuance of our Series B Debentures, or, together with the Series A Debentures, the Debentures, there is no assurance that we will be able to procure additional project financing for our remaining PV Plants 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 deeds of trust of our Series A and Series B Debentures. The deed of trust governing the Series A Debentures, or the Series A Deed of Trust, and the deed of trust governing the Series B Debentures, or the Series B Deed of Trust, contain a number of restrictive covenants that limit our operating and financial flexibility. These covenants include, among other things, a "negative pledge" with respect to a floating pledge on all of our assets and an obligation to pay additional interest in the event of certain rating downgrades. The Series A Deed of Trust and the Series B Deed of Trust also contain covenants regarding maintaining certain levels of financial ratios and criteria, including as a condition to the distribution of dividends, and other customary immediate repayment conditions, including, under certain circumstances, in the event of a change of control, a default under the deed of trust of the other debentures issued by us, a change in our operations or a disposition of a substantial amount of assets. Our ability to continue to comply with these and other obligations depends in part on the future performance of our business. Such obligations may hinder our ability to finance our future operations or the manner in which we operate our business. In particular, any non-compliance with performance-related covenants and other undertakings of the Debentures could result in demand for immediate repayment of the outstanding amount under the Debentures and restrict our ability to obtain additional funds, which could have a material adverse effect on our business, financial condition or results of operations.

Our debt increases our exposure to market risks, may limit our ability to incur additional debt that may be necessary to fund our operations and could adversely affect our financial stability. As of December 31, 2016, our total indebtedness in connection with corporate and project financing was approximately $67 million, including principal and interest expected repayments, financing related swap transactions and excluding any related capitalized costs. Subsequent to December 31, 2016, we incurred additional $33.5 million in debt through the issuance of the Series B Debentures. The Series A Deed of Trust and Series B Deed of Trust permit us to incur additional indebtedness, subject to maintaining certain financial ratios and covenants. Our debt, including the Debentures, and any additional debt we may incur, could adversely affect our financial condition by, among other things:

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

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

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

Our business results may be affected by currency and interest rate fluctuations and the hedging transactions we enter into in order to manage currency and interest rate related risks. We hold cash and cash equivalents, restricted cash and marketable securities in various currencies, including US$, Euro and NIS. Our investments in the Italian and Spanish PV Plants, in the Netherlands WtE project and in Dori Energy are denominated in Euro and NIS. Our Debentures are denominated in NIS and the interest and principal payments are to be made in NIS. The financing we have obtained in connection with several 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 and forward transactions as more fully explained in "Quantitative and Qualitative Disclosures About Market Risk" below, we cannot ensure that we will manage to eliminate these risks in their entirety. These swap and forward transactions may also impact the results of our operations due to fluctuations in their value based on changes in the relevant exchange or interest rate.

If we do not conduct an adequate due diligence investigation of a target project, we may be required to subsequently take write-downs or write-offs, restructuring, and impairment or other charges that could have a significant negative effect on our financial condition, results of operations and our stock price. We must conduct a due diligence investigation of target projects that we 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 project, or that factors outside the control of the target project and outside of our control will not later arise. If our due diligence review fails to identify issues specific to a target project, industry or the environment in which the target project operates, we may be forced to later write-down or write-off assets, restructure our operations, or incur impairment or other charges that could result in losses. Even though these charges may be non-cash items and may not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us or our ordinary shares.

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

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

We may be characterized as a passive foreign investment company. Our U.S. shareholders may suffer adverse tax consequences. Under the 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, 2014, 2015 and 2016. However, the Internal Revenue Service may disagree with our determinations regarding our prior or present PFIC status and, depending on future events, we could become a PFIC in future years.

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

Risks Relating to our Ordinary Shares

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

We may rely on certain Israeli "home country" corporate governance practices which may not afford shareholders the same protection afforded to stockholders of U.S. companies. As a foreign private issuer for purposes of U.S. securities laws, NYSE 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.

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

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. We conduct our business globally (currently in Israel, Luxemburg, Italy, Spain and The Netherlands). Our domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and the timing of recognizing revenues and expenses. Additionally, the amount of income taxes paid is subject to our interpretation of applicable laws in the jurisdictions in which we file. Not all of the tax returns of our operations in other countries and in Israel are final and we may be subject to further audit and assessment by the applicable tax authorities. While we believe we comply with applicable 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 59.4% 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 Menahem 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 "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 "ELLO" 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 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 and to additional regulatory requirements that may have an adverse effect on our results of operations.

We have not paid any cash dividends until the year 2016 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 and in May 2015, our Board of Directors approved a $3 million share buyback plan. On March 23, 2016, we announced the decision to distribute a cash dividend in the amount of $0.225 per share (an aggregate distribution of approximately $2.4 million). The declaration of future dividends or the approval of future share buyback plans 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 additional dividends will be paid or share buyback programs adopted, as to the timing or the amount of the dividends or share buyback programs, or as to whether our Board of Directors will elect to distribute our profits by means of share repurchases or a distribution of a cash or other dividend. In addition, the terms of the deed of trust governing our Debentures restrict our ability to made "distributions" (as such term is defined in the Companies Law, which includes cash dividends and repurchase of shares). For more information see "Item 5.B: Liquidity and Capital Resources" and "Item 8.A: Financial Information; Consolidated Statements and Other Financial Information; Dividends" below.

Our stock price has been very volatile in the past and may continue to be volatile, which could adversely affect the market liquidity of our ordinary shares and our ability to raise additional funds. The market liquidity and analyst coverage of our ordinary shares is limited. Our ordinary shares have experienced substantial price volatility, particularly as there is still very limited volume of trading in our ordinary shares and every transaction performed significantly influences the market price. Although our ordinary shares 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 media and 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 and could result in lower prices for our ordinary shares than might otherwise prevail and in larger spreads between the bid and asked prices for our ordinary shares. These issues could materially impair our ability to raise funds through the issuance of our ordinary shares in the securities markets.

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

ITEM 4: Information on Ellomay

A. History and Development of Ellomay

Our legal and commercial name is Ellomay Capital Ltd. Our office is located at 9 Rothschild Boulevard, 2nd 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 and are also listed on the Tel Aviv Stock Exchange under the trading symbol "ELLO" under the Israeli regulatory "dual listing" regime that provides companies whose securities are listed both in the NYSE MKT and the TASE certain reporting leniencies.

Recent Developments

Series B Debentures Offering in Israel

On March 14, 2017, we issued Series B Nonconvertible Debentures due June 30, 2024 in a public offering in Israel in the aggregate principal amount of NIS 123,232,000 (approximately $33.5 million based on the U.S. Dollar/NIS exchange rate at that time). The Series B Debentures bear fixed interest at the rate of 3.44% per year and are not linked to the Israeli CPI or otherwise. The gross proceeds of the offering were NIS 123,232,000 and the net proceeds of the offering, net of related expenses such as consultancy fee and commissions, were approximately NIS 121.4 million (approximately $33 million). For additional information concerning the Series B Debentures see "Item 5.B: Liquidity and Capital Resources" and "Item 10.C: Material Contracts."

Our Debentures are listed for trading on the TASE. However, our Debentures are not registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, and may not be offered or sold in the United States or to U.S. Persons (as defined in Regulation "S" promulgated under the Securities Act) without registration under the Securities Act or an exemption from the registration requirements of the Securities Act.

The Dorad Power Plant

In May 2016, we exercised the second option to acquire additional share capital of Dori Energy. Following the exercise of this option, our holdings in Dori Energy increased from 49% to 50% and our indirect ownership of Dorad increased from 9.1875% to 9.375%. The aggregate amount paid in connection with the exercise of the option amounted to approximately NIS 2.8 million (approximately $0.7 million), including approximately NIS 0.4 million (approximately $0.1 million) required in order to realign the shareholders loans provided to Dori Energy by its shareholders with the new ownership structure.

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

In July 2016, we, through our wholly-owned subsidiary Ellomay Luxemburg Holdings S.àr.l., or Ellomay Luxemburg, entered into a strategic agreement, or the Ludan Agreement, with Ludan Energy Overseas B.V., or Ludan (an indirectly wholly-owned subsidiary of Ludan Engineering Co. Ltd. (TASE: LUDN)) in connection with Waste-to-Energy, or WtE (specifically Gasification and Bio-Gas (anaerobic digestion)) projects in the Netherlands. Pursuant to the Ludan Agreement, subject to the fulfillment of certain conditions (including the financial closing of each project and receipt of a valid Sustainable Energy Production Incentive subsidy from the Dutch authorities and applicable licenses), we, through Ellomay Luxembourg, will acquire at least 51% of each project company and Ludan will own the remaining 49% (each project that meets the conditions under the Ludan Agreement is referred to as an "Approved Project"). In the event additional entities will invest in an Approved Project, their holdings will not dilute Ellomay Luxembourg's 51% share without our prior approval, and in any case, Ellomay Luxembourg and Ludan will maintain the majority stake in each of the project companies.

Pursuant to the Ludan Agreement, we, through Ellomay Luxemburg, entered in July 2016 - November 2016 into loan agreements with Ludan whereby we provided approximately Euro 2.1 million (approximately $2.3 million) to Ludan, or the Ludan Loans, for purposes of the acquisition of the rights in Groen Gas Goor B.V., or Groen Goor, a project company developing an anaerobic digestion plant, with a green gas production capacity of approximately 375 Nm3/h, in Goor, the Netherlands, or the Goor Project and the land on which the Goor Project will be constructed. Ellomay Luxemburg was issued shares representing a 51% interest in Groen Goor. The Ludan Loans converted into shareholder’s loans upon the financial closing of the Goor Project. For more information concerning the Goor Project and the terms of the Goor Project’s financing see below under “Groen Goor Project Finance.”

During September 2016, we, through Ellomay Luxembourg, entered into two separate memorandums of understanding, or MOUs, with Ludan, setting forth Ludan's and our agreed material principles and understandings with respect to the Goor Project's EPC and O&M agreements. Pursuant to such MOUs, in November 2016 Groen Goor entered into an EPC agreement with Ludan.

We are currently in the process of due diligence of an additional project company developing an anaerobic digestion plant, with a green gas production capacity of approximately 475 Nm3/h, in the Netherlands.

The Manara Pumped Storage Project

In August 2016, Ellomay Pumped Storage (2014) Ltd., or Ellomay PS, a 75% owned subsidiary of the Company, received a conditional license, or the Conditional License, for the Manara Cliff pumped storage project from the Israeli Minister of National Infrastructures, Energy and Water Resources, or the Minister. The Conditional License regulates the construction of a pumped storage plant in the Manara Cliff with a capacity of 340 MW, or the Manara Project. The Conditional License includes several conditions precedent to the entitlement of the holder of the Conditional License to receive an electricity production license. The Conditional License is valid for a period of seventy two (72) months commencing from the date of its approval by the Minister, subject to compliance by Ellomay PS with the milestones set forth therein and subject to the other provisions set forth therein (including a financial closing, the provision of guarantees and the construction of the pumped storage hydro power plant).

In January 2017, the Israeli High Court of Justice dismissed a petition filed by us against the Minister, the Israeli Electricity Authority and the owner of the Kochav Hayarden pumped storage project. The Petition was filed in connection with the decision of the Israeli Electricity Authority to extend the financial closing milestone deadline of the Kochav Hayarden pumped storage project, which received a conditional license for a pumped storage plant with a capacity of 340 MW in 2014. In the Petition, Ellomay PS requests the High Court to order the Israeli Electricity Authority to explain why the extension should not be canceled, due to, among other reasons, the lack of authority of the Israeli Electricity Authority to extend this milestone deadline. Among its other claims, Ellomay PS claimed that as the current quota for pumped storage projects determined by the Israeli Electricity Authority is 800 MW, and there is one 300 MW project that is already in the construction phase, the extension approved by the Israeli Electricity Authority could irreparably harm Ellomay PS's chances of receiving a permanent license if the Kochav Hayarden project receives its permanent license first. In March 2017, a new petition was filed as more fully set forth below in "Item 4.B: Business Overview" under "Pumped Storage project in the Manara Cliff in Israel."

Principal Capital Expenditures and Divestitures

From 2014 through March 1, 2016, we made capital expenditures of an aggregate amount of approximately Euro 9.8 million ($10.3 million, based on the U.S. Dollar/NIS exchange rate as at March 1, 2017) in connection with our Italian and Spanish PV Plants. Our aggregate capital expenditure in connection with the acquisition of shares in U. Dori Energy Infrastructure Ltd., including the exercise of options to acquire additional shares of U. Dori Energy during 2015 and 2016, which increased our percentage holding to 50%, is approximately NIS 135.6 million (approximately $37.3 million). The aggregate capital expenditures in connection with the Manara Project through March 1, 2017 were approximately NIS 15.7 million (approximately $4.3 million). Our aggregate capital expenditure in connection with the Goor Project through March 1, 2017 was approximately Euro 2 million (approximately $2.1 million). We expect that our capital expenditures in connection with the additional Netherlands anaerobic digestion plant (as noted above, with a green gas production capacity of approximately 475 Nm3/h), will be approximately Euro 2 million (approximately $2.1 million).

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

B. Business Overview

We are involved in the production of renewable and clean energy. We own sixteen PV Plants that are operating and connected to their respective national grids as follows: (i) twelve photovoltaic plants in Italy with an aggregate installed capacity of approximately 22.6 MWp and (ii) four photovoltaic plants in Spain with an aggregate installed capacity of approximately 7.9 MWp. In addition, we indirectly own 9.375% of Dorad, which owns an approximate 850 MWp bi-fuel operated power plant in the vicinity of Ashkelon, Israel, 75% of Chashgal Elyon Ltd., Agira Sheuva Electra, L.P. and Ellomay Pumped Storage (2014) Ltd., all of which are involved in a project to construct a 340 MW pumped storage hydro power plant in the Manara Cliff, Israel and 51% of Groen Gas Goor B.V., which is a company constructing an anaerobic digestion facility in Goor, the Netherlands.

PV Plants

Photovoltaic Industry Background

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

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

Global trends in the industry

According to information published online by SolarPower Europe, the new EPIA (European Photovoltaic Industry Association), the solar power market has grown significantly in the past decade. In the first three quarters of 2016, 5.3 GW of photovoltaic systems were installed in Europe (compared to 6.5 GW during the same period in 2015, mainly due to the UK's reduction in FiT for smaller installation and termination of support programs for larger-scale installations). In 2015, solar grew by 15% in Europe connecting 8 GW of solar power to the grid. Global grid-connected solar increased by 25% to an estimated 50.1 GW in 2015, from 40.2 GW in 2014. On a global level, new solar power capacity increased by 25%, adding 50 GW in 2015. An estimated 228 GW of solar power are now installed in the world, up from 178 GW in 2014. The two biggest markets are again located in Asia - China and Japan, with the US ranked third.

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, for example in the UK as explained above and as further explained in "Material Effects of Government Regulations on the PV Plants" below. 2015 was a successful year for the solar power industry after three consecutive years of decline in Europe. The base for Europe's solar power demand in 2015 derived from mainly three countries - UK, Germany and France. These top three markets accounted for 75% of the connections. The changes in the UK incentive schemes during the first quarter of 2016 caused a decline in the growth of photovoltaic installations in Europe during the first three quarters of 2016. With over 100 GW of installed capacity, Europe is still the most solarised continent– with, on average, nearly 4% of electricity consumption and in its most mature markets, such as Germany, Greece and Italy, around 8%.

Anatomy of a Solar Power Plant

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

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

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

Inverters convert the DC power from solar panels to the AC power 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.

Solar Power Benefits

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

- Reliability - Solar energy production does not require fossil fuels and is therefore less dependent on this limited natural resource with volatile prices. Although there is variability in the amount and timing of sunlight over the day, season and year, a properly sized and configured system can be designed to be highly reliable while providing long-term, fixed price electricity supply.

- Convenience - Solar power systems can be installed on a wide range of sites, including small residential roofs, the ground, covered parking structures and large industrial buildings. Most solar power systems also have few, if any, moving parts and are generally guaranteed to operate for 20-25 years, resulting in low maintenance and operating costs and reliability compared to other forms of power generation.

- Cost-effectiveness - There are continual advancements in solar panel technology which are increasing the efficiency and lowering the cost of production, thus making the production of solar energy even more cost effective.

- Environmental - Solar power is one of the cleanest electric generation sources, capable of generating electricity without air or water emissions, noise, vibration, habitat impact or waste generation. In particular, solar power does not generate greenhouse gases that contribute to global climate change or other air pollutants, as power generation based on fossil fuel combustion does, and does not generate radioactive or other wastes as nuclear power and coal combustion do. It is anticipated that environmental protection agencies will limit the use of fossil fuel based electric generation and increase the attractiveness of solar power as a renewable electricity source.

- Security - Producing solar power improves energy security both on an international level (by reducing fossil energy purchases from hostile countries) and a local level (by reducing power strains on local electrical transmission and distribution systems).

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

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

Our Photovoltaic Plants

The following table includes information concerning our PV Plants:

PV Plant Title	Installed Capacity[1]	Location	Technology of Panels	Connection to Grid	FiT (€/kWh) [2]	Revenue in the year ended December 31, 2015 (in thousands)[3]	Revenue in the year ended December 31, 2016 (in thousands)[3]
"Troia 8"	995.67 kWp	Province of Foggia, Municipality of Troia, Puglia region, Italy	Fix	January 14, 2011	0.318	$584 (€526)	$544 (€492)
"Troia 9"	995.67 kWp	Province of Foggia, Municipality of Troia, Puglia region, Italy	Fix	January 14, 2011	0.318	$599 (€540)	$558 (€504)

PV Plant Title	Installed Capacity[1]	Location	Technology of Panels	Connection to Grid	FiT (€/kWh) [2]	Revenue in the year ended December 31, 2015 (in thousands)[3]	Revenue in the year ended December 31, 2016 (in thousands)[3]
"Del Bianco"	734.40 kWp	Province of Macerata, Municipality of Cingoli, Marche region, Italy	Fix	April 1, 2011	0.3215	$390 (€352)	$366 (€331)
"Giaché"	730.01 kWp	Province of Ancona, Municipality of Filotrano, Marche region, Italy	Duel Axes Tracker	April 14, 2011	0.3215	$394 (€355)	$465 (€420)
"Costantini"	734.40 kWp	Province of Ancona, Municipality of Senigallia, Marche region, Italy	Fix	April 27, 2011	0.3215	$414 (€373)	$401 (€362)
"Massaccesi"	749.7 kWp	Province of Ancona, Municipality of Arcevia, Marche region, Italy	Duel Axes Tracker	April 29, 2011	0.3215	$381 (€344)	$470 (€425)
"Galatina"	994.43 kWp	Province of Lecce, Municipality of Galatina, Puglia region, Italy	Fix	May 25, 2011	0.318	$560 (€504)	$452 (€408)
"Pedale (Corato)"	2,993 kWp	Province of Bari, Municipality of Corato, Puglia region, Italy	Single Axes Tracker	May 31, 2011	0.2659	$1,838 (€1,656)	$1,699 (€1,535)

PV Plant Title	Installed Capacity[1]	Location	Technology of Panels	Connection to Grid	FiT (€/kWh) [2]	Revenue in the year ended December 31, 2015 (in thousands)[3]	Revenue in the year ended December 31, 2016 (in thousands)[3]
"Acquafresca"	947.6 kWp	Province of Barletta-Andria-Trani, Municipality of Minervino Murge, Puglia region, Italy	Fix	June 2011	0.2677	$457 (€412)	$439 (€397)
"D'Angella"	930.5 kWp	Province of Barletta-Andria-Trani, Municipality of Minervino Murge, Puglia region, Italy	Fix	June 2011	0.2677	$458 (€413)	$428 (€387)
"Soleco"	5,923.5 kWp	Province of Rovigo, Municipality of Canaro, Veneto region, Italy	Fix	August 2011	0.2189	$2,292 (€2,065)	$2,046 (€1,849)
"Tecnoenergy"	5,899.5 kWp	Province of Rovigo, Municipality of Canaro, Veneto region, Italy	Fix	August 2011	0.2189	$2,253 (€2,029)	$2,002 (€1,809)
"Rinconada II"[4]	2,275 kWp	Municipality of Córdoba, Andalusia, Spain	Fix	July 2010	N/A	$894 (€805)	$851 (€769)
"Rodríguez I"	1,675 kWp	Province of Murcia, Spain	Fix	November 2011	N/A	$666 (€600)	$621 (€561)
"Rodríguez II"	2,691 kWp	Province of Murcia, Spain	Fix	November 2011	N/A	$1,106 (€996)	$1,028 (€929)
"Fuente Librilla"	1,248 kWp	Province of Murcia, Spain	Fix	June 2011	N/A	$531 (€478)	$502 (€454)

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 have entered into agreements with energy brokers who purchase the electricity generated by our PV Plants in consideration for the contractually agreed prices.

3. These results are not indicative of future results due to various factors, including changes in the climate and the degradation of the solar panels.

4. This PV Plant was 85% owned by us until July 2015, when we acquired the remaining 15% minority interest.

Photovoltaic Plants

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

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

- an Engineering Procurement & Construction projects Contract, or an EPC Contract, which governs the installation, testing and commissioning of a photovoltaic plant by the respective Contractor;
- an Operation and Maintenance, or O&M, Agreement, which governs the operation and maintenance of the photovoltaic plant by the respective Contractor;
- a number of ancillary agreements, including:
    - 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;
    - with respect to our Italian PV Plants –
        - standard "incentive agreements" with Gestore dei Servizi Elettrici, or GSE, Italy's energy regulation agency responsible, *inter alia*, for incentivizing and developing renewable energy sources in Italy and purchasing energy and re-selling it on the electricity market. Under such agreements, it is anticipated that GSE will grant the applicable FiT governing the purchase of electricity (FiTs are further detailed in "Material Effects of Government Regulations on the Italian PV Plants");
        - one or more "power purchase agreements" with GSE, specifying the power output to be purchased by GSE for resale and the consideration in respect thereof or, alternatively, a "power purchase agreements" with a private energy broker, specifying the power output to be purchased for resale and the consideration in respect thereof; and

- one or more “interconnection agreements” with the Enel Distribuzione S.p.A, or ENEL, the Italian national electricity grid operator, which provide the terms and conditions for the connection to the Italian national grid.

o with respect to our Spanish PV 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 to date 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 annual reports on Form 20-F.

Operation and Maintenance Agreements

General

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

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 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 22,500 to Euro 36,000 per MWp (reduced to approximately Euro 19,000 to Euro 36,000 with effect from 2016) (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, 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), NextEra Energy Partners (NYSE:NEP), NRG Yield (NASD:NYLD), TransAlta Renewables (TSX:RNW), Pattern Energy Group (NASD:PEGI), Abengoa Yield PLC (NASD:ABY), NextEnergy Solar Fund Limited (LSE:NESF), Bluefield Solar Income Fund Limited (LSE:BSIF), Infinis Energy PLC (LSE:INFI), The Renewables Infrastructure Group Limited (LSE:TRIG) and TerraForm Power, Inc. (NASD: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. For example, the radiation levels during the year ended December 31, 2016 were lower than the radiation levels during the same period in 2015, resulting in lower revenues from our PV Plants during the period.

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.

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.

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

(ii) Connection to the National Grid

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

There are three alternative modalities to sell electricity:

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

The Incentive Tariff System for Photovoltaic Plants

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

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

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

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

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

	A		B		C	
Nominal Power	Plants entered in operation after December 31, 2010 and by April 30, 2011		Plants entered in operation after April 30, 2011 and by August 31, 2011		Plants entered in operation after August 31, 2011 and by December 31, 2011	
	PV plants on buildings	Other PV plants	PV plants on buildings	Other PV plants	PV plants on buildings	Other PV plants
[kW]	[€ /kWh]	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]
1 ≤ P ≤ 3	0.402	0.362	0.391	0.347	0.380	0.333
3< P ≤20	0.377	0.339	0.360	0.322	0.342	0.304
20< P ≤200	0.358	0.321	0.341	0.309	0.323	0.285
200< P ≤1000	0.355	0.314	0.335	0.303	0.314	0.266
1000<P≤5000	0.351	0.313	0.327	0.2892	0.302	0.264
P>5000	0.333	0.297	0.311	0.275	0.287	0.251

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

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

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

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

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

a) the power capacity of the plant is not higher than 1 MW and - in the case of lands owned by the same owner - the PV plants are installed at a distance of at least 2 km; and

b) the installation of the PV plants does not cover more than 10% of the surface of agricultural land which is available to the applicant.

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

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

The 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	0.2914	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

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

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

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

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

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

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

The Fourth Conto Energia 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 PV installations, excluding minor exempted projects.

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

Other Renewable Energy Incentives

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

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

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

(i) The so called "Fare 2" Decree

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

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

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

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

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

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

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

- For photovoltaic plants with installed capacity higher than 100 kW – the hourly zonal price.

(ii) Minimum Guaranteed Prices determined by AEEGSI

AEEGSI opinion n. 483/2013

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

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

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

AEEGSI Resolution n. 618/2013

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

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

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

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

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

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

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

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

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

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

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

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

2. sum of three components, which are a result of the application:

- to the actual imbalancing which falls within the tolerated thresholds of the price equal to that provided under section 40.3 of Resolution AEEGSI SI 111/06, as amended by Resolution 522/2014/R/eel;

- to the actual imbalancing exceeding the tolerated thresholds of the price equal to that provided under section 30.4(b) of Resolution AEEGSISI 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-comprihensive tariff*, imbalancing costs and the counter-value deriving from participation in the daily market ("*mercato infragiornaliero*" or "MI") are transferred from GSE to the same producers pursuant to the provisions defined by GSE under its Technical Rules.

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

(v) Law 116/2014 on the tariff cuts

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

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

(ii) extending the 20-year term of the FiT to 24 years with a reduction in the FiT in a range of 17%-25%, depending on the time remaining on the term of the FiT for the relevant photovoltaic plant, with higher reductions applicable to photovoltaic plants that commenced operations earlier (based on the remaining years in the initial guaranteed FiT period of our existing Italian photovoltaic plants, the expected reduction in the FiT for the our photovoltaic plants would have been approximately 19%);

(iii) a rescheduling in the FiT so that during an initial period the FiT is reduced and during the second period the FiT is increased in the same amount of the reduction with the goal to guarantee an annual saving of at least 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 chose one of the alternatives set forth in (i) - (iii) above can benefit from governmentally subsidized lines of credit or guarantees, for a maximum amount equal to the difference between the incentive due as of December 31, 2014 and the rescheduled incentive under the alternative chosen. The guarantee or line of credit will be made available by Cassa depositi e prestiti, a financing institution controlled by the Italian government, according to criteria that will be determined by a specific decree, as described in detail under paragraph (iii) below.

Implementing decrees

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

(i) The decree on the payment terms by GSE

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

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

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

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

None of our Italian PV Plants opted for this option.

(iii) CDP Decree

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

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

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

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

Constitutional Court Judgment

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

Interventions on operating plants and incentives

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

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

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

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

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

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

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

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

   (i) re-determine the applicable tariff, if the procedures on tariff admission were complied with notwithstanding the fake fractioning; or

(ii) declare the retrospective forfeiture from the tariff, if the procedures on tariff admission were not complied with as a result of the fake fractioning.

Retention from Incentives for Panel Disposal

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

The guidelines provide that the retention shall start from the 11th year of incentive and shall be calculated, for plants with nominal capacity higher than 10 kWp, on the basis of the following formula:

*[2 * (n – i + 1) / n * (n + 1)] * total quota*

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

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

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

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

New provisions regarding determination of cadastral value

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

Material Effects of Government Regulations on the Spanish PV Plants

The 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 was 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 current 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 current 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 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 formulated IT-categories and, as a result of such inclusion, is based on the retribution parameters assigned to that particular IT-category.

b) According to RD 413/2014, the calculation of the Specific Remuneration of each IT-category shall be performed taking into account the following parameters:

(i) the standard revenues for the sale of energy production, valued at the production market prices;
(ii) the standard exploitation costs; and
(iii) the standard value of the initial investment. For this calculation, only those costs and investments that correspond exclusively to the electricity production activity will be taken into account. Furthermore, costs or investments determined by administrative rules or acts that do not apply throughout Spanish territory will not be taken into account.

c) Order 1045/2014 established the relevant parameters applicable to each IT-category. Therefore, in order to ascertain the total amount of the Specific Remuneration applicable to a particular installation it is necessary to (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 (7.398% before taxes).

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 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 Hidrocantábrico). Therefore, in the event there is a temporary deviation between revenues and costs of the electricity system on any given monthly settlement, this deviation shall be borne by all the companies participating in the settlement system (including renewable facilities).

Taxation of the income from generation of electricity

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

Dori Energy and the Dorad Power Plant

General

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

Dori Energy

On November 25, 2010, Ellomay Clean Energy Ltd., or Ellomay Energy, our wholly-owned subsidiary, entered into an Investment Agreement, or the Dori Investment Agreement, with the Dori Group and Dori Energy, with respect to an investment by Ellomay Energy in Dori Energy. Pursuant to the terms of the Dori Investment Agreement, Ellomay Energy invested a total amount of NIS 50 million (approximately $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 was exercisable starting from issuance and was due to expire within twelve (12) months following the completion and delivery of the power plant and the second option commenced at this date and was due to 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 May 2015, we exercised the first option and in May 2016, we exercised the second option.

Following the exercise of the second option to acquire additional share capital of Dori Energy, our holdings in Dori Energy increased from 49% to 50% and our indirect ownership of Dorad increased from 9.1875% to 9.375%. The aggregate amount paid in connection with the exercise of this option amounted to approximately NIS 2.8 million (approximately $0.7 million), including approximately NIS 0.4 million (approximately $0.1 million) required in order to realign the shareholders loans provided to Dori Energy by its shareholders with the new ownership structure.

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

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

The Dorad Power Plant

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

Dorad currently operates the Dorad Power Plant, a combined cycle power plant based on natural gas, with a production capacity of approximately 850 MW, located south of Ashkelon. The Dorad Power Plant was constructed as a turnkey project, with the consideration denominated in US dollars and commenced commercial operations 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 Israeli Electricity Authority. The existing transmission and delivery lines are operated by the IEC, which is the only entity that holds a license to operate an electricity system in Israel. The Dorad Power Plant is based on combined cycle technology using natural gas. The combined cycle configuration is a modern technology to produce electricity, where gas turbines serve as the prime mover. After combustion in the gas turbine to produce electricity, the hot gases from the gas turbine exhaust are directed through an additional heat exchanger to produce steam. The steam powers a steam turbine connected to a generator, which produces additional electric energy. The Dorad Power Plant is comprised of twelve natural gas turbines, each with an installed capacity of 50 MWp and two steam turbines, each with an installed capacity of 100 MWp. These turbines can be turned on and off quickly, with no material losses in energy efficiency, which provides operational flexibility in accordance with the expected needs of customers and the IEC, calculated based on a proprietary forecasting system implemented by Dorad.

The other shareholders in Dorad are Eilat Ashkelon Infrastructure Services Ltd. (37.5%) and Edelcom Ltd., or Edelcom, (18.75%), both Israeli private companies, and Zorlu 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.

During July 2016, Dorad repaid an aggregate amount of approximately NIS 350 million (approximately $93 million) of shareholders' loans (of which approximately NIS 204 million (approximately $54 million) for repayment of interest and linkage and the remainder of approximately NIS 146 million (approximately $39 million) for partial repayment of principal). Dori Energy's portion of such repayment was approximately NIS 66 million (approximately $17.6 million). During January 2017, Dorad repaid an additional aggregate amount of approximately NIS 50 million (approximately $13.3 million) of interest and principal on account of shareholders loans and Dorad expects to repay an additional amount of approximately NIS 30 million (approximately $8 million) during 2017. For information concerning Dori Energy's portion of these repayments, see below.

Dorad entered into a credit facility agreement with a consortium led by Bank Hapoalim Ltd., or the Dorad Credit Facility, and financial closing of the Dorad Power Plant was reached 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, 2016. Dorad's senior loan facility is linked to the Israeli CPI. As the production tariff is partially linked to the Israeli CPI, the exposure is minimized. However, as the production tariff is published in delay with respect to the actual changes in the CPI, Dorad executed derivative transactions on the Israeli CPI. In connection with the Dorad Credit Facility, Dorad's shareholders (including Dori Energy) undertook to provide guarantees to certain customers, to the IEC and to various suppliers and service provides of Dorad and also undertook to indemnify Dorad and the consortium in connection with certain expenses, including payments to customers due to delays in the commencement of operations, payment of liquidated damages to the construction contractors in the event of force majeure and certain environmental hazards. The aggregate investment of Dorad in the construction of the Dorad Power Plant was approximately NIS 4.7 billion (equivalent to approximately $1.2 billion). The Dorad Credit Facility provides for the establishment of the project's accounts and determines the distribution of the cash flows among the accounts. In addition, the Dorad Credit Facility includes terms and procedures for executing deposits and withdrawals from each account and determines the minimum balances in each of the capital reserves.

As of December 31, 2016, Dori Energy provided guarantees to the Israeli Electricity Authority, to the IEC and to Israel Natural Gas Lines Ltd. in the aggregate amount of approximately NIS 30.5 million (approximately $7.9 million). As of December 31, 2016, the principal and accrued interest on the shareholders loans provided to Dorad by Dori Energy was in the aggregate amount of approximately NIS 42.7 million (approximately $11.1 million), following the repayment of shareholder loan to Dori Energy in July 2016 amounting to approximately NIS 66 million (approximately $17 million). In January 2017 an additional payment of principal and interest on account of the shareholder loan of approximately NIS 9.4 million (approximately $2.5 million) was received by Dori Energy and Dorad expects to repay an additional amount of approximately NIS 5.6 million (approximately $1.5 million) to Dori Energy during 2017. The shareholders loans bear 10% interest and are linked to the Israeli CPI.

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

The Dorad Power Plant commenced operations in May 2014, following the receipt of the permanent 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 Zorlu Enerji Elektrik Uretim A.S., or Zorlu, 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 Zorlu 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.

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

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

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

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

Following this demand, on July 16, 2015, Dori Energy and Dori Energy's representative on Dorad's board of directors, who is also a member of our Board of Directors, filed a petition, or the Petition, for approval of a derivative action on behalf of Dorad with the Economic Department of the Tel Aviv-Jaffa District Court. The Petition was filed against Zorlu, Zorlu's current and past representatives on Dorad's board of directors and Wood Group and several of its affiliates, all together, the Defendants. The petition requested, inter alia, that the court instruct the Defendants to disclose and provide to Dorad documents and information relating to the contractual relationship between Zorlu and Wood Group, which included the transfer of funds from Wood Group to Zorlu in connection with the EPC agreement of the Dorad Power Plant. For the sake of caution, Plaintiffs further requested to reserve their rights to demand, on behalf of Dorad, monetary damages in a separate complaint after Dorad receives the aforementioned information and documents.

On January 12, 2016, Dori Energy filed a motion to amend the Petition to add Ori Edelsburg (a director in Dorad) and affiliated companies as additional respondents, to remove Zorlu's representatives and to add several documents which were obtained by Dori Energy, after the Petition had been filed. Dorad and Wood Group filed their response to the motion to amend the Petition and Zorlu filed a motion for dismissal. During the hearing held on March 10, 2016, Zorlu withdrew the motion for dismissal and is required to submit its response to the motion to amend the Petition by March 31, 2016.

At a hearing held on April 20, 2016, the request submitted in January 2016 to amend the Dori Energy Petition to add Ori Edelsburg (a director in Dorad) and affiliated companies as additional respondents was approved. Subsequent to the date of this report, at the end of July 2016, the respondents filed their responses to the amended Dori Energy Petition. Dori Energy and Hemi Raphael had until December 19, 2016 to reply to the respondents' response. Following the recusal of the judges in the Economic Department of the Tel Aviv-Jaffa District Court, in September 2016 the President of the Israeli Supreme Court instructed that the parties will inform the court as to the proper venue in which the petition should be heard and to update the court whether the parties reached an agreement as to the transfer of the dispute to an arbitration proceeding. During October 2016, Dori Energy notified the court that the parties have not yet reached an agreement and requested that the court determine which judges will decide on the petition and the respondents notified the court that the discussion concerning transferring the dispute to an arbitration process are advancing and an attempt will be made to reach an arbitration agreement during November 2016. On November 15, 2016, the President of the Israeli Supreme Court instructed that the parties will update the court on the proposed transfer of the proceeding to an arbitration process by early December 2016.

On December 27, 2016, an arbitration agreement was executed pursuant to which this proceeding, as well as the two proceedings mentioned below will be arbitrated before Judge (retired) Hila Gerstel. In her decision dated January 2, 2017, the arbitrator ruled, among other things, that the statements of claim in the various proceedings will be submitted by February 19, 2017, the statements of defense will be submitted by April 4, 2017, discovery affidavits will be submitted by April 6, 2017, responses will be submitted by May 4, 2017 and a preliminary hearing will be held on May 10, 2017. These dates were extended with the agreement of the parties so that the statements of claim will be submitted by February 23, 2017 and the statements of defense will be submitted by April 9, 2017. Following the execution of the arbitration agreement, Dori Energy and Mr. Raphael requested the deletion of the proceeding and the request was approved. A statement of claim was filed by Dori Energy and Mr. Raphael on behalf of Dorad against Zorlu, Mr. Edelsburg, Edelcom and Edeltech Holdings 2006 Ltd. on February 23, 2017 in which they repeated their claims included in the amended Petition and in which they required the arbitrator to obligate the defendants, jointly and severally, to pay an amount of $183,367,953 plus interest and linkage to Dorad. During March 2017, the respondents filed two motions with the arbitrator as follows: (i) to instruct the plaintiffs to resubmit the statement of claim filed in connection with the arbitration proceedings in a form that will be identical to the form of the statement of claim submitted to the court, with the addition of the monetary demand only or, alternatively, to instruct that several sections and exhibits will be deleted from the statement of claim and (ii) to postpone the date for filing their responses by 45 days from the date the motion set forth under (i) is decided upon. The plaintiffs filed their objection to both motions and some of the respondents filed their responses to the objection. The arbitrator has not yet rendered her decision in the matter. We estimate (after consulting with legal counsel), that at this early stage it is not yet possible to assess the outcome of the proceeding. For more information see Note 6 to our annual financial statements included elsewhere in this Report.

Petition to Approve a Derivative Claim filed by Edelcom

On February 25, 2016 the representatives of Edelcom Ltd., which holds 18.75% of Dorad, or Edelcom, and Ori Edelsburg sent a letter to Dorad requesting that Dorad file a claim against Ellomay Energy, our wholly-owned subsidiary that holds Dori Energy's shares, the Luzon Group and Dori Energy referring to an entrepreneurship agreement that was signed on November 25, 2010 between Dorad and the Luzon Group, pursuant to which the Luzon Group received payment in the amount of approximately NIS 49.4 million (approximately $12.7 million) in consideration for management and entrepreneurship services. Pursuant to this agreement, the Luzon Group undertook to continue holding, directly or indirectly, at least 10% of Dorad's share capital for a period of 12 months from the date the Dorad Power Plant is handed over to Dorad by the construction contractor. The Edelcom Letter claims that as a consequence of the management rights and the options to acquire additional shares of Dori Energy granted to us pursuant to the Dori Investment Agreement, the holdings of the Dori Group in Dorad have fallen below 10% upon execution of the Dori Investment Agreement. The Edelcom Letter therefore claims that Dori Group breached its commitment according to entrepreneurship agreement. The Edelcom Letter requests that Dorad take all legal actions possible against the Dori Group, Dori Energy, Ellomay Energy and Mr. Hemi Raphael to recover the amounts it paid in accordance with the entrepreneurship agreement and also notify Dori Energy that, until recovery of the entrepreneurship fee, Dorad shall withhold the relevant amount from any amount Dori Energy is entitled to receive from Dorad, including repayments of shareholders' loans and dividend distributions. On July 25, 2016, Edelcom filed a petition for approval of a derivative action against Ellomay Energy, the Luzon Group, Dori Energy and Dorad. In November 2016, Ellomay Energy and Dori Energy filed a joint petition requesting that this application be transferred to the same judges who will be adjudicating the petition filed by Dori Energy and Hemi Raphael mentioned above and on November 27, 2016, Edelcom filed an objection to this request. As noted above, on December 27, 2016, an arbitration agreement was executed pursuant to which this proceeding, as well as the proceeding mentioned above and below will be arbitrated before Judge (retired) Hila Gerstel. On February 23, 2017, Edelcom submitted the petition to approve the derivative claim to the arbitrator. For more information see above. We estimate (after consulting with legal counsel), that at this early stage it is not yet possible to assess the outcome of the proceeding. Following the execution of the arbitration agreement, this proceeding was deleted. For more information see Note 6 to our annual financial statements included elsewhere in this Report.

Statement of Claim filed by Edelcom

In July 2016, Edelcom filed a statement of claim, or the Edelcom Claim, with the Tel Aviv District Court against Dori Energy, Ellomay Energy, the Luzon Group, Dorad and the other shareholders of Dorad. In the Edelcom Claim, Edelcom contends that a certain section of the shareholders agreement among Dorad's shareholders, or the Dorad SHA, contains several mistakes and does not correctly reflect the agreement of the parties. Edelcom claims that these purported mistakes were used in bad faith by the Luzon Group, Ellomay Energy and Dori Energy during 2010 in connection with the issuance of Dori Energy's shares to Ellomay Energy and that, in effect, such issuance was allegedly in breach of the restriction placed on Dorad's shares and the right of first refusal granted to Dorad's shareholders in the Dorad SHA. The Edelcom Claim requests the court to: (i) issue an order compelling the Luzon Group, Ellomay Energy and Dori Energy to act in accordance with the right of first refusal mechanism included in the Dorad SHA and to offer to the other shareholders of Dorad, including Edelcom, a right of first refusal in connection with 50% of Dori Energy's shares (which are currently held by Ellomay Energy, a wholly-owned subsidiary of the Company), under the same terms agreed upon by the Luzon Group, Ellomay Energy and Dori Energy in 2010, (ii) issue an order instructing Dorad to delay all payment due to Dori Energy as a shareholder of Dorad, including dividends or repayment of shareholders' loans, for a period as set forth in the Edelcom Claim, (iii) issue an order instructing Dorad to remove Dori Energy's representative from Dorad's board of directors (currently Mr. Hemi Raphael, who also serves on our Board) and to prohibit his presence and voting at the Dorad board of directors' meetings, for a period as set forth in the Edelcom Claim, and (iv) grant any other orders as the court may deem appropriate under the circumstances. In November 2016 Ellomay Energy and Dori Energy filed a joint petition requesting that this application be transferred to the same judges who will be adjudicating the petition filed by Dori Energy and Hemi Raphael mentioned above and on November 27, 2016, Edelcom filed an objection to this request. As noted above, on December 27, 2016, an arbitration agreement was executed pursuant to which this proceeding, as well as the two proceeding mentioned above will be arbitrated before Judge (retired) Hila Gerstel. On February 23, 2017, Edelcom submitted the statement of claim to the arbitrator. We estimate (after consulting with legal counsel), that at this early stage it is not yet possible to assess the outcome of the proceeding. For more information see above. Following the execution of the arbitration agreement, this proceeding was deleted.

Opening Motion filed by Edelcom

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

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

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

During January 2017, after the Luzon Group amended its prospectus to reflect the issuance of unsecured debentures, Edelcom filed a motion to stop the Opening Motion as Edelcom claimed it was no longer relevant. The Luzon Group requested the court to either rule that Edelcom's request to stop the Opening Motion permits the creation of the lien on the Luzon Gorup's shares of Dori Energy or, to the extent Edelcom has not changed its claims, the request to stop the Opening Motion should be rejected and the case ruled on by the court as soon as possible in order to enable the Luzon Group to provide a pledge on its shares of Dori Energy to its debenture holders. In February 2017, Edelcom filed its response to the Luzon Group's request noting that the Luzon Group's position is not possible as the Luzon Group undertook not to pledge Dori Energy shares until the Opening Motion is decided on and on the other hand the Luzon Group claims that there is still an undertaking to provide the pledge. The trustee of the debentures issued by the Luzon Group notified the court that it does not have a position in the matter. During March 2017 a hearing was held and it was decided that the Luzon Group will file during March 2017 an opening motion on its behalf and such opening motion was filed by the Luzon Group. A hearing was scheduled for May 2017. Based on our review of the Opening Motion and related documents, we estimate that the chances of the court dismissing the Opening Motion filed by Edelcom are higher than the chances of the court granting the relief requested in such Opening Motion. On January 5, 2017, Ellomay Energy LP filed a request to join the proceeding as the outcome of the Opening Motion may materially affect its rights. The court approved Ellomay Energy LP's request and accordingly it may file its response to the Opening Motion until April 25, 2017.

The Israeli Electricity Market; Competition

The Israeli electricity market is dominated by the Israel Electric Corporation (IEC), which manufactures and sells most of the electricity consumed in Israel and by the Palestinian Authority and had an installed capacity of approximately 13.6 GW as of November 2015. According to the Israeli Electricity Authority's report on the electricity sector, published on November 2015, this installed capacity will have comprised 85% of the total installed capacity in the Israeli market. The IEC controls both the transmission network (for long-distance transmittal of electricity) and the distribution network (for transmittal of electricity to the end users). In recent years, various private manufacturers received energy production licenses from the Israeli Electricity Authority. During 2015 Israel's largest privet power plant, Dalia Power Energies Ltd, was commissioned with installed capacity of approximately 900 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. However, as long as the regulation remains unchanged, as the IEC controls the transmission and delivery lines and the connection of the private power plants to the Israeli national grid, Dorad and the other private manufacturers are dependent on the IEC for their operations and may also be subject to unilateral actions on the part of IEC's employees. For example, the approval of Dorad's permanent licenses was delayed due to ongoing disputes between the IEC and its employees. For more information see "Material Effects of Government Regulations on Dorad's Operations" below.

Customers

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

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 could 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 June 2014 Dorad compensated Mekorot by the full amount of the compensation due to it (including interest accrued until that date).

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

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

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

Agreement with Tamar

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

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

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

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

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

- During an interim period, that will commence upon the fulfillment of conditions set forth in the Tamar Agreement, or the Interim Period, the natural gas supply to Dorad will be subject to the quantities of natural gas available to Tamar at the time following the supply of natural gas to customers of the "Yam Tethys" project and other customers of Tamar that have executed natural gas supply agreements with Tamar prior to the execution of the Tamar Agreement. The Interim Period will end after (and to the extent) Tamar completes a project to expand the supply capacity of the natural gas treatment and transmission system from Tamar, subject to the fulfillment of conditions set forth in the Tamar Agreement, or the Expansion Project. In the event the conditions for the completion of the Expansion Project are not fulfilled, or the Expansion Project is not completed by the dates set forth in the Agreement, Dorad shall be entitled to terminate the Tamar Agreement. Upon completion of the Expansion Project, the minimum capacity set forth in the Tamar Agreement will increase and the Total Contract Quantity will increase respectively up to approximately 13.2 BCM. On April 30, 2015, Dorad received a notification from Tamar whereby the Interim Period began on May 5, 2015. As per Dorad's estimate, the impact of Tamar's notification on its activities is not expected to be significant.

- The natural gas price set forth in the Tamar Agreement is linked to the production tariff as determined from time to time by the Israeli Electricity Authority, which includes a "final floor price." Following the decreases in the price of fuel and electricity during 2015, the Israeli Electricity Authority reduced the rate of electricity production, and as a result the natural gas price under the Tamar Agreement reached the "final floor price" in March 2016.

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

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

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

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

Dorad is also a party to a natural gas delivery agreement and to a diesel oil warehousing agreement. In November 2013, the Natural Gas Authority of the Israeli Ministry of 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, or the Electricity Market Regulations. In addition, standards, guidelines and other instructions published by the Israeli Electricity Authority (established pursuant to Section 21 of the Electricity Law) and\or by the Israeli Electric Company also apply to the production of electricity by the private sector in Israel.

Licenses

In February 2010, the Israeli Electricity Authority granted Dorad a Conditional License, as defined by the Electricity Market Regulations, 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 MW. 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 Israeli Electricity Authority resolved to grant Dorad a generation license for a period of twenty years and a supply license for a period of one year, or the Licenses, which become effective with the receipt of the approval of the 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 Israeli Electricity Authority, the legal advisor to the government and the Minister, to provide the reasons for not signing the Licenses despite governmental undertakings that were provided to Dorad. An urgent hearing at the High Court of Justice was scheduled for May 11, 2014. At the hearing the parties to the Petition reached a settlement, which the Israeli High Court of Justice approved, that, among other things, included the agreement of the parties that the Minister will approve the Licenses and that Dorad will be made a party to any petition or claim filed in the future by any of the parties that may affect Dorad. In August 2014, Dorad filed a request to extend the supply license for an additional period of nineteen years and the long-term supply license was executed in July 2015.

Tariffs

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

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

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

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

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

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

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

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

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

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

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

Permits and Environmental Laws

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

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

Pumped Storage project in the Manara Cliff in Israel

General

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 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 indirectly wholly-owned subsidiary, Ellomay Manara (2014) Ltd., or Ellomay Manara, entered into an agreement, or the Electra Agreement, with Electra Ltd., or Electra, an Israeli publicly 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 an eighteen-month put option and call option, respectively, with respect to the entire holdings in the EPC. In addition to the aforementioned agreements, on January 19, 2014 we entered into an agreement with Galilee Development Cooperative Ltd., an Israeli cooperative, or the Cooperative, pursuant to which, subject to the fulfillment of 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.

In August 2016, Ellomay Pumped Storage (2014) Ltd., or Ellomay PS, our 75% owned subsidiary, received a conditional license, or the Conditional License, for the Manara Cliff pumped storage project from the Israeli Minister of National Infrastructures, Energy and Water Resources, or the Minister. The Conditional License regulates the construction of a pumped storage plant in the Manara Cliff with a capacity of 340 MW. The Conditional License includes several conditions precedent to the entitlement of the holder of the Conditional License to receive an electricity production license. The Conditional License is valid for a period of seventy two (72) months commencing from the date of its approval by the Minister, subject to compliance by Ellomay PS with the milestones set forth therein and subject to the other provisions set forth therein (including a financial closing, the provision of guarantees and the construction of the pumped storage hydro power plant). The aggregate capital expenditure in connection with the Manara Project through September 30, 2016 were approximately NIS 12.9 million (approximately $3.4 million).

In September 2016, Ellomay PS filed a petition, or the Petition, with the Israeli High Court of Justice against the Minister, the Israeli Electricity Authority and the owner of the Kochav Hayarden pumped storage project. The Petition was filed in connection with the decision of the Israeli Electricity Authority to extend the financial closing milestone deadline of the Kochav Hayarden pumped storage project, which received a conditional license for a pumped storage plant with a capacity of approximately 340 MW in 2014. In the Petition, Ellomay PS requests the High Court to order the Israeli Electricity Authority to explain why the extension should not be canceled, due to, among other reasons, the lack of authority of the Israeli Electricity Authority to extend this milestone deadline. Should the extension decision be revoked, the conditional license provided to Kochav Hayarden is expected to terminate as the original financial closing milestone deadline has passed. Among its other claims, Ellomay PS claims that as the current quota for pumped storage projects determined by the Israeli Electricity Authority is 800 MW, and there is one 300 MW project that is already in the construction phase, the extension approved by the Israeli Electricity Authority could irreparably harm Ellomay PS's chances of receiving a permanent license if the Kochav Hayarden project receives its permanent license first. In January 2017, the Israeli High Court of Justice dismissed the Petition.

On March 3, 2017, Ellomay PS filed a petition , or the March 2017 Petition, with the Israeli High Court of Justice against the Minister, the Electricity Authority, or, jointly Respondents 1-2, and the owner of the Kochav Hayarden pumped storage project, or Kochav Hayarden. Ellomay PS has also filed, with the March 2017 Petition, a motion for an interim relief, which will prevent Respondents 1-2 from granting Kochav Hayarden any approval in connection with any milestones stipulated in Kochav Hayarden's conditional license. The March 2017 Petition was filed in connection with the decision of the Electricity Authority, dated February 20, 2017, to extend the following milestones deadlines stipulated in Kochav Hayarden's conditional license: (i) financial closing milestone deadline of Kochav Hayaden (which received a conditional license for a 340 MW pumped storage power plant on October 27, 2014); and (ii) construction period for Kochav Hayarden's project. Kochav Hayarden filed its response to the request for the motion for an interim relief on March 16, 2017. In its response, amongst other claims, Kochav Hayarden claimed the motion should be dismissed, as should the March 2017 Petition, and requested that if the court grants Ellomay PS's motion for an interim relief, Ellomay PS be obligated to post a bond in the amount of NIS 10 million in order to cover Kochav Hayarden's damages caused by the interim relief. Respondents 1-2 filed their response to the request for the motion for an interim relief on March 23, 2017, and claimed, amongst other claims, that the motion should be dismissed, as should the March 2017 Petition. On March 27, 2017, the court rendered the following decision: (i) granted an interim relief to Ellomay PS, preventing the Respondent 2 from approving the financial closing of Kochav Hayarden until the court's ruling in the March 2017 Petition; (ii) Ellomay PS shall post a bond of NIS 2,000,000 no later than April 18, 2017; (iii) the March 2017 Petition would be scheduled for a hearing no later than the end of May 2017, subject to the court's availability, and that the Respondents 1-3 would submit their responses to the March 2017 Petition no later than 21 days before the hearing.

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

Pumped Storage Plants

Pumped storage plant is a form of renewable energy generated in a power plant capable of creating a limited amount of energy on demand and is one of the most mature energy storage technologies.

The technology allows storing available energy for later use. The technology is working for more than 100 years around the world providing over 100,000 MW. The plant is a hydro-electric storage system comprised of two water reservoirs (upper and lower), connected through an underground water pressure pipe. Pumped storage allows optimal grid stability functionality by providing a combination of low latency, high power and high energy response (~90 sec, 340MW, 8 hours). During low demand – pumping water from lower reservoir for energy storage and during peak demand – releasing water from upper reservoir for energy production. Utilizing excess manufacturing ability during low demand in order to increase supply during peak demand and providing available reserve to be used by the grid dispatcher during peak and low demand.

The need for electricity storage solutions in the Israeli electricity market

The demand for electricity in the Israeli market and generally is affected by many factors including the weather, time of day and day of the week. In order to provide all the needed electricity, the IEC is constantly over-generating energy as result of using low flexibility energy sources (coal and gas). The demand curve is generally characterized by peak demand, usually in summer afternoons or winter evenings, and low demand during night times. During low demand periods, the majority of energy is produced by base-load plants in relatively cheap production costs while at peak demand times, more expensive energy sources are added. During recent years, the use of renewable, volatile energy sources has increased and added more volatility to the grid, storing energy during low demand and releasing it during peak demand.

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

The Manara Project

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

In connection with the Manara Project, Ellomay Manara entered into land agreements with the land owners and a water supply agreements with the Galil Elyon Water Association and performed geological and hydrology surveys and an environmental impact assessment.

Competition

The purpose of pumped storage systems is to stabilize the grid's voltage and to create optimization in the management of the electricity grid. Due to recent changes in the applicable regulation, the Manara Project will not enter into electricity sale agreements with private customers, but rather will provide 100% of the plant's available capacity and energy to the System Manager (IEC), pursuant to a power purchase agreement. The main competitors of the Manara Project are other entities that are planning the construction of pumped storage power plants, competing for the same available quota for such plants. There are currently two other entities promoting the construction of pumped storage projects in Israel – PSP Investments Ltd., developing a project in Ma'ale Gilboa, which is in the construction phase and has been allocated 300 MW of the 800 MW general quota following financial closing, and Star Pumped Storage Ltd., developing a project in Kochav Hayarden (approximately 340 MW), which is in the stages of financial closing for the project.

Material Effects of Government Regulations on the Manara Project

The Manara Project is subject to the Israeli governmental and local regulations applicable to energy manufacturers, including the Electricity Market Regulations. For more information concerning the Israeli electricity market and regulation see "The Israeli Electricity Market; Competition" and "Material Effects of Government Regulations on the Manara Project" under "Dori Energy and the Dorad Power Plant" above.

The Manara Project was announced by the Israeli Government as a national infrastructure project, was designed in the framework of the national infrastructure plan 41 (pumped storage) as a 200 MW power plant, and received the government's approval (decision 6183).

Licenses

The Manara Project was granted a conditional license by the Israeli Electricity Authority for the construction of a pumped storage power plant with a capacity of 200 MW, which has expired. In August 2016, Ellomay PS received a conditional license for a pumped storage plant with a capacity of 340 MW, after the initial development stage, including receiving a feasibility survey from IEC, was finalized. In addition, the Editors Committee of the National Outline Plan #10 approved the increase of capacity to 340 MW. Recently, the regional planning committee gave its approval for deposit of the plan for public review. The financial closing of the Manara Project is subject to the availability of a quota for pumped storage plants and the general quota set forth by the Israeli Electricity Authority for pumped-storage projects in Israel is currently set at 800 MW, of which a portion of 500 MW is currently still available.

The licenses issued by the Israeli Electricity Authority include several milestones and in the event the owner of the project does not meet any of the milestones the Israeli Electricity Authority has the authority to revoke the license.

In August 2015, The Manara Project received a license of a water plant from the Water Authority, and the water rationing needed for preliminary fill of the reservoirs as well as for continues operation.

Tariffs

In November 2009, the Israeli Electricity Authority published the power purchase agreement for a private electricity manufacturer producing electricity using pumped storage technology (Meeting 279), with the following principles:

- Purchase of availability from a licensed private conventional manufacturer;
- Payment for availability, start-ups and dynamic benefits;
- The plant is required to be under the full control of the system manager (currently the IEC);
- Capital and operational tariff for availability – including exchange rate linkage, indexes and interests;
- During the first eighteen years the plant is entitled to capital and operational tariff and during the following two years the plant is entitled to operational tariff only; and
- Bonuses and fines mechanism, based on standard technical operational parameters.

Waste-to-Energy Projects

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

In July 2016, we, through Ellomay Luxemburg, entered into the Ludan Agreement with Ludan in connection with Waste-to-Energy (specifically, Gasification and Bio-Gas (anaerobic digestion)) projects in the Netherlands. Based on information received from Ludan, Ludan, either by itself and/or through its affiliates currently own certain option rights in a few biogas plants, and were involved in the design and/or construction of fourteen biogas projects in the Netherlands and Spain.

Pursuant to the Ludan Agreement, subject to the fulfillment of certain conditions (including the financial closing of each project, with the exception of the Goor Project, and receipt of a valid Sustainable Energy Production Incentive subsidy from the Dutch authorities and applicable licenses), we, through Ellomay Luxembourg, will acquire at least 51% of each project company and Ludan will own the remaining 49% (each project that meets the conditions under the Ludan Agreement is referred to as an "Approved Project"). In the event additional entities will invest in an Approved Project, their holdings will not dilute Ellomay Luxembourg's 51% share without our prior approval, and in any case, Ellomay Luxembourg will maintain the majority stake in any project company. The amount invested by us in each Approved Project will be comprised of: (i) our share of the equity based on its holdings in the Approved Project and (ii) an additional amount up to an aggregate investment that will reflect a pre-determined minimal internal rate of return to us, up to a certain maximum percentage of the aggregate investment by Ludan and us. Ludan will provide the remaining required equity. The expected overall capital expenditure of the projects is approximately EUR 200 million (including project financing).

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

The Ludan Agreement includes customary limitations on transfer of holdings in the project companies, termination provisions and minority rights. The Ludan Agreement may be terminated, inter alia, in the event the parties will not reach an understanding as to the contents of the EPC and O&M agreements within sixty days following the financial closing of each of the projects, with the exception of the Goor Project, with respect to which we already entered into an MOU covering its O&M agreement and into an EPC agreement.

As noted below, we acquired 51% of the Goor Project in December 2016 pursuant to the Ludan Agreement. We are currently in the process of due diligence of an additional project company developing an anaerobic digestion plant, with a green gas production capacity of approximately 475 Nm3/h, in the Netherlands.

There can be no assurance as to the number of other projects that will meet the contractual requirements and become Approved Projects, if any, or as to the timing of our participation in any Approved Project.

The Groen Goor Project

General

Pursuant to the Ludan Agreement, during July 2016 – November 2016, we, through Ellomay Luxemburg, entered into loan agreements with Ludan whereby we provided approximately Euro 2.1 million (approximately $2.3 million) to Ludan, or the Groen Goor Loans, for purposes of the acquisition of the Goor Project's land and the rights in Groen Goor, a project company developing an anaerobic digestion plant, with a green gas production capacity of 375 Nm3/h, in Goor, the Netherlands. Ellomay Luxemburg was issued shares representing a 51% interest in Groen Goor. The Groen Goor Loans converted into Ellomay Luxemburg shareholder's loans to Groen Goor upon the financial closing of the Goor Project, which occurred on December 20, 2016.

Groen Goor EPC and O&M Agreements

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

It is estimated that the duration of the construction of the Goor Project shall be approximately one year and the expected overall capital expenditure in connection with the Goor Project is approximately Euro 10 million (approximately $10.6 million), including bank financing.

Groen Goor is entitled to terminate the EPC Agreement without cause, or if Ludan breaches any of its obligations under the EPC Agreement, or in any other case where the EPC Agreement grants Groen Goor any termination rights. Ludan is entitled to terminate the EPC Agreement if Groen Goor fails to comply with its obligations in accordance with the EPC Agreement, including its payment obligations, or any other case where the EPC Agreement grants Ludan any termination rights. In November 2016 Groen Goor entered into an EPC agreement with Ludan.

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

Groen Goor shall be entitled to terminate the O&M Agreement in the event where the guaranteed performance criteria is not achieved for two (2) consecutive months, or in any three (3) months during any six (6) months period, or in each case where the annual production does not meet the annual guaranteed performance criteria; provided, however that a failure to meet the guaranteed performance criteria that does not exceed certain tolerance levels to be set forth in the O&M Agreement, will not constitute a breach by Ludan. In addition, each party shall be entitled to terminate the O&M Agreement upon any material breach by the other party subject to cure periods to be set forth in the O&M Agreement or upon the insolvency of the other party. Groen Goor shall also be entitled to terminate the O&M Agreement upon: (i) loss of permits or licenses required to Ludan for the fulfillment of Ludan's undertaking under the O&M Agreement; (ii) willful misconduct or gross negligence on the part of Ludan or anyone acting on its behalf; and (iii) the damages incurred by Groen Goor exceeding Ludan's liability cap.

The control in Ludan, shall not be changed vis a vis the control therein as of the date of the EPC and O&M MOUs, without the prior written approval of Groen Goor ("Control" means as defined in the Israeli Securities Law, 1968).

Groen Goor Project Finance

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

In connection with the Goor Loan Agreement, it is currently expected that Groen Goor and IPP will provide the following securities to Rabobank: (i) pledge on the present and future rights arising from the feedstock purchase agreement, the EPC agreement, the O&M agreement, the SDE subsidy, the various power and green gas purchase agreements, and the green gas certification supply agreement, (ii) pledge on all present and future (a) receivables arising from business and trade, and (b) stock and inventory including machinery and transport vehicles of Groen Goor and IPP; (iii) all rights/claims of Groen Goor and IPP against third parties existing at the time of the execution of the Loan Agreement, including rights from insurance agreements. It is also currently expected that Groen Goor will grant Rabobank a negative pledge and a mortgage up to an amount of Euro 6.5 million (to be increased with 35% (thirty five percent) of the said amount for interest and costs) on real estate or other assets subject to public registration.

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

As of December 31, 2016 an amount of Euro 3.9 million (approximately $4.1 million) was withdrawn on account of these loans.

Waste-to-Energy Technologies

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

Gasification in the waste-to-energy market is the process of converting organic carbonaceous materials into carbon monoxide, hydrogen and carbon dioxide (CO_2) by reacting the material at high temperatures (>700 °C), without combustion, with a controlled amount of oxygen and/or steam. This process produces a gas mixture called synthetic gas or syngas or producer gas and is itself a fuel. The organic materials used in the gasification process are a variety of biomass and waste-derived feedstocks, including wood pellets and chips and waste wood.

Anaerobic digestion is a biological process that produces a gas (also known as biogas) principally composed of methane (CH4) and carbon dioxide (CO_2). These gases are produced from organic waste such as livestock manure and food processing waste and from agro-residues. Depending on the type of feedstock used and the system design, biogas is typically 55%-75% pure methane. The biogas is emitted during the digestion process of the substrates by specific combinations of bacteria. As there is a relatively wide range of feedstock mix that can be used in the process, the facilities in the Netherlands are designed to allow flexibility and reduces dependency on certain feedstock mix or the feedstock supplier. The biogas is used to produce green gas, or bio-methane, with properties close to natural gas that is injected into the natural gas grid.

Benefits of Waste-to-Energy

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

The Netherlands Waste-to-Energy Market and Regulation

In 2009, the European Union enacted legislation that sets the climate and energy targets for the year 2020. The main targets are a 20% cut in greenhouse gas emissions compared to 1990 levels, the production of 20% of the energy in the EU from renewable sources and a 20% improvement in energy efficiency. The target for the rate of production of energy from renewable sources set for the Netherlands by the EU to be reached by the year 2020 is 14%. However, in 2014 only 5.5% of the energy in the Netherlands came from renewable sources, putting the Netherlands 8.5 percent away from its target. Based on publications of the Dutch government, it is the Dutch government's ambition to have 16% renewable energy by 2023.

The Netherlands waste treatment is subject to stringent regulatory requirements, requiring the approximately 10% of the market be processed. As a result, facilities that produce waste (such as farms) are expected to seek more appropriate solutions for waste management.

The current subsidy scheme for renewable energy in the Netherlands is called SDE+ (*"Stimulering Duurzame Energieproductie"* or stimulating renewable energy production). The SDE+ budget has increased substantially over recent years and has grown from Euro 1.7 billion in 2012 to Euro 3.5 billion in 2014. The budget is included as a premium on the Dutch energy bill. The SDE-contribution is equal to the base amount (cost price of renewable energy) minus the correction amount (earnings for fossil energy (SPOT price)). The SDE+ subsidy is calculated per annum based on the quantity of the produced eligible renewable energy and the set correction amount. The subsidy applies up to a maximum of full load hours and has a maximum duration dependent on the category of renewable energy involved. The SDE payments are made based on 80% of the expected outputs, rather than actual production. During the first months of the following year the actual SDE is calculated based on meter readings and the subsidies are adjusted upwards or downwards based on actual output.

The Dutch tax laws also provide for the Energy Investment Allowance ("EIA") – a tax advantage for companies in the Netherlands that invest in energy-efficient technology that meet the Energy List requirements (2016 - as published by the RVO), allowing a deduction of 58% of the investment costs from the corporate income, on top of the usual depreciation. The right to the EIA is declared with the tax return, provided the investment is timely reported to the Netherlands Enterprise Agency.

Due Diligence and Negotiations Concerning the Potential Acquisition of an Israeli PV Plant

We are currently in the process of due diligence and negotiations with respect to a proposed acquisition of the shares of an Israeli company that owns through a subsidiary a photovoltaic plant in Israel with a nominal capacity of approximately 9MWp, that was connected to the Israeli grid in November 2013, or the Israeli PV Plant. The fixed long-term tariff approved for the Israeli PV Plant was NIS 0.96 (approximately $0.26) per kWh, which is linked to the Israeli Consumer Price Index. The Israeli project company received financing from an Israeli bank. *As described below, to date we have no agreements, commitments or understandings with respect to such acquisition and there can be no assurance that the acquisition will occur or with respect to the terms of such acquisition.*

The Israeli project company entered into a long-term (20 years) standard power purchase agreement with the IEC, to which it provides all of the energy produced by the Israeli PV Plant. The electricity tariff paid by the IEC is guaranteed for a period of 20 years and is updated once a year based on changes to the Israeli Consumer Price Index. The IEC may generally terminate the power purchase agreement in the event it cannot by law perform its obligations thereunder, or in the event of breach of the electricity producer, in the event of the occurrence of any of the causes included in the applicable Israeli law or in the event the plant causes disruptions with the grid (after a 14-day prior notice).

As noted under "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 Law, and the regulations promulgated thereunder and by standards, guidelines and other instructions published by the Israeli Electricity Authority and\or by the IEC. In addition, the operations of PV plants in Israel are subject to various licensing, permitting and other regulations and requirements, issued and supervised by the relevant municipality, the Israeli Land Authority and various governmental entities including the Ministry of Agriculture and the Ministry of Defense.

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

There is no assurance that the due diligence and negotiations will conclude to our satisfaction or as to whether or not a definitive agreement will be executed. If a definitive agreement will be executed, the consummation of the acquisition is expected to be subject to several conditions precedent, including the approval of third parties and there is no assurance that such approvals will be obtained and under what conditions.

Material Effects of Government Regulations - General

Investment Company Act of 1940

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

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

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

Shell Company Status

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

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

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 Water Plants Holdings (2014) Ltd., which indirectly owns 75% of the rights in Chashgal Elyon Ltd., Agira Sheuva Electra, L.P. and Ellomay Pumped Storage (2014) Ltd. We hold 51% in the Goor Project through Ellomay Luxemburg.

D. Property, Plants and Equipment

Our office space of approximately 306 square meters is located in Tel Aviv, Israel. This lease currently expires in September 2017. 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 under the leasing agreements remains with the relevant owners of the Lands who are the grantors of the building rights under the respective building right agreements. In the case of the Galatina PV Plant our subsidiary owns the land on which the PV Plant is built. The following table provides information with respect to the Lands and the PV Plants:

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

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

PV Plant	Size of Property	Location	Owners of the PV Plants/Lands
"D'Angella"	3.79.570 hectares	Province of Barletta-Trani, Municipality of Minervino Murge, Puglia region	Building Right granted to Luma Solar S.r.l. that owns the PV Plant. Land held by owners and leased to Luma Solar S.r.l.
"Soleco"	11.56.87 hectares	Province of Rovigo, Municipality of Canaro,Veneto region	Building Right granted to Soleco S.r.l. that owns the PV Plant. Land held by owners and leased to Soleco S.r.l.
"Tecnoenergy"	11.66.78 hectares	Province of Rovigo, Municipality of Canaro, Veneto region	Building Right granted to Tecnoenergy S.r.l. that owns the PV Plant. Land held by owners and leased to Tecnoenergy S.r.l.
"Rinconada II"	81,103 m²	Municipality of Córdoba, Andalusia, Spain	Building Right granted to Ellomay Spain S.L. that owns the PV Plant. Land held by owners and leased to Ellomay Spain S.L.
"Rodríguez I"	65,600 m^2	Lorca Municipality, Murcia Region	Lease Agreement executed with owners.
"Rodríguez II"	50,300 m^2	Lorca Municipality, Murcia Region	Lease Agreement executed with owners.
"Fuente Librilla"	64,000 m^2	Fuente Librilla Municipality, Murcia Region	Lease Agreement executed with owners.

The anaerobic wet digestion plant producing Biogas, with a green gas production capacity of 375 Nm3/h, in Goor, the Netherlands is currently under construction. Groen Goor owns the land on which the plant is constructed.

For more information concerning the use of the properties in connection with the PV Plants and the Goor Project, 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 and clean energy. We own sixteen PV Plants that are operating and connected to their respective national grids as follows: (i) twelve photovoltaic plants in Italy with an aggregate installed capacity of approximately 22.6 MWp and (ii) four photovoltaic plants in Spain with an aggregate installed capacity of approximately 7.9 MWp. In addition, we indirectly own 9.375% of Dorad, which owns an approximate 850 MWp bi-fuel operated power plant in the vicinity of Ashkelon, Israel, 75% of Chashgal Elyon Ltd., Agira Sheuva Electra, L.P. and Ellomay Pumped Storage (2014) Ltd., all of which are involved in a project to construct a 340 MW pumped storage hydro power plant in the Manara Cliff, Israel, and 51% of Groen Gas Goor B.V., which is a company constructing an anaerobic digestion facility in Goor, the Netherlands. 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:

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.

Recognition of deferred tax asset in respect of tax losses

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

Assessment of probability of contingent liabilities

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

Results of Operations

Year Ended December 31, 2016 Compared with Year Ended December 31, 2015

Revenues were approximately $12.9 million (€11.6 million) for the year ended December 31, 2016, compared to approximately $13.8 million (€12.5 million) for the year ended December 31, 2015. The decrease in revenues is mainly a result of relatively lower electricity spot prices and radiation levels during the year ended December 31, 2016 compared to the year ended December 31, 2015, which was characterized by relatively high levels of radiation.

Operating expenses were approximately $2.3 million (€2.1 million) for the year ended December 31, 2016, compared to approximately $2.9 million (€2.6 million) for the year ended December 31, 2015. The decrease in operating expenses is mainly attributable to the reduction of municipal taxes paid by our Italian subsidiaries as a result of legislation adopted in 2016. Depreciation expenses were approximately $4.9 million (€4.4 million) for both the year ended December 31, 2016 and the year ended December 31, 2015.

General and administrative expenses were approximately $4.7 million for the year ended December 31, 2016, compared to approximately $3.7 million for the year ended December 31, 2015. The increase is mainly due to (i) expenses in connection with consulting services with respect to potential acquisitions and (ii) capital expenditures in the amount of $1.8 million in connection with the Manara Project, recorded in the general and administrative expenses. These amounts were partially offset by a decrease in salaries and related compensation costs following the termination of employment of one of our senior employees in October 2015.

Share of profits of equity accounted investee, after elimination of intercompany transactions, was approximately $1.5 million in the year ended December 31, 2016, compared to approximately $2.4 million in the year ended December 31, 2015. The decrease was mainly due to an update of the deferred taxes of Dorad resulting from the change in the applicable tax rates, the decrease in the electricity tariffs in February and September 2015, as well as the timing differences between the reduction in the tariffs and the decrease in the price of gas.

Other income, net was approximately $0.1 million in the year ended December 31, 2016, compared to approximately $0.02 million in the year ended December 31, 2015. Other income was primarily attributable to compensation to be received in connection with a pumped storage project in the Gilboa, Israel initially recognized in 2014. The revaluation of such financial asset is recognized as other income for the years ended December 31, 2015 and 2016.

Financing expenses, net was approximately $3.1 million for the year ended December 31, 2016, compared to financing income, net of approximately $0.6 million for the year ended December 31, 2015. The change in financing expenses was mainly due to income derived from the reevaluation of our EUR/USD forward transactions, our currency interest rate swap transactions and our interest rate swap transactions in the aggregate amount of approximately $3.5 million during the year ended December 31, 2015, compared to $0.7 million during the year ended December 31, 2016.

Taxes on income were approximately $0.6 million in the year ended December 31, 2016, compared to tax benefit of approximately $1.9 million in the year ended December 31, 2015. The tax benefit for the year ended December 31, 2015 resulted mainly from deferred tax income included in connection with the application of a tax incentive claimable upon filing the relevant tax return by reducing the amount of taxable profit.

Loss for the year was approximately $1.1 million in the year ended December 31, 2016, compared to net income of approximately $7.3 million for the year ended December 31, 2015.

Total other comprehensive loss was approximately $1.8 million for the year ended December 31, 2016, compared to approximately $7.1 million in the year ended December 31, 2015. The change was mainly due to presentation currency translation adjustments as a result of fluctuations in the Euro/USD exchange rates. Such loss is a result of the devaluation in the Euro against the U.S. Dollar of approximately 10.4% for the year ended December 31, 2015, compared to approximately 3.4% for the year ended December 31, 2016.

Total comprehensive loss was approximately $2.9 million in the year ended December 31, 2016, compared to income of approximately $0.2 million in the year ended December 31, 2015.

Year Ended December 31, 2015 Compared with Year Ended December 31, 2014

Revenues were approximately $13.8 million for the year ended December 31, 2015, compared to approximately $15.8 million for the year ended December 31, 2014. Excluding unfavorable currency effects, revenues were up approximately 5% to €12.5 million from €11.9 million in the corresponding period last year. The change in revenues is mainly a result of an increase in revenues due to the acquisition of three photovoltaic plants in Murcia, Spain, or the Murcia PV Plants, on July 1, 2014. The decrease in the amount of reported revenues is due to the presentation of results in U.S. dollar and the devaluation of the Euro against the U.S. dollar during the period.

Operating expenses were approximately $2.9 million (€2.6 million) for the year ended December 31, 2015, compared to approximately $3.1 million (€2.3 million) for the year ended December 31, 2014. Depreciation expenses were approximately $4.9 million (€4.4 million) for the year ended December 31, 2015, compared to approximately $5.5 million (€4.1 million) for the year ended December 31, 2014. These changes resulted from an increase in expenses due to the addition of the Murcia PV Plants' operations acquired on July 1, 2014, offset by the devaluation of the Euro against the U.S. dollar.

General and administrative expenses were approximately $3.7 million for the year ended December 31, 2015, compared to approximately $4.3 million for the year ended December 31, 2014. The decrease in general and administrative expenses was mainly related to a reduction in consulting expenses.

Share of profits of equity accounted investee, after elimination of intercompany transactions, was approximately $2.4 million in the year ended December 31, 2015, compared to approximately $1.8 million in the year ended December 31, 2014. This increase is due to the commencement of operation of the Dorad Power Plant in May 2014.

Other income, net was approximately $0.02 million in the year ended December 31, 2015, compared to approximately $1.4 million in the year ended December 31, 2014. Other income was primarily attributable to compensation to be received in connection with a pumped storage project in the Gilboa, Israel initially recognized in 2014. The revaluation of such financial asset is recognized as other income for the year ended December 31, 2015.

Gain on bargain purchase was $0 for the year ended December 31, 2015, compared to approximately $4 million for the year ended December 31, 2014. The gain on bargain purchase recorded for the year ended December 31, 2014 resulted from the acquisition of the Murcia PV Plants on July 1, 2014, 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.

Financing income, net was approximately $0.6 million for the year ended December 31, 2015, compared to financing expenses, net of approximately $3.4 million for the year ended December 31, 2014. The change in financing income was mainly due to the reevaluation of our EUR/USD forward transactions, interest rate swap transactions and settlement of our currency interest rate swap transactions in the aggregate amount of approximately $5.6 million, partially offset by expenses resulting from exchange rate differences in the amount of approximately $1.8 million, approximately $0.8 million interest on loans and interest rate swap transactions and approximately $2.5 million interest and other costs in connection with our Series A Debentures.

Tax benefit was approximately $1.9 million in the year ended December 31, 2015, compared to taxes on income of approximately $0.2 million in the year ended December 31, 2014. The tax benefit for the year ended December 31, 2015 is a result of the application of a tax incentive by several of our Italian subsidiaries ("Tremonti- ambiente").

Net income was approximately $7.3 million in the year ended December 31, 2015, compared to approximately $6.6 million in the year ended December 31, 2014.

Total other comprehensive loss was approximately $7.1 million for the year ended December 31, 2015, compared to approximately $12.3 million in the year ended December 31, 2014. The change was mainly due to presentation currency translation adjustments as a result of fluctuations in the Euro/USD exchange rates. Such loss is a result of the devaluation in the Euro against the U.S. Dollar of approximately 10.4% for the year ended December 31, 2015 and approximately 11.8% for the year ended December 31, 2014.

Total comprehensive income was approximately $0.2 million in the year ended December 31, 2015, compared to loss of approximately $5.6 million in the year ended December 31, 2014. The comprehensive income for the year ended December 31, 2015 was primarily due to the total other comprehensive loss of approximately $7.1 million for the period, which offset our net income of approximately $7.3 million for the period.

Impact of Inflation and Fluctuation of Currencies

The annual rate of inflation in Israel was 0.2% in the year ended December 31, 2014, it decreased to a deflation of 1% in the year ended December 31, 2015 and a deflation of 0.2% in the year ended December 31, 2016.

We hold cash and cash equivalents, marketable securities and restricted cash in various currencies, including U.S. Dollar, Euro and NIS. Our investments in our Italian and Spanish PV Plants, in the Netherlands WtE project, in Dori Energy and in Manara PSP, are denominated in Euro and NIS, respectively. Our Debentures are denominated in NIS and the interest and principal payments are made in NIS and the financing we have obtained in connection with four of our PV Plants bears interest that is based on EURIBOR rate. In addition, as our functional currency is the Euro, our balance sheet that is presented in U.S. Dollars 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 Euro/NIS exchange rates. We entered into various swap transactions in order to minimize our currency risks. 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 sets forth the annual rates of depreciation of the NIS against the Euro and of the U.S. dollar against the Euro.

	Year ended December 31,		
	2016	2015	2014
Depreciation of the NIS against the Euro	(4.8)%	(10.1)%	(1.2)%
Depreciation of the U.S. dollar against the Euro	(3.4)%	(10.4)%	(11.8)%

The representative USD/Euro exchange rate was U.S. dollar 1.215 for one Euro on December 31, 2014, U.S. dollar 1.088 for one Euro on December 31, 2015 and U.S. dollar 1.052 for one Euro on December 31, 2016. The average exchange rates for converting the U.S. dollar to Euro during the years ended December 31, 2014, 2015 and 2016 were U.S. dollar 1.329, 1.11 and 1.107 for one Euro, respectively. The exchange rate as of March 1, 2017 was U.S. dollar 1.053 for one Euro.

The representative NIS/Euro exchange rate was NIS 4.725 for one Euro on December 31, 2014, NIS 4.247 for one Euro on December 31, 2015 and NIS 4.044 for one Euro on December 31, 2016. The average exchange rates for converting the NIS to Euro during the years ended December 31, 2014, 2015 and 2016 were NIS 4.747, 4.311 and 4.250 for one Euro, respectively. The exchange rate as of March 1, 2017 was NIS 3.8246 for one Euro.

Our management determined that our functional currency is the Euro and elected the U.S. dollar as our reporting currency.

Items included in the financial statements of each of 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:

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

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

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

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

Our PV Plants and other energy manufacturing facilities are subject to comprehensive regulation and we sell the electricity and energy produced for rates determined by governmental legislation and to local governmental entities. Any change in the legislation that affects facilities such as our facilities could materially adversely affect our results of operations. A continued economic crisis in Europe and specifically in Italy and Spain could cause the applicable legislator to reduce benefits provided to operators of PV plants or to revise the incentive regimes that currently governs the sale of electricity in Italy and Spain. For more information see "Item 3.D: Risk Factors - Risks Related to our Renewable Energy Operations," "Item 3.D: Risk Factors - Risks Related to our Investment in Dori Energy," "Item 3.D: Risk Factors - Risks Related to our Other Operations" 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 Israeli corporate tax rate was 25% in 2013. The corporate tax rate increased to 26.5% in 2014 and 2015 and was reduced to 25% as of January 1, 2016. On January 4, 2016 the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216) - 2016, by which, inter alia, the corporate tax rate would be reduced by 1.5% to a rate of 25% as from January 1, 2016. Furthermore, on December 22, 2016, the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, *inter alia*, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018.

As of December 31, 2016, we had tax loss carry-forwards in the amount of approximately NIS 155 million (approximately $40 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 March 1, 2017, we held approximately $27.9 million in cash and cash equivalents, approximately $0.2 million in short-term restricted cash, approximately $1 million in marketable securities and approximately $1.9 million in long-term restricted cash.

Although we now hold the aforementioned funds and the funds received in connection with the issuance of our Series B Debentures subsequent to March 1, 2017, 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 Centrobanca and the Loan Agreement with UBI in connection with the financing of five of our Italian PV Plants (all as defined and more fully described below). In January 2014 and June 2014 we issued the Series A Debentures, as more fully described below. In addition, during 2011 we entered into a loan agreement with Unicredit S.p.A., or Unicredit, in connection with the financing of two of our Italian PV Plants (the underlying loan was repaid during 2014) and during 2013 we entered into a loan agreement with Israel Discount Bank Ltd. or the Discount Loan Agreement (the underlying loan was repaid during 2014). In March 2017 we issued the Series B 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, 2016, we had working capital of approximately $23.5 million, compared to working capital of approximately $23.4 million as of December 31, 2015. In our opinion, our working capital is sufficient for our present requirements.

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

As of December 31, 2016, we had approximately $23.7 million of cash and cash equivalents, compared with approximately $18.7 million of cash and cash equivalents at December 31, 2015 and approximately $15.8 million of cash and cash equivalents at December 31, 2014. The increase in cash during the year ended December 31, 2016 was mainly due to repayment of loan from an equity accounted investee in the amount of approximately $7.8 million, partially offset by a $2.4 million cash dividend paid to our shareholders during 2016. The increase in cash during the year ended December 31, 2015 was mainly due to proceeds in connection with the Loan Agreement with UBI.

Project Finance

We executed several project finance agreements in connection with seven of the PV Plants (of which one loan in connection with two of our PV Plants was repaid during 2014) 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, 2016.

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 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, 2016, all available funds under the Leasing Agreements, amounting to approximately Euro 6 million, were utilized.

Centrobanca (acquired by UBI in 2013)

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 Luxemburg, 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 Luxemburg, we undertook to Ellomay Luxemburg 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, 2016, all available funds under the Finance Agreement, amounting to approximately Euro 4.4 million, were utilized.

UBI

On June 29, 2015, Soleco S.r.l. entered into a loan agreement, or the Loan Agreement, with UBI Banca S.c.p.a., or UBI, pursuant to which it received financing amounting to approximately Euro 10.3 million, net of expenses capitalized in the amount of approximately Euro 0.4 million bearing interest at the Euribor 6 month rate plus a range of 2.85% per annum. The interest on the loan and principal are repaid semi-annually. The final maturity date of this loan is December 31, 2029.

The Loan 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 loan may be prepaid subject to certain conditions and subject to payment of 0.5% of the prepaid amount for the first two years. The Loan Agreement also provides for mandatory prepayment upon the occurrence of certain events, including in the event Ellomay Luxemburg ceases holding more than 51% of Soleco. The Loan Agreement includes various customary representations, warranties and covenants, including covenants to maintain certain financial ratios.

In connection with the Loan Agreement, Soleco provided securities to UBI, including a mortgage on the PV Plant and an assignment of receivables deriving from the project contracts (including the agreements with GSE).

In connection with the Loan Agreement, Ellomay Luxemburg, our wholly-owned subsidiary and the parent company of Soleco (i) provided a pledge on the shares it holds in this company in favor of UBI 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 this company. In addition, we and Ellomay Luxemburg entered into an equity contribution agreement with Soleco and we provided a parent company guarantee in the amount of Euro 1 million with respect to certain events.

As of December 31, 2016, all available funds under the Loan Agreement, amounting to approximately Euro 10.7 million, were utilized.

Coöperatieve Rabobank U.A. Loan

Groen Goor, Independent Power Plant B.V. (the entity that holds the permits and subsidies in connection with the Goor Project and is wholly-owned by Groen Goor), or IPP, Ludan, and Ellomay Luxembourg entered into a senior project finance agreement documents, or the Goor Loan Agreement, with Coöperatieve Rabobank U.A., or Rabobank, that includes the following tranches: (i) two loans with principal amounts of Euro 3.51 million (with a fixed interest rate of 3% for the first five years) and Euro 2.09 million (with a fixed interest rate of 2.5% for the first five years), for a period of 12.25 years, repayable in equal monthly installments commencing three months following the connection of the Goor Project's facility to the grid and (ii) an on-call credit facility of Euro 370,000 with variable interest. For more information concerning the Goor Loan Agreement, see "Item 4.B: Business Overview" under "The Groen Goor Project."

Other Financing Activities

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 due December 31, 2023 through a public offering that was limited to residents of Israel at a price of NIS 973 per unit (each unit comprised of NIS 1,000 principal amount of Series A Debentures). The Series A Debentures bear fixed interest at the rate of 4.6% per year and are not linked to the Israeli CPI or otherwise. The gross proceeds of the offering were approximately NIS 116.8 million (approximately $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). The Series A Debentures are traded on the TASE and have been rated ilA-, on a local scale, by Standard & Poor's Maalot Ltd. For additional information concerning the Series A Debentures see "Item 10.C: Material Contracts."

The principal amount of Series A Debentures is repayable in ten equal annual installments on December 31 of each of the years 2014 through 2023 (inclusive) and is not linked to the CPI or otherwise. The Series A Debentures bear a fixed annual interest rate of 4.6%, payable semi-annually on June 30 and December 31 of each of the years 2014 through 2023 (inclusive). The 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. Our equity, on a consolidated basis, shall not be less than $55 million;

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

3. The ratio of (a) our equity, on a consolidated basis, to (b) our balance sheet, on a consolidated basis, shall not be less than a rate of 20%.

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

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

Series B Debentures

On March 14, 2017, we issued NIS 123,232,000 (approximately $33.5 million, as of the issuance date) of unsecured non-convertible Series B Debentures due June 30, 2024 through a public offering in Israel. The gross proceeds of the offering were NIS 123,232,000 and the net proceeds of the offering, net of related expenses such as consultancy fee and commissions, were approximately NIS 121.4 million (approximately $33 million). The Series B Debentures are traded on the TASE and have been rated ilA-, on a local scale, by Standard & Poor’s Maalot Ltd. For additional information concerning the Series B Debentures see “Item 10.C: Material Contracts.”

The principal amount of Series A Debentures is repayable in six (6) annual installments as follows: on June 30 of each of the years 2019-2022 (inclusive) 15% of the Principal shall be paid, and on June 30 of each of 2023-2024 (inclusive) 20% of the Principal shall be paid, and is not linked to the CPI or otherwise. The Series B Debentures bear fixed interest at the rate of 3.44% per year (that is not linked to the Israeli CPI or otherwise), payable semi-annually on June 30 and December 31 of each of the years 2017 through June 30, 2024 (inclusive).

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

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

1. Our equity, on a consolidated basis, shall not be less than $55 million;

2. The ratio of (a) the short-term and long-term debt from banks, in addition to the debt to holders of debentures issued by us and any other interest-bearing financial obligations, net of cash and cash equivalents and short-term investments and net of financing of projects, including hedging transactions in connection with such financing, of our subsidiaries, or, together, the Net Financial Debt, to (b) our equity, on a consolidated basis, plus the Net Financial Debt:

    a. Until and including the financial results for June 30, 2018 – shall not exceed the rate of 65% for purposes of the immediate repayment provision and shall not exceed the rate of 60% for purposes of the interest increase provision (due to failure to meet financial covenants as noted above); and

    b. Commencing from the financial results for September 30, 2018 – shall not exceed the rate of 60% for purposes of the immediate repayment provision and shall not exceed the rate of 55% for purposes of the interest increase provision; and

3. The ratio of (a) our equity, on a consolidated basis, to (b) our balance sheet, on a consolidated basis:

   a. Until and including the financial results for June 30, 2018 – shall not be less than a rate of 20% for purposes of the immediate repayment provision and shall not be less than a rate of 25% for purposes of the interest increase provision; and

   b. Commencing from the financial results for September 30, 2018 – shall not be less than a rate of 25% for purposes of the immediate repayment provision and shall not be less than a rate of 30% for purposes of the interest increase provision.

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

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

Cash flows

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

	Year ended December 31,		
	2016	**2015**	**2014**
	(U.S. dollars in thousands)		
Net cash from operating activities	$ 8,206	$ 4,911	$ 3,336
Net cash from (used in) investing activities	1,000	(4,485)	(16,065)
Net cash from (used in) financing activities	(2,795)	4,444	24,938
Effect of exchange rate fluctuations on cash and cash equivalents	(1,478)	(1,911)	(3,689)
Increase in cash and cash equivalents	4,933	2,959	8,520
Cash and cash equivalents at beginning of year	18,717	15,758	7,238
Cash and cash equivalents at end of year	23,650	18,717	15,758

Operating activities

In the year ended December 31, 2016, we had net loss of approximately $1.1 million. Net cash from operating activities was approximately $8.2 million, primarily due to interest payment received on a loan to an equity accounted investee amounting to approximately $5 million and collection of revenue from the sale of electricity by our PV Plants.

In the year ended December 31, 2015, we had net income of approximately $7.3 million. Net cash from operating activities was approximately $4.9 million, primarily due to collection of revenue from the sale of electricity by our PV Plants.

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

Investing activities

Net cash from investing activities was approximately $1 million in the year ended December 31, 2016, primarily attributable to the repayment of a loan from an equity accounted investee and proceeds from marketable securities.

Net cash used in investing activities was approximately $4.5 million in the year ended December 31, 2015, primarily attributable to the exercise of the first option to acquire additional share capital of Dori Energy.

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.

Financing activities

Net cash used in financing activities in the year ended December 31, 2016 was approximately $2.8 million, primarily attributable to principal and interest repayments to our Series A Debentures holders and a $2.4 million dividend distribution to our shareholders, partially offset by a long term bank loan received in connection with the Goor Project.

Net cash from financing activities in the year ended December 31, 2015 was approximately $4.4 million, derived primarily from proceeds in connection with the Loan Agreement with UBI, partially offset by principal and interest repayments to our Series A Debentures holders and the repurchase of our ordinary shares.

Net cash from financing activities in the year ended December 31, 2014 was approximately $24.9 million, derived 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.

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 2016, we entered into the Rabobank Loan Agreement. For more information concerning the Loan Agreement, see "Coöperatieve Rabobank U.A. Loan"' above and Note 6 to our financial statements included in this Report.

During 2015, we entered into the UBI Loan Agreement. For more information concerning the Loan Agreement, see "UBI' under "Project Finance" above and Note 11 to the financial statements included in this Report.

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.

As of December 31, 2016 we were not in default under any financial covenants pursuant to the agreements with Centrobanca, UBI and Leasint and under the terms of the Series A Deed of Trust.

As of December 31, 2016, our total current assets amounted to approximately $34.6 million, of which approximately $23.7 million was in cash and cash equivalents and approximately $1 million was in marketable securities, compared with total current liabilities of approximately $11.1 million.

As of December 31, 2015, our total current assets amounted to approximately $33.5 million, of which approximately $18.7 million was in cash and cash equivalents and approximately $6.5 million was in marketable securities, compared with total current liabilities of approximately $10.1 million.

The increase in our cash and marketable securities balance is mainly attributable to the cash collected in connection with the sale of electricity and repayment of loan from an equity accounted investee, net of a cash dividend payment of approximately $2.4 million in early 2016, 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, 2014, 2015 and 2016.

D. Trend Information

We operate in the Italian and Spanish photovoltaic markets, in the Netherlands waste-to-energy market and in the Israeli energy market through our ownership of twelve PV Plants in Italy, four PV Plants in Spain, a 51% ownership in the Goor Project, our ownership of 50% of the issued and outstanding shares of Dori Energy and our ownership of 75% of the Manara PSP. Our PV Plants are all operational and connected to the Italian and Spanish national grids, as applicable. However, 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 and (ii) as we acquired the 15% minority interest in Ellomay Spain only during 2015 our results for 2014 and 2015 do not reflect a full year of operations of such PV Plant under a wholly-owned subsidiary. In addition, the Dorad Power Plant only commenced operations during 2014 and therefore our results for 2014 do not reflect a full year of operations of the Dorad Power Plant. The Goor Project is still in the construction stage and the Manara PSP has not yet commenced the construction stage.

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

E. Off-Balance Sheet Arrangements

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

F. Tabular Disclosure of Contractual Obligations

The following table of our material contractual obligations as of December 31, 2016, summarizes the aggregate effect that these obligations are expected to have on our cash flows in the periods indicated:

	Payments due by period (in thousands of U.S. dollars)				
Contractual Obligations*	**Total**	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**more than 5 years**
Finance lease obligations (including current maturities) (1)	5, 753	508	1,016	1,016	3,213
Long-term loans (including current maturities)(1)	22,256	1,309	3,421	3,772	13,754
Long-term rent obligations(2)	3,833	288	444	444	2,657
Debentures (including current maturities)(1)	43,184	6,888	13,057	12,099	11,140
SWAP contracts	2,900	503	718	689	990
FW contracts	50	-	-	50	-
Total	77,977	9,496	18,656	18,070	31,755

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

(1) These amounts include future payments of interest.

(2) Includes land lease agreements of our Italian and Spanish subsidiaries. Rent until September 2017 of our offices in Tel Aviv is also included.

As described herein, subsequent to December 31, 2016, we issued NIS 123,232,000 (approximately $33.5 million) of Series B Debentures.

ITEM 6: Directors, Senior Management and Employees

A. Directors and Senior Management

Directors and Senior Management

The following table sets forth certain information with respect to our directors and senior management, as of March 15, 2017:

Name	Age	Position with Ellomay
Shlomo Nehama(1)(2)	62	Chairman of the Board of Directors
Ran Fridrich(1)(2)(3)	64	Director and Chief Executive Officer
Hemi Raphael(1)(2)	65	Director
Anita Leviant(1)(3)(4)(5)	62	Director
Barry Ben Zeev(4)(5)(6)	65	Director
Mordechai Bignitz(4)(5)(6)	65	Director
Kalia Weintraub	38	Chief Financial Officer
Ori Rosenzweig	40	Chief Investment Officer

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

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

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

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

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

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

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: HRON) 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. 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 Chairman and CEO of OWC Pharmaceutical Corporation (OTC: OWCP). From 2006 to 2015, Mr. Bignitz served as the chairman of the investment committee of Migdal Capital Trust Ltd. From 2009 to 2011, Mr. Bignitz served as CEO of Geffen Green Energy Ltd., an Israeli private company. From 2006 to 2010, Mr. Bignitz served as a director of Leader Capital Markets Ltd. (TASE: LDRC), from 2007 to 2010 he served as a director of Leader Holdings & Investments Ltd. (TASE: LDER) and from 2010 to 2013 he served as a director of Ablon Ltd. From 2004 to 2007, Mr. Bignitz served as CEO of Advanced Paradigm Technology. From 1992 to 2004, Mr. Bignitz served as director and CFO of DS Capital Markets. From 1994 to 1996, Mr. Bignitz served as Managing Director of Dovrat, Shrem & Co. Trading Ltd. From 1991 to 1994 Mr. Bignitz served as Vice President and CFO of Dovrat Shrem & Co. and prior to that he served as Vice President of Clal Retail Chains (a subsidiary of the Clal Group) and Vice President & CFO of Clal Real Estate Ltd. Mr. Bignitz serves as a director of ARAD Investment and Industrial Development Ltd. (TASE: ARD), TechCare Corp. (OTC: TECR) and Globe Oil Explorations Ltd. 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.

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

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

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, 2016 was approximately $0.7 million, including an amount of approximately $0.1 million related to pension, retirement and other similar benefits. These figures do not include the compensation of Messrs. Shlomo Nehama, Ran Fridrich and Hemi Raphael, all of whom are members of our Board that are currently compensated pursuant to the Management Services Agreement (see "Item 7.B: Related Party Transactions" below) and have, in connection with such agreement, waived their right to receive the compensation, including options, paid to our directors.

The table below reflects the terms of service and employment of our five most highly compensated "office holders" (as such term is defined in the Companies Law) during or with respect to the year ended December 31, 2016. All amounts reported in the table below are as recognized in our financial statements for the year ended December 31, 2016.

Name and Position	Salary[1]	Management Fees	Bonus	Share-Based Payment	Total
	(US$ in thousands)				
Shlomo Nehama, *Chairman of the Board*	-	200[2]	-	-	200[2]
Ran Fridrich, *CEO and Director*	-	100[2][3]	-	-	100[2][3]
Hemi Raphael, *Director*	-	100[2][3]	-	-	100[2][3]
Kalia Weintraub, *Chief Financial Officer*	273[4]	-	-	-	273[4]
Ori Rosenzweig, *Chief Investment Officer*	234	-	-	-	234

(1) Salary and related benefits are paid to our executive officers in NIS. Salary as reported herein includes the recipient's gross salary plus payment of social and other benefits made by us to or on behalf of the recipient. Such benefits may include, to the extent applicable, payments, contributions and/or allocations for education funds, pension funds, managers' insurance, severance, risk insurances (e.g., life, or work disability insurance), social security, tax gross-up payments, vacation, car, phone, convalescence pay and other benefits and perquisites consistent with our policies.

(2) Such amounts are paid pursuant to the terms of the Management Services Agreement among the Company, Kanir and Meisaf Blue & White Holdings Ltd. For additional information, see "Management Services Agreement" below.

(3) 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.

(4) Includes an amount of approximately $48,000 deposited in severance pay funds in order to fully fund the contingent severance pay obligation to the employee accumulated since the commencement of the employee's employment.

Other than options granted to members of our Board of Directors, there are no outstanding options to purchase ordinary shares that were granted during 2016. For more information see "Item 6.E: Share Ownership."

Management Services Agreement

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

Compensation of Non-Executive Directors

As approved by our shareholders, we pay our non-executive directors (Anita Leviant, 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 51,955 (equivalent to approximately $14,203 as of March 15, 2017) and an attendance fee of NIS 1,835 (equivalent to approximately $502 as of March 15, 2017) per meeting (board or committee). These amounts are updated once a year based on increases in the Israeli Consumer Price Index. According to the Compensation Regulations, which we apply to all our non-executive directors, the directors are entitled to 60% of the meeting fee if they participated at the meeting by teleconference and not in person, and to 50% of the meeting fee if resolutions were approved in writing, without convening a meeting.

Each of these non-executive directors (Anita Leviant, 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 so that the options granted to these directors will vest in one installment on the first anniversary of the grant date of the options.

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

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

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

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

Compensation Policy

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

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

At the 2013 Shareholders Meeting, our shareholders approved our compensation policy. At the 2016 Shareholders Meeting, our shareholders approved our updated compensation policy, or the Compensation Policy.

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

Approval Process of Terms of Service and Employment of Office Holders

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

- With respect to our chief executive officer, a controlling shareholder or a relative of a controlling shareholder, approval is required by the (i) compensation committee, (ii) board of directors and (iii) company's shareholders with the "special majority" described above (in that order). Subject to certain conditions, the Israeli Companies Law provides an exemption from the shareholder approval requirement in connection with the approval of the Terms of Service and Employment of a CEO candidate.

- With respect to a director, approval is required by the (i) compensation committee, (ii) board of directors and (iii) company's shareholders with a regular majority (in that order).

- With respect to any other office holder, approval is required by the compensation committee and the board of directors (in that order); however, in the event of an update of existing Terms of Service and Employment, which the Compensation Committee confirms is not material, the approval of the compensation committee is sufficient.

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

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 concerning compensation committee independence, compensation advisor engagement and independence.

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

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

Terms of Directors

Our Board currently consists of six members, including two external directors. Pursuant to our Articles, unless otherwise prescribed by resolution adopted at a general meeting of our shareholders, our Board shall consist of not less than four (4) nor more than eight (8) directors (including the external directors). Except for our two external directors, the members of our Board are elected annually at our annual shareholders' meeting and remain in office until the next annual shareholders' meeting, unless the director has previously resigned, vacated his office, or was removed in accordance with the Articles. The most recent annual meeting, or the 2016 Shareholders Meeting, was held on June 22, 2016 with an adjourned meeting held on July 5, 2016. In addition, our Board may elect additional members to the Board, to serve until the next shareholders' meeting, so long as the number of directors on the Board does not exceed the maximum number established according to our Articles.

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

External Directors

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

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

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

The initial term of an external director is three years. An external director may be re-elected to serve for two additional three-year terms in one of the two following methods: (i) the board of directors proposed the nomination of the external director for an additional term and her or his appointment is approved by the shareholders in the manner required to appoint external directors for an initial term as set forth above, or (ii) in the event a shareholder holding 1% or more of the voting rights nominates the external director for an additional term or in the event the external director nominates himself or herself for an additional term, the nomination is required to be approved by a majority of the votes cast by the shareholders of the company; provided that: (x) the votes of controlling shareholders, the votes of shareholders who have a personal interest in the approval of the appointment of the external director, other than a personal interest that is not as a result of such shareholder's connections to the controlling shareholder, and abstaining votes are excluded from the counting of votes and (y) the aggregate votes cast by shareholders in favor of the nomination that are counted for purposes of calculating the majority exceeds two percent of the voting rights in the company. The external director nominated by shareholders may not be a related or competing shareholder or a relative of such shareholder at the date of appointment and may not have an affiliation to a related or competing shareholder at the date of appointment or for the two year period prior to the appointment. A "related or competing shareholder" is defined by the Companies Law as the shareholder that proposed the nomination or a significant shareholder (a shareholder holding five percent or more of the outstanding shares of a company or of the voting rights in a company), provided that at the date of appointment of the external director such shareholder, its controlling shareholder or a corporation controlled by either of them, have business connections with the company or are competitors of the company. The term "affiliation" is defined as set forth above. In addition, Israeli companies listed on certain stock exchanges outside Israel, including the NYSE 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, as defined under the NYSE MKT Company Guide, on its board of directors. 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 an 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 2016, our Audit Committee met at least once each quarter.

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

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

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

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

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

Compensation Committee

Amendment No. 20 requires the board of directors of a public company to appoint a compensation committee that shall consist of no less than three members, that will include all of external directors (which will constitute a majority of its members of the committee), and that the remainder of the members of the compensation committee be directors whose terms of service and employment were determined pursuant to the Compensation Regulations. In addition, Amendment No. 20 imposes the same restrictions on the actions and membership in the compensation committee as are discussed above under "Audit Committee" with respect to, among other things, the requirement that an external director serve as the chairman of the committee and the list of persons who may not serve on the committee. Our Compensation Committee currently consists of 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. In February 2016, the Companies Law was amended to provide that an audit committee that meets the criteria for the composition of a compensation committee, such as our Audit Committee, can also act as the compensation committee.

Advisory Committee

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

Indemnification, Exemption and Insurance of Executive Officers and Directors

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

The Israeli Securities Law, 5728-1968, or the Securities Law, and the Companies Law, authorize the Israeli Securities Authority to impose administrative sanctions against companies and their office holders for certain violations of the Israeli Securities Law or the Companies Law. These sanctions include monetary sanctions and certain restrictions on serving as a director or senior officer of a public company for certain periods of time. The maximum amount of the monetary sanctions that could be imposed upon individuals is a fine of NIS 1,000,000 (equivalent to approximately US$256,279, as of March 1, 2016), 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. At the annual shareholders meeting held on June 18, 2015, our shareholders approved, following the approval of our Compensation Committee, to grant and renew the indemnification undertakings to current and future office holders deemed to be "controlling shareholders."

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. At our 2016 Shareholders Meeting, our shareholders approved our Compensation Policy that provides that the aggregate indemnification amount payable by us to all indemnified persons, pursuant to indemnification undertakings to be granted to office holders from the adoption date of this limitation, in respect of any occurrence of the events specified in the exhibit to the indemnification undertaking, shall not exceed 25% of our shareholders' equity according to the latest reviewed or audited consolidated financial statements approved by our Board of Directors prior to the date on which the indemnification amount is paid.

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.

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 and approved the form of exemption attached hereto as Exhibit 4.4. We have extended such exemption letters to all our directors and some officers. With respect to our directors who are deemed to be "controlling shareholders", Shlomo Nehama, Ran Fridrich and Hemi Raphael, special shareholder approval was sought and received, most recently at our annual shareholder meeting held on June 18, 2015. Based on the previous approvals of our Audit Committee, Compensation Committee, Board and shareholders, any of our future directors shall also receive such exemption letter.

At our 2016 Shareholders Meeting, our shareholders approved our Compensation Policy that provides that we may not in the future provide exemption letters to an office holder for an action or transaction in which a controlling shareholder (as such term is defined in the Companies Law) or any other office holder (including an office holder who is not the office holder we have undertaken to exempt) has a personal interest (as such term is defined in the Companies Law).

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.

At our annual shareholder meeting held on June 18, 2015, our shareholders approved, following the approval of our Compensation Committee and Board, the increase in the coverage of our directors' and officers' liability insurance to $15 million, and any renewals, extensions or substitutions of such increased coverage policy. Based on these approvals, we have obtained directors' and officers' liability insurance covering our directors and officers.

Limitations on Indemnification, Exemption and Insurance

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

Internal Auditor

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

D. Employees

As of December 31, 2016, we had ten (10) employees compared to ten (10) employees and independent contractors as of December 31, 2015 and nine (9) employees and independent contractors as of December 31, 2014. As of December 31, 2016, all of our employees were in management, finance and administration and all 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 prorated portion thereof upon the termination of employment of an employee. Unless otherwise indicated in the employment agreement or otherwise required by applicable law and labor orders, the employee is not entitled to severance pay in the event she or he willingly resigns. In order to fund, or partially fund as hereinafter explained, any future liability in connection with severance pay, we make payments equal to 8.33% of the employee's salary every month, to various managers' insurance policies or similar financial instruments.

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

E. Share Ownership

Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of March 15, 2017, of (i) each of our directors and (ii) each member of our senior management. All of the information with respect to beneficial ownership of the ordinary shares is given to the best of our knowledge and has been furnished in part by the respective directors and members of senior management.

Name of Beneficial Owner	Number of Shares Beneficially Held (1)	Percent of Class
Shlomo Nehama(2)(5)	4,016,842	37.6%
Hemi Raphael(3)(5)	3,240,921	30.4%
Ran Fridrich(4)(5)	2,903,184	27.2%
Anita Leviant(6)	8,333	*
Barry Ben Zeev(6)	6,586	*
Mordechai Bignitz(6)	4,583	*
Kalia Weintraub	-	-
Ori Rosenzweig	-	-

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

(1) As used in this table, "beneficial ownership" means the sole or shared power to vote or direct the voting or to dispose or direct the disposition of any security. For purposes of this table, a person is deemed to be the beneficial owner of securities that can be acquired within 60 days from March 15, 2017 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 10,675,608 ordinary shares outstanding as of March 15, 2017. This number of outstanding ordinary shares does not include a total of 257,946 ordinary shares held at that date as treasury shares under Israeli law, all of which were repurchased by us. For so long as such treasury shares are owned by us they have no rights and, accordingly, are neither eligible to participate in or receive any future dividends which may be paid to our shareholders nor are they entitled to participate in, be voted at or be counted as part of the quorum for, any meetings of our shareholders.

(2) According to information provided by the holders, the 4,016,842 ordinary shares beneficially owned by Mr. Nehama consist of: (i) 3,551,869 ordinary shares held by Nechama Investments, an Israeli company, which constitute approximately 33.3% of our outstanding ordinary shares, and (ii) 464,973 ordinary shares held directly by Mr. Nehama, which constitute approximately 4.4% of our outstanding ordinary shares. Mr. Nehama, as the sole officer, director and shareholder of Nechama Investments, may be deemed to indirectly beneficially own any ordinary shares beneficially owned by Nechama Investments, which constitute (together with the shares held directly by him) approximately 37.6% of our outstanding ordinary shares.

(3) The 3,240,921 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 3% of our outstanding shares and (iii) 140,010 ordinary shares held directly by Mr. Raphael, which constitute approximately 1.3% of our outstanding shares. Mr. Raphael, by virtue of his position as a director and majority shareholder of Kanir Investments Ltd., or Kanir Ltd., the general partner in Kanir, and his position as a limited partner in Kanir, may be deemed to indirectly beneficially own the ordinary shares beneficially owned by Kanir. Mr. Raphael disclaims beneficial ownership of the shares held by Kanir, except to the extent of his pecuniary interest therein, if any. In addition, Mr. Raphael, as the sole shareholder of such private company, may be deemed to indirectly beneficially own any ordinary shares beneficially owned by the BVI private company.

(4) The 2,903,184 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 59.4% of our outstanding ordinary shares, and holds shared dispositive power with respect to 5,348,480 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 63.7%, 63.6% and 60.5%, respectively, of the outstanding ordinary shares. Mr. Nehama and Nechama Investments both disclaim beneficial ownership of the ordinary shares beneficially owned by Kanir and Kanir Ltd., Kanir and Messrs. Raphael and Fridrich all disclaim beneficial ownership of the shares held by Nechama Investments.

(6) (i) Anita Leviant holds currently exercisable options to purchase 8,333 ordinary shares with expiration dates ranging from August 1, 2018 to August 1, 2026 and exercise prices per share ranging between $4.7 - $9.37, (ii) Barry Ben Zeev holds currently exercisable options to purchase 6,586 ordinary shares with expiration dates ranging from December 30, 2019 to August 1, 2026 and exercise prices per share ranging between $5.9 - $9.37 and (iii) Mordechai Bignitz holds currently exercisable options to purchase 4,583 ordinary shares with expiration dates ranging from December 20, 2021 to August 1, 2026 and exercise prices per share ranging between $5.55 - $9.37.

Our directors currently hold, in the aggregate, options to purchase 22,502 ordinary shares. The options have a weighted average exercise price of approximately $7.34 per share and have expiration dates until 2026. During the years ended December 31, 2014, 2015 and 2016 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. As described above under "Compensation - Compensation of Non-Executive Directors", the options granted to our directors (for Ms. Leviant commencing in 2012 and for our external directors commending in 2016) vest on the first anniversary of the grant date. Of the options held by our directors, options to purchase 19,502 ordinary shares are currently exercisable and the balance will become exercisable on August 1, 2017.

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

On July 14, 2014, we announced the passing away of our former director, Oded Akselrod, and in May 2015, his estate exercised options to acquire 7,998 shares. We received an aggregate amount of approximately $44,500 as consideration in connection with the exercise of those options. In August 2015, Eran Zupnik, who previously served as our EVP of Business Development exercised options to purchase 132,195 shares. We received an aggregate amount of approximately $1.1 million as consideration in connection with the exercise of those options. Mr. Zupnik’s remaining options expired.

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, 2016, December 31, 2016 and March 15, 2017, there were 38,081, 35,083 and 35,083 ordinary shares, respectively, available for future grants under the 1998 Plan.

2000 Stock Option Plan

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

As amended, the 2000 Plan provides for the issuance of 1,772,459 ordinary shares. During 2008 we repurchased options to acquire approximately 990,000 ordinary shares from employees and such options were canceled, decreasing the amount of shares reserved for issuance the 2000 Plan. The 2000 Plan, as amended, currently terminates on August 31, 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 March 15, 2017, there were no outstanding options under the 2000 Plan. The number of additional ordinary shares available for issuance under the 2000 Plan, as of January 1, 2016, December 31, 2016 and March 15, 2017, was 595,009.

ITEM 7: Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth information regarding the beneficial ownership of our ordinary shares as of March 15, 2017, 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 on information provided by them.

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

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

(1) As used in this table, "beneficial ownership" means the sole or shared power to vote or direct the voting or to dispose or direct the disposition of any security as determined pursuant to Rule 13d-3 promulgated under the U.S. Securities Exchange Act of 1934, as amended. For purposes of this table, a person is deemed to be the beneficial owner of securities that can be acquired within 60 days from March 15, 2017 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 10,675,608 ordinary shares outstanding as of March 15, 2017. This number of outstanding ordinary shares does not include a total of 257,946 ordinary shares held at that date as treasury shares under Israeli law, all of which were repurchased by us. For so long as such treasury shares are owned by us they have no rights and, accordingly, are neither eligible to participate in or receive any future dividends which may be paid to our shareholders nor are they entitled to participate in, be voted at or be counted as part of the quorum for, any meetings of our shareholders.

(2) The 4,016,842 ordinary shares beneficially owned by Mr. Nehama consist of: (i) 3,551,869 ordinary shares held by Nechama Investments, which constitute approximately 33.3% of our outstanding ordinary shares and (ii) 464,973 ordinary shares and held directly by Mr. Nehama, which constitute approximately 4.4% of our outstanding ordinary shares. Mr. Nehama, as the sole officer, director and shareholder of Nechama Investments, may be deemed to indirectly beneficially own any ordinary shares owned by Nechama Investments, which constitute (together with his shares) approximately 37.6% of our outstanding ordinary shares.

(3) Kanir is an Israeli limited partnership. Kanir Ltd., in its capacity as the general partner of Kanir, has the voting and dispositive power over the ordinary shares directly beneficially owned by Kanir. As a result, Kanir Ltd. may be deemed to indirectly beneficially own the ordinary shares beneficially owned by Kanir. Messrs. Hemi Raphael and Ran Fridrich, who are members of our Board of Directors, are the sole directors of Kanir Ltd. and Mr. Raphael is a majority shareholder of Kanir Ltd. As a result, Messrs. Raphael and Fridrich may be deemed to indirectly beneficially own the ordinary shares beneficially owned by Kanir, which constitute, together with their holdings as set forth in footnote (4), 30.4% 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 3% 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 59.4% of our outstanding ordinary shares, and holds shared dispositive power with respect to 5,348,480 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 63.7%, 63.6% and 60.5%, 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

There were no significant changes in the percentage ownership held by any major shareholders during the years ended December 31, 2014, 2015 and 2016.

Record Holders

Based on a review of the information provided to us by our transfer agent, as of March 15, 2017, there were 43* record holders of ordinary shares, of which 16 represented United States* record holders holding approximately 31.7% of our outstanding ordinary shares (including approximately 31.3% 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.

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* 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, 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. It is our understanding that Kanir is currently in compliance with all of its covenants under the loan agreement. 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 the Management Services Agreement with Kanir and Meisaf, effective as of March 31, 2008, the date of appointment of Messrs. Fridrich and Nehama as members of our Board.

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

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

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

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

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

C. Interests of Experts and Counsel

Not Applicable.

ITEM 8: Financial Information

A. Consolidated Statements and Other Financial Information.

Consolidated Statements

Our consolidated financial statements are set forth in Item 18.

Legal Proceedings

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

Dividends

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

In May 2015, our Board of Directors approved the repurchase of up to $3 million of our ordinary shares. The authorized repurchases will be made from time to time in the open market on the NYSE MKT and Tel Aviv Stock Exchange or in privately negotiated transactions. The timing, volume and nature of share repurchases will be at the sole discretion of management and will be dependent on regulatory restrictions, market conditions, the price and availability of our ordinary shares, applicable securities laws and other factors, including compliance with the terms of our Debentures. No assurance can be given that any particular amount of ordinary shares will be repurchased. The buyback program does not obligate us to acquire a specific number of shares in any period, and it may be modified, suspended, extended or discontinued at any time, without prior notice. As of December 31, 2016, we repurchased 170,529 ordinary shares in the NYSE MKT under this buyback program. On March 23, 2016, we announced the decision to distribute a cash dividend in the amount of $0.225 per share (an aggregate distribution of approximately $2.4 million). We distributed this dividend in April 2016.

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

B. Significant Changes

Except as otherwise disclosed in this report, no significant changes have occurred since December 31, 2016.

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 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 "ELLO" and the TASE closing prices set forth below are commencing such date.

	NYSE MKT		Tel Aviv Stock Exchange	
Year	**High (US$)**	**Low (US$)**	**High (NIS)**	**Low (NIS)**
2012	7.7	4.25	--	--
2013	11.37	6.1	40.69	31.39
2014	10.59	8.56	39.91	29.72
2015	10.15	7.73	39.93	29.97
2016	9.59	7.05	36.21	27.09

	NYSE MKT		Tel Aviv Stock Exchange	
2015	**High (US$)**	**Low (US$)**	**High (NIS)**	**Low (NIS)**
First Quarter	9.5	7.73	37.22	33.56
Second Quarter	8.67	7.83	33.81	29.97
Third Quarter	10.15	8.15	39.93	31.12
Fourth Quarter	9.15	8.06	36.79	31.82

	NYSE MKT		Tel Aviv Stock Exchange	
2016	**High (US$)**	**Low (US$)**	**High (NIS)**	**Low (NIS)**
First Quarter	9	7.46	35.66	28.7
Second Quarter	8.85	7.25	34.08	28.06
Third Quarter	9.59	7.11	36.21	29.01
Fourth Quarter	9.09	7.05	34.59	27.09

	NYSE MKT		Tel Aviv Stock Exchange	
2016	**High (US$)**	**Low (US$)**	**High (NIS)**	**Low (NIS)**
First Quarter (through March 15, 2017)	8.83	7.7	33.42	27.9

	NYSE MKT		Tel Aviv Stock Exchange	
Most Recent Six Months	**High (US$)**	**Low (US$)**	**High (NIS)**	**Low (NIS)**
September 2016	9.39	8.97	36.21	33.89
October 2016	9.09	8.15	34.59	31.15
November 2016	8.22	7.05	31.15	27.96
December 2016	8.6	7.07	32.14	27.09
January 2017	8.83	8.11	33.42	31.21
February 2017	8.49	7.7	32.28	27.9
March 2017 (through March 15, 2017)	8.37	8.08	31.79	30.2

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

D. Selling Shareholders

Not Applicable.

E. Dilution

Not Applicable.

F. Expenses of the Issue

Not Applicable.

ITEM 10: Additional Information

A. Share Capital

Not Applicable.

B. Memorandum of Association and Second Amended and Restated Articles

Memorandum of Association and Second Amended and Restated Articles

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

Authorized Share Capital

Our authorized share capital is one hundred seventy million (170,000,000) New Israeli Shekels, divided into seventeen million (17,000,000) ordinary shares, NIS 10.00 par value per share.

Due to the fact that we were incorporated prior to 1999, the year the Companies Law was enacted, a special majority of 75% of the shares voting on the matter is generally required in order to amend our Memorandum, however, pursuant to our Memorandum, changes to our capital structure, such as an increase in our authorized capital, only require the vote of a majority of the shares voting on the matter.

Purpose and Objective

We are a public company registered under the Companies Law as Ellomay Capital Ltd., registration number 52-003986-8. Pursuant to Article 3.1 of our Articles, our objective is to undertake any lawful activity, including any objective set forth in our Memorandum of Association. Pursuant to Article 3.2 of our Articles, our purpose is to operate in accordance with commercial considerations with the intentions of generating profits. In addition, we may contribute reasonable amounts for any suitable purpose even if such contributions do not fall within our business considerations. The Board may determine the amounts of the contributions, the purpose for which the contribution is to be made, and the recipients of any such contribution.

Board of Directors

Under the Companies Law, our Board is authorized to determine our strategy and supervise the performance of the duties and actions of our chief executive officer. Our Board may not delegate to a committee of the Board or the chief executive officer the right to decide on certain of the authorities vested in it, including determination of our strategy, distributions, certain issuances of securities and approval of financial reports. The powers conferred upon the Board are vested in the Board as a collective body and not in each one or more of the directors individually. Unless otherwise set forth in a resolution of the shareholders, our Articles provide that our Board shall consist of not less than four (4) nor more than eight (8) directors (including any external directors whose appointment is mandated under the Companies Law).

Pursuant to the Companies Law, publicly traded companies must appoint at least two external directors to serve on their board of directors and audit committee. For further information concerning external directors see “Item 6.C: Board Practices.”

The Companies Law codifies the fiduciary duties that an office holder has to a company. An office holder’s fiduciary duties consist of a duty of loyalty and a duty of care. For more information concerning these duties, the approval process of certain transactions and other board practices see “Item 6.C: Board Practices.”

Our directors cannot vote approve compensation to themselves or any members of their body without the approval of our compensation committee and our shareholders. For more details concerning the approval process of Terms of Service and Employment of office holders see “Item 6.C: Board Practices” under “Compensation Committee.” Borrowing powers exercisable by the directors are not specifically outlined in our Articles.

No person shall be disqualified to serve as a director by reason of his not holding our shares in. Additionally, our Articles do not provide for an age in which directors are required to retire.

Rights of Shareholders

No preemptive rights are granted to holders of our ordinary shares under the Articles or the Companies Law. Each ordinary share is entitled to one vote on all matters to be voted on by shareholders, including the election of directors.

The directors, other than external directors who are elected for three-year terms, are elected annually at a general meeting of shareholders and remain in office until the next annual meeting at which time they retire, unless their office is previously vacated as provided in the Articles. A retiring director may be reelected. If no directors are elected at the annual meeting, all of the retiring directors remain in office pending their replacement at a general meeting. Holders of the ordinary shares do not have cumulative voting rights in the election of directors. Consequently, the holders of ordinary shares in the aggregate conferring more than 50% of the voting power, represented in person or by proxy, will have the power to elect all the directors. On March 24, 2008, in connection with the purchase of a controlling interest of our ordinary shares, Nechama Investments and Kanir entered into the 2008 Shareholders Agreement. Under the 2008 Shareholders Agreement, both parties agreed to vote all of our shares held by them as provided in the agreement and, where the agreement is silent, as the parties shall agree prior to any meeting of our shareholders. In addition, the 2008 Shareholders Agreement provides that in the event the parties do not reach an agreement regarding certain resolution proposed to our shareholders meeting, the parties shall vote all of their shares against such proposed resolution. For further information with respect to the 2008 Shareholders Agreement, see "Item 7.A: Major Shareholders" under the caption "2008 Shareholders Agreement."

Following the adoption of the Articles at our general meeting of shareholders held on December 30, 2008, Article 25.5 provides that for so long as the 2008 Shareholders Agreement is in effect, at the written request of any two directors with respect to any proposed action or transaction (including certain related party transactions, any amendments to our Memorandum of Association or Articles, any merger or consolidation of the Company, any material change in the scope of our business, the voluntary liquidation or dissolution of the Company, approval of annual budget or business plan and material deviations therefrom and any change in signatory rights on behalf of the Company), such action or transaction shall require the approval of our general meeting by a resolution supported by members present, in person or by proxy, vested with at least 50.1% of our outstanding shares, or by such higher approval threshold as may be required by Israeli law.

Chairman of the Board

Our Articles provide that our Chairman of the Board shall have no casting vote, unless (i) the Chairman of the Board is then Mr. Shlomo Nehama and (ii) Nechama Investments, together with any Affiliates (as defined in our Articles) thereof, then holds at least 25.05% of our outstanding shares. Our Articles further provide that, notwithstanding the foregoing, in case Mr. Shlomo Nehama elects to exercise his casting vote in respect of a specific resolution brought before our Board, or the Triggering Resolution, then (a) prior to such exercise, Nechama Investments shall be required to trigger the "Buy Me Buy You" mechanism set forth in the 2008 Shareholders Agreement as an Offering Party (as defined in the 2008 Shareholders Agreement), whereby the Triggering Resolution will be pending until the consummation of the sale of the Restricted Shares (as defined in the 2008 Shareholders Agreement) of one party to the 2008 Shareholders Agreement to the other party of the 2008 Shareholders Agreement in accordance with such "Buy Me Buy You" mechanism; and (b) in the event that three (3) of the members of our Board so require, the Triggering Resolution shall be conditioned upon the approval of our General Meeting pursuant to Article 25.1 of the Articles (requiring a special majority of 50.1% of our outstanding shares). Upon a transfer of the Restricted Shares by Kanir to third party in accordance with the terms of the 2008 Shareholders Agreement, the casting vote of the Chairman of the Board shall expire.

Dividends and Liquidation Rights

Our Board of Directors is authorized to declare dividends, subject to applicable law. Dividends may be paid only out of profits and other surplus, as defined in the Companies Law, as of the end of the most recent financial statements or as accrued over a period of two years, whichever is higher. Alternatively, if we do not have sufficient profits or other surplus, then permission to effect a distribution can be granted by order of an Israeli court. In any event, a distribution is permitted only if there is no reasonable concern that the distribution will prevent us from satisfying our existing and foreseeable obligations as they become due.

Upon recommendation by the Board, dividends may be paid, in whole or in part, by the distribution of certain of our specific assets, of our shares or debentures, or shares or debentures of any other company, or in any combination of such manners. Subject to special or restricted rights conferred upon the holders of shares as to dividends, if any, the dividends shall be distributed in accordance with our paid-up capital attributable to the shares for which the dividend has been declared. Our obligation to pay dividends or any other amount in respect of shares may be set-off against any indebtedness, however arising, liquidated or non-liquidated, of the person entitled to receive the dividend. Any dividend unclaimed within the period of seven years from the date stipulated for its payment shall be forfeited and returned to us, unless otherwise directed by our Board. In the event of the winding up of Ellomay, then, after satisfaction of liabilities to creditors and subject to provisions of any applicable law and to any special or restricted rights attached to a share, our assets in excess of our liabilities will be distributed among the shareholders in proportion to the paid-up capital attributable to the shares in respect of which the distribution is being made. Dividend and liquidation right may be affected by the grant of preferential dividends or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

For more information concerning our dividend distribution policy see Item 8.A: Financial Information – Consolidated Statements and Other Financial information," under the heading "Dividends."

Redemption Provisions

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

Liability to Capital Calls

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

Certain Transactions with Controlling Persons

No provision in the Articles discriminates against an existing or prospective holder of securities, as a result of such shareholder owning a substantial amount of shares. However, the Companies Law extends the disclosure requirements applicable to office holders as described in "Board Practices" under "Management" above, to a controlling shareholder in a public company. For purposes of the issues described in these paragraphs, the Companies Law defines a controlling shareholder a shareholder who can direct the activities of the company, including a presumption that a person who holds 25% or more of the voting rights at the company's general meeting, provided there is no other person that holds more than 50% of the voting rights in such company is a controlling shareholder. If two or more shareholders are interested parties in the same transaction, their shareholdings are combined for the purposes of calculating the percentages held by them. If two or more shareholders are parties to a voting agreement, their interests are also generally combined for the purposes of calculating percentages.

"Extraordinary Transactions" (as such term is defined by the Companies Law and as set forth in "Board Practices" under "Management" above) of a public company with its controlling shareholder or with another person if the controlling shareholder has a personal interest in such transaction, including certain private offering of securities in which the controlling shareholder has a personal interest, a transaction between a company and a controlling shareholder or her or his relative, directly or indirectly, including through a company controlled by her or him, relating to the receipt by the company of services from her or him, and, if such controlling shareholder or her or his relative are office holders, a transaction in connection with their Terms of Service and Employment or, if he or she is an employee of the company and not an office holder, a transaction of the company with such person in connection with his or her employment by the company, all are required to be for the benefit of the company and require the approval of the audit committee, the board of directors and the shareholders. The shareholders' approval of such a transaction requires a simple majority approval and the fulfillment of one of the following conditions: (i) at least a majority of the votes cast by shareholders who have no personal interest in the transaction and who vote on the matter are voted in favor of the transaction, or (ii) the votes cast by shareholders who have no personal interest in the transaction voted against the transaction do not represent more than two percent of the voting rights in the company. In addition, any such transaction with a term that exceeds three years requires approval as described above every three years, unless (with respect only to extraordinary transactions and not to other transactions that require the special approval process) the audit committee approves that a longer term is reasonable under the circumstances. For more information concerning the roles of the audit committee in connection with related party transactions, including a recent amendment to the Companies Law, see "Item 6.C: Board Practices." For more information concerning the approval process and requirements in connection with the Terms of Service and Employment of controlling shareholders and their relatives see "Item 6.B: Compensation."

Pursuant to the 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.

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

For details concerning the Management Agreement, see "Item 7.B: Related Party Transactions."

The description of the Management Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the Management Agreement filed by us as Exhibit 4.6 and the amendment to the Management Agreement filed by us as Exhibit 4.16 under Item 19.

Agreements in connection with the Investment in Dori Energy

Summaries of the material agreements executed in connection with our investment in Dori Energy are included as Exhibits 4.11 and 4.12 under Item 19, 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 4.19 under Item 19.

Series B Deed of Trust

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

The descriptions of the Series B Deed of Trust is only a summary and does not purport to be complete and is qualified by reference to the convenience translation of the Series B Deed of Trust filed by us as Exhibit 4.24 under Item 19.

D. Exchange Controls

Dividends, if any, paid by us to the holders of our ordinary shares, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, may be paid in non-Israeli currency. If these amounts are paid in Israeli currency, they may be converted into U.S. dollars at the rate of exchange prevailing at the time of conversion. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

The State of Israel does not restrict in any way the ownership or voting of ordinary shares of Israeli entities by non-residents of Israel, except with respect to subjects of countries that are in a state of war with Israel. In addition, there are currently no limitations on our ability to import and export capital.

E. Taxation

Israeli Taxation

The following is a summary of the material Israeli tax consequences and Israeli foreign exchange regulations as they relate to our shareholders and us. To the extent that the discussion is based on new tax or other legislation that has not been subject to judicial or administrative interpretation, there can be no assurance that the views expressed in the discussion will be accepted by the tax or other authorities in question. **The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.**

General Corporate Tax Structure

Israeli companies are generally subject to company tax on their taxable income. The Israeli corporate tax rate was 25% in 2013. The corporate tax rate increased to 26.5% in 2014 and 2015 and was reduced to 25% as of January 1, 2016. The Israeli Parliament on December 22, 2016, approved the Israeli Budgetary Law for 2017 and 2018, or the Budget Law. The Budget Law reduces the regular corporate tax rate from 25% to 24% in 2017 and to 23% in 2018.

Capital Gains Tax on Sales of Our Ordinary Shares

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain, which is equivalent to the increase of the relevant asset's purchase price, which is attributable to the increase in the Israeli consumer price index between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

Taxation of Israeli Residents

The tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 30%. Additionally, if such shareholder is considered a "significant shareholder" at any time during the 12-month period preceding such sale (i.e., such shareholder holds directly or indirectly, including jointly with others, at least 10% of any means of control in the company) the tax rate will be 30%. However, different tax rates may apply to dealers in securities and shareholders who acquired their shares prior to an initial public offering. Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of shares.

Taxation of Non-Israeli Residents

Non-Israeli residents are generally exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock market outside of Israel, provided such shareholders did not acquire their shares prior to the issuer's initial public offering and that the gains did not derive from a permanent establishment of such shareholders in Israel and that such shareholders are not subject to the Inflationary Adjustments Law. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In addition, the sale, exchange or disposition of our ordinary shares by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) holding ordinary shares as a capital asset is also exempt from Israeli capital gains tax under the U.S.-Israel Tax Treaty unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale or (ii) the capital gains arising from such sale are attributable to a permanent establishment of the shareholder located in Israel. If the above conditions are not met, the U.S. resident would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, the gain would be treated as foreign source income for United States foreign tax credit purposes and such U.S. resident would be permitted to claim a credit for such taxes against the United States income tax imposed on such sale, exchange or disposition, subject to the limitations under the United States federal income tax laws applicable to foreign tax credits.

Taxation on Dividends paid to a Shareholder

Taxation of Israeli Residents

Individuals who are Israeli residents are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, unless the recipient is a "significant" shareholder (as defined above) at any time during the 12-month period preceding the distribution, in which case the applicable tax rate is 30%. The company distributing the dividend is required to withhold tax at the rate of 25% (a different rate may apply to dividends paid on shares deriving from the exercise of stock options or other equity-based awards granted as compensation to employees or office holders of the company) or 30%, as applicable. Companies which are Israeli residents are generally exempt from income tax on the receipt of dividends from another Israeli company, unless the source of such dividends is located outside of Israel, in which case tax will generally apply at a rate of 25%.

Taxation of Non-Israeli Residents

Non-residents of Israel are generally subject to Israeli income tax on the receipt of dividends paid on our shares at the rate of 25% or 30%, if such person (including a non-Israeli corporation) is a substantial shareholder at the time of recipient of the dividend or on any date in the 12 months preceding such date, which tax will be withheld at the source, unless a different rate is provided in a tax treaty between Israel and the shareholder's country of residence. Under the U.S.-Israel Tax Treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our ordinary shares who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) is 25%. A non-resident of Israel who receives dividends from which tax was withheld is generally exempt from the duty to file returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer, and the taxpayer has no other taxable sources of income in Israel.

Taxation of Holders of our Debentures

Capital Gains Tax

Taxation of Israeli Residents

A capital gain for an individual derived from the sale of a debenture that is not linked to an index, such as our Debentures, will be taxable at a rate not to exceed 15% in case of a "non-significant" individual debenture holder, or 20% in the case of a "significant" individual debenture holder. Tax payers claiming a deduction of real interest expenses and linkage differences on debentures such as the Debentures will be taxed at a rate of 30% on their real capital gains. Dealers in securities in Israel are taxed at regular tax rates applicable to business income. Companies resident in Israel are taxed at rates applicable to capital gains.

Taxation of Non-Israeli Residents

Gains on the sale of securities traded on the TASE, such as our Debentures, held by non-Israeli resident investors for tax purposes will generally be exempt from Israeli capital gains tax, subject to the provisions of the Israeli tax legislation. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident: (i) has a controlling interest of 25% or more in such non-Israeli corporation; or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

Income Tax on Interest Income

Taxation of Israeli Residents

Israeli resident individuals are exempt from tax on the linkage differences derived from the debenture principal, under certain conditions. An individual is taxable at a rate of 15% on interest or discount fees originating from debentures which are not linked to the index, whether in whole or in part, such as our Debentures. Pursuant to Section 125C(b) of the Israeli Income Tax Ordinance, the tax rate on interest income or discount fees originating from fully index-linked debentures, including debentures linked to a foreign currency, is 25% in case of a "non- significant" debenture holder. Pursuant to Section 125C(d) of the Israeli Income Tax Ordinance, these tax rates will not apply if any of the following conditions are met: (1) the interest represents income from a "business" or is recorded in the individual's books of account or is required to be so recorded; (2) the individual has claimed deduction of linkage differences and interest expenses on the debentures; (3) the individual is a "significant" individual debenture holder; or (4) the individual is employed by a corporation that paid the interest, is a supplier of goods or services to the corporation or has other special relations with the corporation, unless the tax assessing officer is satisfied that the interest rate has been established in good faith and regardless of the existence of any such relations between the individual and the corporation. In these cases, the individual will be taxed at the marginal tax rate. The paying company will deduct tax at a rate of 15% on interest in respect of unlinked debentures, such as our Debentures, and at a rate of 25% in the case of linked debentures. The maximum tax rate pursuant to Section 121 of the Israeli Income Tax Ordinance will apply in the case of an individual who is a "significant" individual debenture holder, an individual employed by the interest-paying-corporation or a supplier of goods or services to the corporation. The tax rate applicable to interest income (including linkage differences) or discount fees of an Israeli resident corporation is the corporate tax rate. The paying company will deduct tax at the corporate tax rate.

Taxation of Non-Israeli Residents

Interest, discount fees or linkage differences paid to a foreign resident on debentures listed on the TASE and issued by an Israeli resident corporation, such as our Debentures, are typically exempt from Israeli tax, provided that the income is not produced by the foreign resident's permanent establishment in Israel. The tax exemption will not apply in the following circumstances: (1) the foreign resident is a "significant" shareholder or debenture holder of the issuing company; (2) the foreign resident is a relative, as defined in the Ordinance, of the issuing company; (3) the foreign resident is an employee, a supplier of goods or services or has special relations with respect to the issuing company (unless it is demonstrated that the interest rate or discount fees have been determined in good faith and regardless of the existence of any special relations); or (4) the foreign resident company is held by Israeli residents. If the tax exemption does not apply as above, the tax rate applicable to interest income received by foreign residents (individuals and corporations) originating from securities will be established in accordance with the provisions of the Ordinance, or in accordance with the provisions of the relevant treaty for the avoidance of double taxation signed between the State of Israel and the foreign resident's country of residence. In such case, the paying company will withhold tax according to the rates prescribed in the Ordinance as above, and this rate may be reduced subject to the relevant treaty for the avoidance of double taxation. As indicated above, our Debentures are not registered under the Securities Act and may not be offered or sold in the United States or to U.S. Persons (as defined in Regulation "S" under the Securities Act) without registration under the Securities Act or an exception from the registration requirements of the Securities Act.

U.S. Tax Considerations Regarding Ordinary Shares

The following is a general summary of the material United States federal income tax consequences relating to the acquisition, ownership and disposition of our ordinary shares by an investor that holds those ordinary shares as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, or the Code. This summary is based on the tax laws of the United States, and existing final, temporary and proposed Treasury Regulations, administrative pronouncements and judicial decisions, as in effect on the date hereof, all of which are subject to prospective and retroactive changes, and to differing interpretations. This summary does not purport to address all federal income tax consequences that may be relevant to particular investors, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks and financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, investors liable for alternative minimum tax, investors that own or are treated as owning 10% or more of our 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. This summary does not address any aspect of United States federal gift or estate tax or state, local or foreign tax laws. ACCORDINGLY, PERSONS CONSIDERING THE PURCHASE OF ORDINARY SHARES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE APPLICATION OF UNITED STATES FEDERAL TAX LAWS, AS WELL AS THE LAWS OF ANY STATE, LOCAL OR FOREIGN TAXING JURISDICTION, TO THEIR PARTICULAR SITUATIONS.

For purposes of this discussion, a "U.S. Holder" is any beneficial owner of our ordinary shares that, for U.S. federal income tax purposes, is:

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

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

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

Taxation of U.S. Holders

Distributions on Ordinary Shares. Subject to the discussion in "Passive Foreign Investment Companies" below, distributions made by us with respect to ordinary shares generally will constitute dividends for federal income tax purposes and will be taxable to a U.S. Holder as a dividend to the extent of our undistributed current or accumulated earnings and profits (as determined for United States federal income tax purposes). Distributions in excess of our current and accumulated earnings and profits will be treated first as a nontaxable return of capital reducing the U.S. Holder's tax basis in the ordinary shares, thus increasing the amount of any gain (or reducing the amount of any loss) which might be realized by such U.S. Holder upon the sale or exchange of such ordinary shares. Any such distributions in excess of the U.S. Holder's tax basis in the ordinary shares will be treated as 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, 2014, 2015 and 2016. 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 the use of foreign tax credits arising in connection with distributions on PFIC shares as to which you should consult your tax advisor.

If you hold ordinary shares in any year in which we are a PFIC, you are generally required to file Internal Revenue Service Form 8621 every year. Please consult your tax advisor regarding your PFIC shareholder reporting obligation in connection with your investment.

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

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://maya.tase.co.il and at the Israeli Securities Authority's website at http://www.magna.isa.gov.il.

I. Subsidiary Information

Not applicable.

ITEM 11: Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of risks, including foreign currency fluctuations and changes in interest rates. We regularly assess currency and interest rate risks to minimize any adverse effects on our business as a result of those factors and periodically use hedging transactions in order to attempt to limit the impact of such changes.

We hold cash and cash equivalents, marketable securities and restricted cash in various currencies, including US$, Euro and NIS. Our investments in the Italian and Spanish PV Plants and in the Netherlands WtE project 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 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 USD, exposing our balance sheet to the effects of presentation currency translation adjustments.

Inflation and Fluctuation of Currencies

As a result of our operations and presentation currency, 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, 2016, we entered into forward EUR/USD contracts with an aggregate EUR denominated principal of EUR 22.5 million, with a weighted average rate of approximately 1.29 USD/EUR and expiration dates in October 2017 and January 2019. In November 2016, we closed Euro/USD forward positions with an accumulated profit of approximately $4.5 million. The cash proceeds of these transactions are expected to be received between October 2017 and March 2019 (depending on the relevant dates of the forward positions). During the fourth quarter of 2016, we entered into new Euro/USD forward positions and as of December 31, 2016 we held forward EUR/USD contracts with an aggregate EUR denominated principal of EUR 20 million, with a weighted average rate of approximately 1.18 USD/EUR and expiration dates in November 2021. 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 and the Loan Agreement with UBI on June 29, 2015. 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 as of December 31, 2016:

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 for a period of 15 years, payable semi-annually commencing on June 30, 2012, whereby we are the fixed rate payer (the fixed rate is set at 2.53%).

A Euro 7.5 million interest swap transaction with a decreasing notional principle amount based on the amortization table. The interest swap transaction is for a period of 12 years, semi-annually, whereby we are the fixed rate payer (the fixed rate is set at 1.17%).

Sensitivity Analysis

A change as at December 31 in the exchange rates of the following Euro against the USD, as indicated below would have increased (decreased) equity by the amounts shown below (after tax). This analysis is based on foreign currency exchange rate that 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, 2016	
	Increase	Decrease
	Profit or loss	Profit or loss
	US$ thousands	
Change in the exchange rate of:		
5% in the Euro	**(768)**	**768**
5% in NIS	**(4,181)**	**4,181**

	December 31, 2015	
	Increase	Decrease
	Profit or loss	Profit or loss
	US$ thousands	
Change in the exchange rate of:		
5% in the Euro	(465)	465
5% in NIS	(7,625)	7,625

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

	December 31,	
	2016	2015
	Profit or loss	Profit or loss
	US$ thousands	
Increase of 1%	**1,005**	864
Increase of 3%	**3,053**	2,587
Decrease of 1%	**(1,043)**	(857)
Decrease of 3%	**(3,091)**	(2,581)

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 Debentures see "Item 5.B: Operating and Financial Review and Prospects; Liquidity and Capital Resources").

PART II

ITEM 13: Defaults, Dividend Arrearages and Delinquencies

Not Applicable.

ITEM 14: Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

ITEM 15: Controls and Procedures

(a) Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report, have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that the information required in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, our management used the criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013.

Based on this assessment, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2016, 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, 2016 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. 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.

	2016	2015
	(US$ in thousands)	
Audit Fees(1)	$ 116	$ 117
Audit-Related Fees(2)	$ 47	$ 16
Tax Fees(3)	$ 18	$ 28
Total	$ 181	$ 161

(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

During 2016, we repurchased our ordinary shares as described in the table below.

Period	(a) Total Numbers of Shares Purchased(1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
		(In U.S. dollars, except share amounts)		
January 1 – January 31	952	8.1452	952	$ 1,542,268
March 1 – March 31	11	8.41	11	$ 1,542,175
April 1 – April 30	330	8.53	330	$ 1,539,383
November 1 – November 30	225	7.435	225	$ 1,537,716
Total	**1,518**		**1,518**	

(1) All ordinary shares were repurchased pursuant to the share buyback program approved in May 2015 and were made in open-market transactions. Except as set forth in the table above, we did not repurchase any ordinary shares in any other monthly period during 2016.

In May 2015, our Board of Directors approved a $3 million share buyback plan. The authorized repurchases will be made from time to time in the open market on the NYSE MKT and Tel Aviv Stock Exchange and in privately negotiated transactions. The timing, volume and nature of share repurchases will be at the sole discretion of management and will be dependent on regulatory restrictions, market conditions, the price and availability of our ordinary shares, applicable securities laws and other factors, including compliance with the terms of our Debentures. No assurance can be given that any particular amount of ordinary shares will be repurchased. The buyback program does not obligate us to acquire a specific number of shares in any period, and it may be modified, suspended, extended or discontinued at any time, without prior notice.

ITEM 16F: Change in Registrant's Certifying Accountants

There has been no change in our independent accountants during the two most recent fiscal years or any subsequent interim period, except as previously reported in our Annual Report on Form 20-F for the fiscal year ended December 31, 2015, and there have been no disagreements of the type required to be disclosed by Item 16F(b).

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

Our Financial Statements are included in pages F-1 – F-73 of this Report.

The Financial statements of Dorad Energy Ltd. are included in pages FD-1 – FD-45 of this Report.

ITEM 19: Exhibits

Number	Description
1.1	Memorandum of Association of the Registrant (translated from Hebrew), reflecting amendments through June 9, 2011*(1)
1.2	Second Amended and Restated Articles of the Registrant, reflecting amendments through June 20, 2012(1)
2.1	Specimen Certificate for ordinary shares(2)
4.1	1998 Share Option Plan for Non-Employee Directors(3)
4.2	2000 Stock Option Plan(1)
4.3	Form of Indemnification 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(4)
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(5)
4.7	Giaché Building Right Agreement (summary of Italian version)(6)*
4.8	Massaccesi Building Right Agreement (summary of Italian version)(6)*
4.9	Troia 8 Building Right Agreement (summary of Italian version)(6)*
4.10	Troia 9 Building Right Agreement (summary of Italian version)(6)*
4.11	Investment Agreement, among U. Dori Group Ltd., U. Dori Energy Infrastructures Ltd. (currently Amos Luzon Entrepreneurship and Energy Group Ltd.) and Ellomay Clean Energy Ltd. , dated November 25, 2010 (summary of Hebrew version)(6)*
4.12	Shareholders Agreement, among U. Dori Group Ltd. (currently Amos Luzon Entrepreneurship and Energy Group Ltd.), Ellomay Clean Energy Ltd. and U. Dori Energy Infrastructures Ltd., dated November 25, 2010 (summary of Hebrew version)(6)*
4.13	Acquafresca Building Right Agreement (summary of Italian version)(2)*
4.14	D'Angella Building Right Agreement (summary of Italian version)(2)*
4.15	Rinconada II Building Right Agreement (summary of Spanish version)(2)*
4.16	Amendment No. 1 to Management Services Agreement, by and among the Registrant, Kanir Joint Investments (2005) Limited Partnership and Meisaf Blue & White Holdings Ltd., dated June 18, 2013(7)
4.17	Soleco Building Right Agreement (summary of Italian version)(7)*
4.18	Tecnoenergy Building Right Agreement (summary of Italian version)(7)*
4.19	Deed of Trust between the Registrant and Hermetic Trust (1975) Ltd., governing the Company's Series A Debentures, dated December 30, 2013 (translation of Hebrew version)(7)*
4.20	Rodríguez I Lease Agreements (summary of Spanish version)(3)*
4.21	Rodríguez II Lease Agreements (summary of Spanish version)(3)*

Number	Description
4.22	Fuente Librilla Lease Agreement (summary of Spanish version)(3)*
4.23	Updated Directors and Officers Compensation Policy, adopted July 5, 2016(8)
4.24	Deed of Trust between the Registrant and Hermetic Trust (1975) Ltd., governing the Company's Series B Debentures, dated March 1, 2017 (translation of Hebrew version)*
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 Auditores S.L.P. with respect to the financial statements of Ellomay Spain S.L.
15.3	Consent of BDO Auditores S.L.P. with respect to the financial statements of Rodríguez I Parque Solar, S.L.
15.4	Consent of BDO Auditores S.L.P. with respect to the financial statements of Rodríguez II Parque Solar, S.L.
15.5	Consent of Somekh Chaikin, Member Firm of KPMG International, Independent Registered Public Accounting Firm with respect to the financial statements of Dorad Energy Ltd.

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* 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) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2014 and incorporated by reference herein.
(4) Included in the Registrant's Form 6-K dated October 14, 2005 and incorporated by reference herein.
(5) Included in the Registrant's Form 6-K dated December 1, 2008 and incorporated by reference herein.
(6) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2010 and incorporated by reference herein.
(7) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2013 and incorporated by reference herein.
(8) Included in Exhibit 99.2 of the Registrant's Form 6-K dated May 18, 2016 and incorporated by reference herein.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Ellomay Capital Ltd.

By: /s/ *Ran Fridrich*
Ran Fridrich
Chief Executive Officer and Director

Dated: March 31, 2017

Ellomay Capital Ltd. and its Subsidiaries

Consolidated Financial Statements
As at December 31, 2016

Consolidated Financial Statements as at December 31, 2016

Contents

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
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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, 2016 and 2015, 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, 2016. 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 certain consolidated companies which statements reflect total revenues constituting 14% for the year ended December 31, 2014 of the related consolidated total. Those 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 companies, is based solely on the reports of 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 reports 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, 2016 and 2015 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, 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
March 31, 2017

[BDO Auditores S.L. letterhead]

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 nor 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

[BDO Auditores S.L. letterhead]

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 nor 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

[BDO Auditores S.L. letterhead]

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 nor 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

	Note	December 31 2016	December 31 2015
		US$ in thousands	
Assets			
Current assets:			
Cash and cash equivalents	3	**23,650**	18,717
Marketable securities	4	**1,023**	6,499
Restricted cash	4	**16**	79
Trade and other receivables	5	**9,952**	8,218
		34,641	33,513
Non-current assets			
Investment in equity accounted investee	6	**30,788**	33,970
Advances on account of investments	6	**905**	-
Financial assets	6C	**1,330**	4,865
Fixed assets	7	**77,066**	78,975
Restricted cash and deposits	4	**5,399**	5,317
Deferred tax	19	**2,614**	2,840
Long term receivables	5	**3,431**	847
		121,533	126,814
Total assets		**156,174**	160,327
Liabilities and Equity			
Current liabilities			
Current maturities of long term loans	9	**1,150**	1,133
Debentures	12	**4,989**	4,878
Trade payables		**1,684**	869
Other payables	8	**3,279**	3,223
		11,102	10,103
Non-current liabilities			
Finance lease obligations	10	**4,228**	4,724
Long-term loans	11	**17,837**	13,043
Debentures	12	**30,548**	35,074
Deferred tax	19	**925**	823
Other long-term liabilities	13	**2,764**	2,495
		56,302	56,159
Total liabilities		**67,404**	66,262
Equity			
Share capital	16	**26,597**	26,597
Share premium		**77,727**	77,723
Treasury shares		**(1,985)**	(1,972)
Reserves		**(17,024)**	(15,215)
Retained earnings		**4,191**	7,200
Total equity attributed to shareholders of the Company		**89,506**	94,333
Non-Controlling Interest		**(736)**	(268)
Total equity		**88,770**	94,065
Total liabilities and equity		**156,174**	160,327

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		
		2016	2015	2014
		US$ in thousands (except per share data)		
Revenues		**12,872**	13,817	15,782
Operating expenses	**18B**	**(2,305)**	(2,854)	(3,087)
Depreciation expenses	**18B**	**(4,884)**	(4,912)	(5,452)
Gross profit		**5,683**	6,051	7,243
General and administrative expenses	**18C**	**(4,679)**	(3,745)	(4,253)
Share of profits of equity accounted investee		**1,505**	2,446	1,819
Other income, net	**18D**	**99**	21	1,438
Gain on bargain purchase	**6**	**-**	-	3,995
Operating Profit		**2,608**	4,773	10,242
Financing income	**18A**	**290**	2,347	2,245
Financing income (expenses) in connection with derivatives, net	**18A**	**704**	3,485	(1,048)
Financing expenses	**18A**	**(4,050)**	(5,240)	(4,592)
Financing income (expenses), net		**(3,056)**	592	(3,395)
Profit (loss) before taxes on income		**(448)**	5,365	6,847
Tax benefit (taxes on income)	**19**	**(625)**	1,933	(201)
Profit (loss) for the year		**(1,073)**	7,298	6,646
Profit (loss) attributable to:				
Owners of the Company		**(605)**	7,553	6,658
Non-controlling interests		**(468)**	(255)	(12)
Profit (loss) for the year		**(1,073)**	7,298	6,646
Other comprehensive income (loss) items that after initial recognition in comprehensive income (loss) were or will be transferred to profit or loss:				
Foreign currency translation differences for foreign operations		**(267)**	(141)	(3,199)
Other comprehensive income items that will not be transferred to profit or loss:				
Presentation currency translation adjustments		**(1,542)**	(6,947)	(9,082)
Total other comprehensive loss		**(1,809)**	(7,088)	(12,281)
Total comprehensive income (loss) for the year		**(2,882)**	210	(5,635)
Earnings (loss) per share				
Basic earnings (loss) per share	**20**	**(0.06)**	0.7	0.62
Diluted earnings (loss) per share		**(0.06)**	0.7	0.62

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

Consolidated Statements of Changes in Equity

	Attributable to shareholders of the Company							Non-controlling Interests	Total Equity
	Share capital	**Share premium**	**Retained earnings (accumulated deficit)**	**Treasury shares**	**Translation reserve from foreign operations**	**Presentation currency translation Reserve**	**Total**		
	US$ in thousands								
Balance as at January 1, 2016	**26,597**	**77,723**	**7,200**	**(1,972)**	**814**	**(16,029)**	**94,333**	**(268)**	**94,065**
Loss for the year	**-**	**-**	**(605)**	**-**	**-**	**-**	**(605)**	**(468)**	**(1,073)**
Other comprehensive loss for the year	**-**	**-**	**-**	**-**	**(267)**	**(1,542)**	**(1,809)**	**-**	**(1,809)**
Total comprehensive loss for the year	**-**	**-**	**(605)**	**-**	**(267)**	**(1,542)**	**(2,414)**	**(468)**	**(2,882)**
Transactions with owners of the Company, recognized directly in equity:									
Dividends to owners	**-**	**-**	**(2,404)**	**-**	**-**	**-**	**(2,404)**	**-**	**(2,404)**
Own shares acquired	**-**	**-**	**-**	**(13)**	**-**	**-**	**(13)**	**-**	**(13)**
Share-based payments	**-**	**4**	**-**	**-**	**-**	**-**	**4**	**-**	**4**
Balance as at December 31, 2016	**26,597**	**77,727**	**4,191**	**(1,985)**	**547**	**(17,571)**	**89,506**	**(736)**	**88,770**
Balance as at January 1, 2015	**26,180**	**76,932**	**(353)**	**(522)**	**955**	**(9,082)**	**94,110**	**16**	**94,126**
Profit for the year	-	-	7,553	-	-	-	7,553	(255)	7,298
Acquisition of subsidiary	-	-	-	-	-	-	-	(29)	(29)
Other comprehensive loss for the year	-	-	-	-	(141)	(6,947)	(7,088)	-	(7,088)
Total comprehensive loss for the year	-	-	7,553	-	(141)	(6,947)	465	(284)	181
Transactions with owners of the Company, recognized directly in equity:									
Exercise of share options and warrants	417	784	-	-	-	-	1,201	-	1,201
Own shares acquired	-	-	-	(1,450)	-	-	(1,450)	-	(1,450)
Share-based payments	-	7	-	-	-	-	7	-	7
Balance as at December 31, 2015	**26,597**	**77,723**	**7,200**	**(1,972)**	**814**	**(16,029)**	**94,333**	**(268)**	**94,065**
Balance as at January 1, 2014	**26,180**	**76,932**	**(7,011)**	**(522)**	**4,154**	**-**	**99,733**	**28**	**99,761**
Profit for the year	-	-	6,658	-	-	-	6,658	(12)	6,646
Other comprehensive loss for the year	-	-	-	-	(3,199)	(9,082)	(12,281)	-	(12,281)
Total comprehensive loss for the year	-	-	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**

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

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2016	**2015**	**2014**
		US$ in thousands	
Cash flows from operating activities			
Profit (loss) for the year	**(1,073)**	7,298	6,646
Adjustments for:			
Net Financing expenses (income)	**3,056**	(592)	3,395
Gain on bargain purchase	**-**	-	(3,995)
Depreciation	**4,884**	4,912	5,452
Share-based payment transactions	**4**	7	*
Share of profits of equity accounted investees	**(1,505)**	(2,446)	(1,819)
Payment of interest on loan from an equity accounted investee	**5,134**	-	-
Change in trade receivables and other receivables	**(1,798)**	458	(1,536)
Change in other assets	**(805)**	(1,706)	(797)
Change in accrued severance pay, net	**(18)**	(1)	(29)
Change in trade payables	**850**	(252)	(498)
Change in other payables	**1,955**	2,311	498
Income tax expense (tax benefit)	**625**	(1,933)	201
Income taxes paid	**(54)**	(241)	(461)
Interest received	**251**	222	212
Interest paid	**(3,300)**	(3,126)	(3,933)
	9,279	(2,387)	(3,310)
Net cash from operating activities	**8,206**	4,911	3,336

* Less than $1 thousand

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		
	2016	2015	2014
		US$ in thousands	
Cash flows from investing activities:			
Acquisition of fixed assets	**(5,388)**	-	(709)
Acquisition of subsidiary, net of cash acquired (see Note 6C)	**-**	-	(13,126)
Investment in equity accounted investee	**(803)**	(7,582)	(4,058)
Advances on account of investments	**(905)**	-	-
Repayment of loan from an equity accounted investee	**2,638**	-	-
Decrease in deposits, net	**-**	3,980	1,173
Acquisition of marketable securities	**(1,022)**	(2,869)	(3,687)
Proceeds from marketable securities	**6,511**	-	-
Proceeds from settlement of derivatives, net	**-**	2,087	-
Decrease (increase) in restricted cash, net	**(31)**	(101)	4,342
Net cash from (used in) investing activities	**1,000**	(4,485)	(16,065)
Cash flows from financing activities:			
Short-term loans, net	**-**	-	(18,550)
Acquisition of non-controlling interests	**-**	(868)	-
Dividends paid	**(2,404)**	-	-
Repayment of long-term loans and finance lease obligations	**(1,169)**	(1,020)	(7,152)
Repayment of Debentures	**(5,210)**	(5,134)	(5,151)
Proceeds from exercise of share options and warrants	**-**	1,201	**-**
Repurchase of own shares	**(13)**	(1,450)	-
Proceeds from long term loans	**6,001**	11,715	-
Proceeds from issuance of debentures, net	**-**	-	55,791
Net cash from (used in) financing activities	**(2,795)**	4,444	24,938
Effect of exchange rate fluctuations on cash and cash equivalents	**(1,478)**	(1,911)	(3,689)
Increase in cash and cash equivalents	**4,933**	2,959	8,520
Cash and cash equivalents at the beginning of year	**18,717**	15,758	7,238
Cash and cash equivalents at the end of the year	**23,650**	18,717	15,758

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

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 the 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 and (ii) four photovoltaic plants in Spain with an aggregate installed capacity of approximately 7.9 MWp. In addition, the Company indirectly owns 9.375% of Dorad

Energy Ltd. (hereinafter - "Dorad"), 75% of Chashgal Elyon Ltd., Agira Sheuva Electra, L.P. and Ellomay Pumped Storage (2014) Ltd., all of which are involved in a project to construct a 340 MW pumped storage hydro power plant in the Manara Cliff, Israel and 51% of Groen Gas Goor B.V., which is a company constructing an anaerobic digestion facility in Goor, the Netherlands.

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 "ELLO"). The address of the Company's registered office is 9 Rothschild Blvd., Tel Aviv, Israel.

B. Definitions:

In these financial statements:

Subsidiaries – Companies, including partnerships, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company.

Investee companies – Subsidiaries and companies, including a partnership, the Company's investment in which is stated, directly or indirectly, on the equity basis.

Related party - Within its meaning in IAS 24 (2009), "Related Party Disclosures".

Unless otherwise noted, all references to "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.

Note 2 – Significant Accounting Policies

A. Basis of preparation of the financial statements

1. The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The operating cycle of the Company is one year.

The consolidated financial statements were authorized for issue on March 31, 2017 by the Company's Board of Directors.

2. Consistent accounting policies

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

Note 2 – Significant Accounting Policies (cont'd)

A. Basis of preparation of the financial statements (cont'd)

3. Basis of measurement - The consolidated financial statements have been prepared on the historical cost basis, except for the following:

(i) Investment in investee accounted for using the equity method;
(ii) Marketable securities;
(iii) Deferred tax assets and liabilities;
(iv) Derivative financial instruments and other receivables measured at fair value through profit or loss; and
(v) Provisions

B. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions regarding circumstances and events that involve considerable uncertainty, that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The key assumptions made in the financial statements with respect to the future and other reasons for uncertainty with respect to estimates that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value measurement of non-trading derivatives:
Within the scope of the valuation of financial assets and derivatives not traded on an active market, management makes assumptions about inputs used in the valuation models. For information on a sensitivity analysis of levels 2 and 3 financial instruments carried at fair value see Note 21 regarding financial instruments.

Recognition of deferred tax asset in respect of tax losses:
The probability that in the future there will be taxable profits against which carried forward losses can be utilized. See Note 19 regarding taxes on income.

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

Note 2 – Significant Accounting Policies (cont'd)

C. Functional and presentation currency

These consolidated financial statements are presented in US dollars (presentation currency), and have been rounded to the nearest thousand, except when otherwise indicated. The functional currency is examined for the Company and for each of the subsidiaries separately. The Company's management has determined that the functional currency of the Company is the Euro. Items included in the financial statements of each of the Company's subsidiaries and investee are measured using their functional currency.

Foreign currency transactions-
Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in profit or loss.

Foreign operations-
The assets and liabilities of foreign operations, including adjustments arising on acquisition, are translated at exchange rates at the reporting date. The income and expenses for each period presented in the statement of profit or loss and other comprehensive income (loss) are translated at average exchange rates for the presented periods; however, if exchange rates fluctuate significantly, income and expenses are translated at the exchange rates at the date of the transactions.

Foreign currency exchange differences are recognized in equity as a separate component of other comprehensive income (loss): "foreign currency translation adjustments".

When the foreign operation is a non-wholly-owned subsidiary of the Company, then the relevant proportionate share of the foreign operation translation difference is allocated to the non-controlling interests. On a total or partial disposal of a foreign operation, the relevant part of the other comprehensive income (loss) is recognized in the statement of comprehensive income (loss).

Generally, foreign currency differences from a monetary item receivable from or payable to a foreign operation, including foreign operations that are subsidiaries, are recognized in profit or loss in the consolidated financial statements. Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and are presented within equity in the translation reserve.

Note 2 – Significant Accounting Policies (cont'd)

C. Functional and presentation currency (cont'd)

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 each reporting period;
- 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'. Reclassification to profit or loss of the 'presentation currency translation reserve' with respect to subsidiaries with Euro functional currency would not be recognized upon their disposal.

D. Basis of consolidation and equity method accounting

1. *Subsidiaries*

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

2. *Transactions eliminated upon consolidation*

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated against the investment to the extent of the Company's interest in these investments. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. *Investment in associates and joint ventures (equity accounted investees)*

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. In assessing significant influence, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account. Joint ventures are joint arrangements in which the Company has rights to the net assets of the arrangement.

Associates and joint ventures are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs that are directly attributable to an expected acquisition of an associate or joint venture. The consolidated financial statements include the Company's share of the income and expenses in profit or loss and of other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

When the Company's increases its interest in an equity accounted investee while retaining significant influence, it implements the acquisition method only with respect to the additional interest obtained whereas the previous interest remains the same. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term interests that form a part thereof, is reduced to zero. When the Company's share of long-term interests that form a part of the investment in the investee is different from its share in the investee's equity, the Company continues to recognize its share of the investee's losses, after the equity investment was reduced to zero, according to its economic interest in the long-term interests. The recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

Note 2 – Significant Accounting Policies (cont'd)

D. Basis of consolidation and equity method accounting (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 either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquire, on a transaction-by-transaction basis. This accounting policy choice does not apply to other instruments that meet the definition of non-controlling interests (for example: options to acquire ordinary shares). Such instruments will be measured at fair value or in accordance with other relevant IFRSs.

Allocation of comprehensive income to the shareholders:
Profit or loss and any part of other comprehensive income are allocated to the owners of the Company and the non-controlling interests. Total comprehensive income is allocated to the owners of the Company and the non-controlling interests even if the result is a negative balance of non-controlling interests.

Note 2 – Significant Accounting Policies (cont'd)

E. Cash and cash equivalents

Cash and cash equivalents include cash balances available for immediate use and unrestricted short-term deposits with original maturity of three months or less from the date of acquisition, that are redeemable on demand 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.

F. 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.

G. Fixed assets

(1) Recognition and measurement

Fixed assets items are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the fixed asset.

Project licenses are included in the cost of photovoltaic plants.

The cost of replacing part of a fixed asset item and other subsequent expenses are capitalized if it is probable that the future economic benefits associated with them will flow to the Company and their cost can be measured reliably. The carrying amount of the replaced part of a fixed asset item is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

Gains and losses on disposal of a fixed asset item are determined by comparing the net proceeds from disposal with the carrying amount of the asset, and are recognized in profit or loss.

(2) Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value. An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of the fixed asset item.

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

The estimated useful life of the project licenses of photovoltaic plants that are carried at cost is 20 years for the Company's Italian subsidiaries and 25 years for the Company's Spanish subsidiaries. The fixed assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted if appropriate.

Note 2 - Significant Accounting Policies (cont'd)

H. Financial instruments

Non-derivative Financial assets:

The Company's financial assets include cash and cash equivalents, deposits, marketable securities, restricted cash, trade receivables and other receivables.

The Company initially recognizes loans and receivables and deposits on the date that they are created. All other financial assets, including assets designated at fair value through profit or loss, are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognized when the contractual rights of the Company to the cash flows from the asset expire, or when the Company transfers the rights to receive the cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

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.

Financial liabilities:

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

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.

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.

Offset of financial instruments
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company holds derivative financial instruments to manage its interest rate and currency risk exposures.

Note 2 - Significant Accounting Policies (cont'd)

H. Financial instruments (cont'd)

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.

I. Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- Default by a debtor;
- Indications that a debtor or issuer will enter bankruptcy;
- Changes in the economic environment that correlate with insolvency of issuers or the disappearance of an active market for a security;
- Observable data indicating a measurable decrease in the cash flow expected from financial assets.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Note 2 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

Non-financial assets (cont'd)

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the assessments of market participants regarding the time value of money and the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets("cash-generating unit"). An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount. 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.

Investments in associates

An investment in an associate is tested for impairment when objective evidence indicates there has been impairment (as described above).Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately.

If objective evidence indicates that the value of the investment may have been impaired, the Company estimates the recoverable amount of the investment, which is the greater of its value in use and its net selling price. In assessing value in use of an investment in an associate, the Company estimates its share of the present value of estimated future cash flows that are expected to be generated by the associate, including cash flows from operations of the associate and the consideration from the final disposal of the investment.

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount, and it is recognized in profit or loss under other expenses. An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized, and only to the extent that the investment's carrying amount, after the reversal of the impairment loss, does not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

Note 2 - Significant Accounting Policies (cont'd)

J. Share-based payment transactions

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

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the director become fully entitled to the award (the "vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

K. Employee benefits

1. Short-term employee benefits:

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions. Short-term employee benefits are measured on an undiscounted basis and are expensed as the related services are rendered or upon the actual absence of the employee when the benefit is not accumulated (such as maternity leave). A liability in respect of a cash bonus is recognized when the Company has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and the obligation can be estimated reliably.

2. Post-employment benefits:

The post-employment plans are usually financed by deposits with insurance companies and classified as a defined contribution plan or as a defined benefit plan.

The Company has defined contribution plans pursuant to Section 14 to the Israeli Severance Pay Law, 5723-1963 (the "Severance Pay Law") with the vast majority of its employees under which the Company pays fixed contributions and has no legal or constructive obligation to pay further amounts. Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense in profit or loss in the periods during which related services are rendered by employees and no additional provision is required in the financial statements.

The Company also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Severance Pay Law, employees are entitled to severance pay upon dismissal or retirement.

The Company makes current deposits in respect of severance pay obligations to pay compensation to certain of its employees in its pension funds and insurance companies (the "plan assets"). Plan assets are not available to the Company's own creditors and cannot be returned directly to the Company. The liability for employee benefits is presented in the statements of financial position at present value of the defined benefit obligation less the fair value of the plan assets.

Note 2 - Significant Accounting Policies (cont'd)

L. Leases

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

Finance leases: leases where the Company assumes substantially all the risks and rewards incident to ownership of the leased asset are classified as Finance leases. Upon initial recognition the leased assets are measured and a liability is recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The liability for lease payments is presented at its present value and the lease payments are apportioned between finance expenses and a reduction of the lease obligation.

Other leases are classified as Operating leases: 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 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.

M. Revenue recognition

Revenue is measured according to the fair value of the consideration or receivable 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.

N. Income tax

Income tax comprises of current tax and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that the tax arises from items which are recognized directly in equity. In such cases, the tax effect is also recognized in the relevant item in equity.

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years. Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

Note 2 - Significant Accounting Policies (cont'd)

N. Income tax (cont'd)

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for a limited number of exceptions:

- The initial recognition of goodwill,
- The initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- Differences relating to investments in subsidiaries, joint arrangements and associates, to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing dividends in respect of the investment.

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets that were not recognized are reevaluated at each reporting date and recognized if it has become probable that future taxable profits will be available against which they can be utilized.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to apply to temporary differences when they reverse, based on tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset deferred tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle deferred tax liabilities and assets on a net basis or their deferred tax assets and liabilities will be realized simultaneously.

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Company will have to use its economic resources to pay the obligation.

O. Earnings (loss) per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for treasury shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, after adjustment for treasury shares, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees and directors.

Note 2 - Significant Accounting Policies (cont'd)

P. Financing income and expenses

Financing 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.

Financing expenses include bank charges, interest expenses on loans and debentures, changes in the fair value of financial assets at fair value through profit or loss, and exchange rate differences.

Borrowing costs, which are not capitalized to qualifying assets, are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either financing income or financing expenses depending on whether foreign currency movements are in a net gain or net loss position.

Q. Provisions

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

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

R. Standards issued but not yet effective

(1). IFRS 9 (2014), *Financial Instruments* (hereinafter – "IFRS 9 (2014)")

IFRS 9 (2014) includes revised guidance on the classification and measurement of financial instruments, and a new model for measuring impairment of financial assets. This guidance is in addition to IFRS 9 (2013) which was issued in 2013.

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.

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).

Note 2 - Significant Accounting Policies (cont'd)

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

(1). IFRS 9 (2014), Financial Instruments (hereinafter – "IFRS 9 (2014)") (cont'd)

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.

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.

In accordance with IFRS 9 (2014), the Company is examining the possible need to measure the loans to investee (that are presently measured at amortized cost) at fair value through profit or loss, since their contractual cash flow characteristics do not include solely payments of principal and interest.

(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, 2018 with earlier application being permitted.

The Company has examined the effects of applying IFRS 15, and in its opinion the effect on the financial statements will be immaterial.

(3). *IFRS 16 International Financial Reporting Standard 16, Leases* (hereinafter – "IFRS 16")

IFRS 16 replaces IAS 17, *Leases* and its related interpretations. For lessees, IFRS 16 presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements.

IFRS 16 is applicable for annual periods as of January 1, 2019, with the possibility of early adoption, so long as the Company has also early adopted IFRS 15, *Revenue from Contracts with Customers*. The Company is examining the effects of applying IFRS 16 on the financial statements and has no plans for early application.

Note 3 - Cash and Cash Equivalents

	December 31	
	2016	2015
	US$ in thousands	
Cash	**11,825**	6,244
On Call deposits (*)	**11,825**	12,473
	23,650	18,717

(*) The annual interest rate for deposits as of December 31, 2016 is 0.75%-1.25% (0.35%-0.8186% as of December 31, 2015).

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

Note 4 - Restricted Cash, Deposits and Marketable Securities

	December 31	
	2016	2015
	US$ in thousands	
Marketable securities (1)	**1,023**	6,499
Short-term restricted cash (2)	**16**	79
Long-term restricted non-interest bearing bank deposits (3)	**1,145**	1,100
Restricted cash and long-term bank deposits (4)	**4,254**	4,217
Long-term restricted cash and deposits	**5,399**	5,317

(1) During 2015, the Company invested in a traded Corporate Bond (rated Baa3 by Moody's) with a coupon rate of 2.803% and the bonds were repaid during the fourth quarter of 2016. During 2016, the Company invested in a traded Corporate Bond (rated Baa3 by Moody's) with a coupon rate of 3.389% and a maturity date of December 30, 2018.
(2) Current accounts and bank deposits securing short term obligations.
(3) Deposits used to secure obligations towards the land owners and to secure obligations under financial leasing agreements and loan agreements (see Notes 10 and 11).
(4) Bank deposits securing the Company's swap and Forward contracts The annual interest rate as of December 31, 2016 is 0.35% - 0.4%.

Note 5 - Trade and Other Receivables and Assets

	December 31	
	2016	2015
	US$ in thousands	
Current Assets:		
Other receivables		
Government authorities	**2,303**	1,276
Income receivable	**2,895**	2,875
Interest receivable	**41**	29
Current tax	**181**	270
Current Maturities of loan to an equity accounted investee	**1,300**	3,061
Trade receivable	**345**	69
Forward contracts (1)	**2,133**	-
Prepaid expenses and other	**754**	638
	9,952	8,218
Non current Assets:		
Long term receivables		
Advance tax payment	**952**	803
Forward contracts (1)	**2,341**	-
Annual rent deposits	**37**	44
Other	**101**	-
	3,431	847

(1) In November 2016, the Company closed Euro/USD forward contracts with an accumulated profit of approximately $4,474 thousand. The cash proceeds of these transactions are expected to be received between October 2017 and March 2019 (depending on the relevant dates of the forward positions).

Note 6 - Investee Companies and other investments

A. Equity accounted investees

U. Dori Energy Infrastructures Ltd. (“Dori Energy”) –

On November 25, 2010, the Company through its wholly owned subsidiary, Ellomay Clean Energy Ltd. ("Ellomay Energy") entered into an Investment Agreement (the "Dori Investment Agreement") with Dori Group Ltd. ("Dori Group") (currently Amos Luzon Entrepreneurship and Energy Group Ltd. – “Luzon Group”), and Dori Energy, with respect to an investment in Dori Energy. Dori Energy holds 18.75% of the share capital of Dorad Energy Ltd. ("Dorad"), which owns an approximate 850 MWp bi-fuel operated power plant in the vicinity of Ashkelon, Israel (the "Dorad Power Plant"). 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").

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

A. Equity accounted investees (cont'd)

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.

On May 12, 2014 Dorad was issued production licenses for 20 years and a supply license for one year and on May 19, 2014 Dorad began commercial operation of the power plant. In July 2015, Dorad was issued a long term supply license that will expire on May 11, 2034.

The Dori Investment Agreement also granted Ellomay Energy an option to acquire additional shares of Dori Energy that, upon exercise, would increase Ellomay Energy's percentage holding in Dori Energy to 49% ("first option") and, following the obtainment of certain regulatory approvals to 50% ("second option"). The first option was exercisable starting from issuance and was due to expire within twelve (12) months following the completion and delivery of the Dorad Power Plant and the second option commenced at that date and was exercisable within 2 years following the completion and delivery of the Dorad Power Plant. The exercise price of the options was 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).

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 increased from 40% to 49% and the Company's indirect ownership of Dorad increased from 7.5% to 9.1875%. The aggregate amount paid by the Company in connection with the exercise of the first option amounted to approximately NIS 28,207 thousand (approximately $7,386 thousand) and includes the exercise price of NIS 21,600 thousand (approximately $5,656 thousand) and the amount of approximately NIS 6,607 thousand (approximately $1,730 thousand) required in order to realign the shareholders loans provided to Dori Energy by its shareholders with the new ownership structure.

The Company determined the fair value of the acquired assets and liabilities and allocated the consideration mostly, to customers' contracts and goodwill.

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

A. Equity accounted investees (cont'd)

In May 2016, the Company exercised the second option to acquire additional share capital of Dori Energy. Following the exercise of this option, the Company's holdings in Dori Energy increased from 49% to 50% and the Company's indirect ownership of Dorad increased from 9.1875% to 9.375%. The aggregate amount paid by the Company in connection with the exercise of the second option amounted to approximately NIS 2,800 thousand (approximately $730 thousand), including approximately NIS 400 thousand (approximately $100 thousand) required in order to realign the shareholders loans provided to Dori Energy by its shareholders with the new ownership structure. The Company determined the fair value of the acquired assets and liabilities and allocated the consideration to customers' contracts.

During 2016, the Company extended approximately NIS 663 thousand (approximately $173 thousand) subordinated shareholder loans to Dori Energy (including amounts extended in connection with the exercise of the second option). The shareholder loans are linked to the CPI and bear an annual interest rate that is 3% higher than the interest Dorad is committed to pay to Dorad's financing consortium during the financial period in respect of the "senior debt" (5.5% as of December 31, 2016).

During July 2016, in connection with the repayment by Dorad of interest and principal on account of shareholders loans in the aggregate amount of approximately NIS 350,000 thousand (approximately $93,000 thousand), the Company received an amount of approximately NIS 30,000 thousand (approximately $7,800 thousand). During January 2017, Dorad repaid an additional aggregate amount of approximately NIS 50,000 thousand (approximately $13,000 thousand) of interest and principal on account of shareholders loans and Dorad expects to repay an additional amount of approximately NIS 30,000 thousand (approximately $7,800 thousand) during 2017. The Company recorded an amount of approximately NIS 5,000 thousand (approximately $1,300 thousand) as current maturities of loan to an equity accounted investee.

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

As of December 31, 2016, Dorad provided through its shareholders at their proportionate holdings, as required by the financing agreements executed by Dorad, guarantees in favor of the Israeli Public Utilities Authority – Electricity (the "Israeli Electricity Authority"), the Israeli Electric Company and the Israel Natural Gas Lines Ltd. Total performance guarantees provided by Dorad amounted to approximately NIS 163,000 thousand (approximately $41,600 thousand). The Company's indirect share of guarantees Dorad provided through its shareholders is approximately NIS 15,000 thousand (approximately $4,000 thousand).

Petition to Approve a Derivative Claim filed by Dori Energy

On July 16, 2015, Dori Energy and Dori Energy's representative on Dorad's board of directors, Mr. Hemi Raphael , filed a petition (the "Petition"), for approval of a derivative action on behalf of Dorad with the Economic Department of the Tel Aviv-Jaffa District Court. The Petition was filed against Zorlu Enerji Elektrik Uretim A.S, which holds 25% of Dorad ("Zorlu"), Zorlu's current and past representatives on Dorad's board of directors and Wood Group Gas Turbines Services Ltd. ("Wood Group") and several of its affiliates, all together, the Defendants. The petition requested, inter alia, that the court instruct the Defendants to disclose and provide to Dorad documents and information relating to the contractual relationship between Zorlu and Wood Group, which included the transfer of funds from Wood Group to Zorlu in connection with the EPC agreement of the Dorad Power Plant. On January 12, 2016, Dori Energy filed a motion to amend the Petition to add Ori Edelsburg (a director in Dorad) and affiliated companies as additional respondents, to remove Zorlu's representatives and to add several documents which were obtained by Dori Energy, after the Petition had been filed.

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

A. Equity accounted investees (cont'd)

At a hearing held on April 20, 2016, the request submitted in January 2016 to amend the Dori Energy Petition to add Ori Edelsburg (a director in Dorad) and affiliated companies as additional respondents was approved. On December 27, 2016, an arbitration agreement was executed pursuant to which this proceeding, as well as the two proceedings mentioned below will be arbitrated before Judge (retired) Hila Gerstel. In her decision dated January 2, 2017, the arbitrator ruled, among other things, that the statements of claim in the various proceedings will be submitted by February 19, 2017, the statements of defense will be submitted by April 4, 2017, discovery affidavits will be submitted by April 6, 2017, responses will be submitted by May 4, 2017 and a preliminary hearing will be held on May 10, 2017. These dates were extended with the agreement of the parties so that the statements of claim will be submitted by February 23, 2017 and the statements of defense will be submitted by April 9, 2017. Following the execution of the arbitration agreement, Dori Energy and Mr. Hemi Raphael requested the deletion of the proceeding and the request was approved. A statement of claim was filed by Dori Energy and Mr. Hemi Raphael on behalf of Dorad against Zorlu, Mr. Edelsburg, Edelcom and Edeltech Holdings 2006 Ltd. on February 23, 2017 in which they repeated their claims included in the amended Petition and in which they required the arbitrator to obligate the defendants, jointly and severally, to pay an amount of $183,367,953 plus interest and linkage to Dorad. During March 2017, the respondents filed two motions with the arbitrator as follows: (i) to instruct the plaintiffs to resubmit the statement of claim filed in connection with the arbitration proceedings in a form that will be identical to the form of the statement of claim submitted to the court, with the addition of the monetary demand only or, alternatively, to instruct that several sections and exhibits will be deleted from the statement of claim and (ii) to postpone the date for filing their responses by 45 days from the date the motion set forth under (i) is decided upon. The plaintiffs filed their objection to both motions and some of the respondents filed their responses to the objection. The arbitrator has not yet rendered her decision in the matter. The Company estimates (after consulting with legal counsel), that at this early stage it is not yet possible to assess the outcome of the proceeding.

Petition to Approve a Derivative Claim filed by Edelcom

On July 25, 2016, Edelcom Ltd., which holds 18.75% of Dorad ("Edelcom"), filed a petition for approval of a derivative action on behalf of Dorad (the "Edelcom Petition") against Ellomay Energy, Amos Luzon Entrepreneurship and Energy Group Ltd. (f/k/a U. Dori Group Ltd.), which holds 50% of Dori Energy's shares (the "Luzon Group"), Dori Energy and Dorad following a letter delivered to Dorad on February 25, 2016. The Edelcom Petition refers to an entrepreneurship agreement that was signed on November 25, 2010 between Dorad and the Luzon Group, pursuant to which the Luzon Group received payment in the amount of approximately NIS 49.4 million (approximately $12.7 million) in consideration for management and entrepreneurship services. Pursuant to this agreement, the Dori Group undertook to continue holding, directly or indirectly, at least 10% of Dorad's share capital for a period of 12 months from the date the Dorad Power Plant is handed over to Dorad by the construction contractor. The Edelcom Petition claims that as a consequence of the management rights and the options to acquire additional shares of Dori Energy granted to the Company pursuant to the Dori Investment Agreement, the holdings of the Dori Group in Dorad have fallen below 10% upon execution of the Dori Investment Agreement. The Edelcom Petition therefore claims that Dori Group breached its commitment according to entrepreneurship agreement and requests that a derivative action be approved to recover an amount of NIS 49.4 million, plus linkage and interest from the defendants. The Company estimates (after consulting with legal counsel), that at this early stage it is not yet possible to assess the outcome of the proceeding. As noted above, on December 27, 2016, an arbitration agreement was executed pursuant to which this proceeding, as well as the proceeding mentioned above and below will be arbitrated before Judge (retired) Hila Gerstel. On February 23, 2017, Edelcom submitted the petition to approve the derivative claim to the arbitrator. For more information see above. Following the execution of the arbitration agreement, this proceeding was deleted.

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

A. Equity accounted investees (cont'd)

Statement of Claim filed by Edelcom

In July 2016, Edelcom filed a statement of claim (the "Edelcom Claim"), with the Tel Aviv District Court against Dori Energy, Ellomay Energy, the Luzon Group, Dorad and the other shareholders of Dorad. In the Edelcom Claim, Edelcom contends that a certain section of the shareholders agreement among Dorad's shareholders ("the Dorad SHA"), contains several mistakes and does not correctly reflect the agreement of the parties. Edelcom claims that these purported mistakes were used in bad faith by the Luzon Group, Ellomay Energy and Dori Energy during 2010 in connection with the issuance of Dori Energy's shares to Ellomay Energy and that, in effect, such issuance was allegedly in breach of the restriction placed on Dorad's shares and the right of first refusal granted to Dorad's shareholders in the Dorad SHA. The Edelcom Claim requests the court to: (i) issue an order compelling the Luzon Group, Ellomay Energy and Dori Energy to act in accordance with the right of first refusal mechanism included in the Dorad SHA and to offer to the other shareholders of Dorad, including Edelcom, a right of first refusal in connection with 50% of Dori Energy's shares (which are currently held by Ellomay Energy, a wholly-owned subsidiary of the Company), under the same terms agreed upon by the Luzon Group, Ellomay Energy and Dori Energy in 2010, (ii) issue an order instructing Dorad to delay all payment due to Dori Energy as a shareholder of Dorad, including dividends or repayment of shareholders' loans, for a period as set forth in the Edelcom Claim, (iii) issue an order instructing Dorad to remove Dori Energy's representative from Dorad's board of directors (currently Mr. Hemi Raphael, who also serves on the Company's Board) and to prohibit his presence and voting at the Dorad board of directors' meetings, for a period as set forth in the Edelcom Claim, and (iv) grant any other orders as the court may deem appropriate under the circumstances. As noted above, on December 27, 2016, an arbitration agreement was executed pursuant to which this proceeding, as well as the two proceeding mentioned above, will be arbitrated before Judge (retired) Hila Gerstel. On February 23, 2017, Edelcom submitted the statement of claim to the arbitrator. For more information see above. Following the execution of the arbitration agreement, this proceeding was deleted. The Company estimates (after consulting with legal counsel), that at this early stage it is not yet possible to assess the outcome of the proceeding.

Opening Motion filed by Edelcom

On December 8, 2016, Edelcom filed an opening motion with the Economic Department of the Tel Aviv-Yaffo District Court against the Luzon Group, Dori Energy and Dorad ("the Opening Motion"). The Opening Motion was filed shortly after the publication in Israel of a prospectus by the Luzon Group for the issuance of debentures to the Israeli public, proposed to be secured, among other securities, by a pledge on Dori Energy's shares that are held by the Luzon Group (representing a 50% ownership percentage in Dori Energy, with us, indirectly, holding the remaining 50%). In the Opening Motion, Edelcom requests the court to declare that: (a) the creation of a lien on Dori Energy's shares held by the Luzon Group triggers the right of first refusal mechanism included in the Dorad SHA, (b) that the Luzon Group and/or Dori Energy are obligated to act in accordance with such right of first refusal and enable the shareholders of Dorad to acquire all of Luzon Group's holdings in Dori Energy or, indirectly, in Dorad, for a consideration of NIS 70 million less the value of other securities provided to the debenture holders or, alternatively, for an amount to be determined by an economic expert appointed by the court, and (c) to determine that Edelcom's notice of exercise of its right of first refusal, obligates the Luzon Group and/or Dori Energy.

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

A. Equity accounted investees (cont'd)

During January 2017, Edelcom filed a request to amend the Opening Motion to request the court to also examine the issuance of shares of Dori Energy to Ellomay Energy in 2010 as, based on Edelcom's position, the pledging of Dori Energy's shares by the Luzon Group finalized the disposition of all of the Luzon Group's shares in Dori Energy to third parties and therefore Edelcom claims that the right of first refusal included in the Dorad SHA is available to Edelcom. During January 2017 the Luzon Group filed its response to the Opening Motion and a request to schedule an urgent hearing. Thereafter, the Luzon Group filed its objection to Edelcom's request to amend the Opening Motion claiming that Edelcom did not disclose the relevant sections of the Dorad SHA and the request to amend the Opening Motion does not comply with the applicable law regarding amending court claims. During January 2017, after the Luzon Group amended its prospectus to reflect the issuance of unsecured debentures, Edelcom filed a motion to stop the Opening Motion as Edelcom claimed it was no longer relevant. The Luzon Group requested the court to either rule that Edelcom's request to stop the Opening Motion permits the creation of the lien on the Luzon Gorup's shares of Dori Energy or, to the extent Edelcom has not changed its claims, the request to stop the Opening Motion should be rejected and the case ruled on by the court as soon as possible in order to enable the Luzon Group to provide a pledge on its shares of Dori Energy to its debenture holders. In February 2017, Edelcom filed its response to the Luzon Group's request noting that the Luzon Group's position is not possible as the Luzon Group undertook not to pledge Dori Energy shares until the Opening Motion is decided on and on the other hand the Luzon Group claims that there is still an undertaking to provide the pledge. The trustee of the debentures issued by the Luzon Group notified the court that it does not have a position in the matter. During March 2017 a hearing was held and it was decided that the Luzon Group will file during March 2017 an opening motion on its behalf and such opening motion was filed by the Luzon Group. A hearing was scheduled for May 2017. Based on its review of the Opening Motion and related documents, the Company estimates that the chances of the court dismissing the Opening Motion filed by Edelcom are higher than the chances of the court granting the relief requested in such Opening Motion . On January 5, 2017, Ellomay Energy LP filed a request to join the proceeding as the outcome of the Opening Motion may materially affect its rights. The court approved Ellomay Energy LP's request and accordingly it may file its response to the Opening Motion until April 25, 2017.

Composition of the investments

	December 31	
	2016	**2015**
	US$ in thousands	
Investment in shares	**19,774**	18,742
Long-term loans	**12,119**	16,321
Deferred interest	**(1,105)**	(1,093)
	30,788	33,970
Current Maturities of the long-term loans	**1,300**	3,061
	32,088	37,031

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

A. Equity accounted investees (cont'd)

Changes in investments

	2016	2015
Changes in equity and loans:	US$ in thousands	
Balance as at January 1	**37,031**	27,237
Exercise of the option to acquire additional shares	**630**	5,656
Grant of long term loans	**173**	1,926
Repayment of long term loans	**(7,772)**	-
Interest on long term loans	**1,327**	1,323
Deferred interest	**57**	56
Elimination of interest on loan from related party	**(1,383)**	(1,378)
The Company's share of income	**1,505**	2,446
Foreign currency translation adjustments	**520**	(235)
Balance as at December 31	**32,088**	37,031
Changes in option to acquire additional shares:		
Balance as at January 1	*	17
Foreign currency translation adjustments	-	(*)
Exercise of first option to acquire additional shares	**(*)**	(17)
Balance as at December 31	-	*

*Less than $1 thousand

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

A. Equity accounted investees (cont'd)

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

(a) Summary information on financial position

	Rate of ownership	Current Assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Equity attributable to the owners of the Company	Company's share	Surplus Costs and goodwill	Other Adjustments	Carrying Amount of investment
	%	US$ in thousands										
2016												
Dori Energy	**50**	**4,744**	**52,623**	**57,367**	**(2,857)**	**(24,050)**	**(26,907)**	**30,459**	**15,230**	**4,713**	**(169)**	**19,774**
2015												
Dori Energy	49	6,255	62,455	68,710	(269)	(39,576)	(39,845)	28,865	14,144	4,449	149	18,742

(b) Summary information on operating results

	Rate of ownership as of December 31, 2016	Income for the year	Company's share	Elimination of interest on loan from related party	Other Adjustments	Company's share of income of investee
	%			US$ in thousands		
2016						
Dori Energy	**50**	**542**	**271**	**1,383**	**(149)**	**1,505**
2015						
Dori Energy	49	3,136	1,537	1,378	(469)	2,446

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

B. 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. As at December 31, 2016, the Company estimated the fair value of the second installment to be paid at approximately NIS 5,115 thousand (approximately $1,330 thousand) using a discounted cash flow model. The revaluation of such financial asset has been recognized as Other Income in consolidated statements of profit and loss.

Pumped-storage project in the Manara Cliff in Israel ("Manara 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's 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 (25%) in Chashgal Elyon Ltd. (the "GP"), an Israeli private company, which is the general partner of the Partnership. 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. 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 18 months 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. 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.

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

B. Pumped Storage Projects ("PSP")

As of December 31, 2016, The Company paid an amount of approximately NIS 3,200 thousand (approximately $905 thousand) on account of the consideration upon the acquisition and did not pay the remaining consideration it undertook to pay upon the fulfillment of certain conditions precedent in the aggregate amount of approximately NIS 61,800 thousands (approximately $16,100 thousand).

In August 2016, Ellomay Pumped Storage (2014) Ltd. ("Ellomay PS"), the Company's 75% owned subsidiary, received a conditional license (the "Conditional License"), for the Manara Project from the Israeli Minister of National Infrastructures, Energy and Water Resources (the "Minister"). The Conditional License regulates the construction of a pumped storage plant in the Manara Cliff with a capacity of 340 MW. The Conditional License includes several conditions precedent to the entitlement of the holder of the Conditional License to receive an electricity production license. The Conditional License is valid for a period of seventy two (72) months commencing from the date of its approval by the Minister, subject to compliance by Ellomay PS with the milestones set forth therein and subject to the other provisions set forth therein (including a financial closing, the provision of guarantees and the construction of the pumped storage hydro power plant).

In September 2016, Ellomay PS filed a petition ("the Petition"), with the Israeli High Court of Justice against the Minister, the Israeli Electricity Authority and the owner of the Kochav Hayarden pumped storage project. The Petition was filed in connection with the decision of the Israeli Electricity Authority to extend the financial closing milestone deadline of the Kochav Hayarden pumped storage project, which received a conditional license for a pumped storage plant with a capacity of approximately 340 MW in 2014. In the Petition, Ellomay PS requested the High Court to order the Israeli Electricity Authority to explain why the extension should not be canceled, due to, among other reasons, the lack of authority of the Israeli Electricity Authority to extend this milestone deadline. Should the extension decision be revoked, the conditional license provided to Kochav Hayarden is expected to terminate as the original financial closing milestone deadline has passed. Among its other claims, Ellomay PS claims that as the current quota for pumped storage projects determined by the Israeli Electricity Authority is 800 MW, and there is one 300 MW project that is already in the construction phase, the extension approved by the Israeli Electricity Authority could irreparably harm Ellomay PS's chances of receiving a permanent license if the Kochav Hayarden project receives its permanent license first. In January 2017, the Israeli High Court of Justice dismissed the Petition.

On March 3, 2017, Ellomay PS filed a petition ("the March 2017 Petition), with the Israeli High Court of Justice against the Minister, the Electricity Authority (together, "Respondents 1-2"), and the owner of the Kochav Hayarden pumped storage project ("Kochav Hayarden"). Ellomay PS has also filed, with the March 2017 Petition, a motion for an interim relief, which will prevent Respondents 1-2 from granting Kochav Hayarden any approval in connection with any milestones stipulated in Kochav Hayarden's conditional license.

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

B. Pumped Storage Projects ("PSP")

The March 2017 Petition was filed in connection with the decision of the Electricity Authority, dated February 20, 2017, to extend the following milestones deadlines stipulated in Kochav Hayarden's conditional license: (i) financial closing milestone deadline of Kochav Hayaden (which received a conditional license for a 340 MW pumped storage power plant on October 27, 2014); and (ii) construction period for Kochav Hayarden's project. Kochav Hayarden filed its response to the request for the motion for an interim relief on March 16, 2017. In its response, amongst other claims, Kochav Hayarden claimed the motion should be dismissed, as should the March 2017 Petition, and requested that if the court grants Ellomay PS's motion for an interim relief, Ellomay PS be obligated to post a bond in the amount of NIS 10 million in order to cover Kochav Hayarden's damages caused by the interim relief. Respondents 1-2 filed their response to the request for the motion for an interim relief on March 23, 2017, and claimed, amongst other claims, that the motion should be dismissed, as should the March 2017 Petition. The court has not yet rendered a decision regarding the motion for interim relief, and a court hearing has not yet been scheduled. On March 27, 2017, the court rendered the following decision: (i) granted an interim relief to Ellomay PS, preventing the Respondent 2 from approving the financial closing of Kochav Hayarden until the court's ruling in the March 2017 Petition; (ii) Ellomay PS shall post a bond of NIS 2,000,000 no later than April 18, 2017; (iii) the March 2017 Petition would be scheduled for a hearing no later than the end of May 2017, subject to the court's availability, and that the Respondents 1-3 would submit their responses to the March 2017 Petition no later than 21 days before the hearing.

The Company expects to continue promoting the Manaa project but 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.

Composition of Advances on account of investments

	December 31	
	2016	2015
	US$ in thousands	
On account of the Manara Project	**905**	-
	905	-

Composition of financial assets

	December 31	
	2016	2015
	US$ in thousands	
Option to acquire additional shares in Dori Energy	**-**	*
Income receivable in connection with the Erez Electricity PSP	**1,330**	1,250
Forward contracts (see Note 21)	**-**	3,615
	1,330	4,865

* Less than $1 thousand

C. Subsidiaries - Business combinations

1. In July 2015, the Company acquired an additional 15% interest in Ellomay Spain S.L., the owner of a photovoltaic plant in Spain with an installed capacity of approximately 2.3 MWp, for approximately EUR 775 thousand (approximately $868 thousand), increasing its ownership in Ellomay Spain S.L. from 85% to 100%.

2. 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").

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

C. Subsidiaries - Business combinations (cont'd)

3. 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 the Company for an aggregate purchase price of Euro 9.5 million (approximately $13,000 thousand). The final consideration paid for the Spanish PV Plants and the related licenses was approximately Euro 9.8 million (approximately $13,300 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 $3,995 thousand 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):

	Acquisition date US$ in thousands
Fixed assets	**17,866**
Working Capital, net (excluding cash and cash equivalents)	**146**
Deferred tax	**(891)**
Gain on bargain purchase	**(3,995)**
Total net identifiable assets	**13,126**

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

	US$ in thousands
Cash and cash equivalents paid	**13,327**
Less - cash and cash equivalents of the subsidiary	**201**
	13,126

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:

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

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

C. 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) for 2014 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, management estimates that 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.

3. **Waste-to-energy ("WtE") Projects in the Netherlands**

In July 2016, the Company, through its wholly-owned subsidiary Ellomay Luxemburg Holdings S.àr.l. ("Ellomay Luxemburg"), entered into a strategic agreement ("the Ludan Agreement"), with Ludan Energy Overseas B.V. (an indirectly wholly-owned subsidiary of Ludan Engineering Co. Ltd. (TASE: LUDN)) ("Ludan") in connection with WtE (specifically Gasification and Bio-Gas (anaerobic digestion)) projects in the Netherlands. Pursuant to the Ludan Agreement, subject to the fulfillment of certain conditions (including the financial closing of each project and receipt of a valid Sustainable Energy Production Incentive subsidy from the Dutch authorities and applicable licenses), the Company, through Ellomay Luxembourg, will acquire at least 51% of each project company and Ludan will own the remaining 49% (each project that meets the conditions under the Ludan Agreement is referred to as an "Approved Project").

In the event additional entities will invest in an Approved Project, their holdings will not dilute Ellomay Luxembourg's 51% share without the Company's prior approval, and in any case, Ellomay Luxembourg and Ludan will maintain the majority stake in each of the project companies.

Groen Goor Anaerobic Digestion Project-

Pursuant to the Ludan Agreement, the Company, through Ellomay Luxemburg, entered in July 2016 - November 2016 into loan agreements with Ludan whereby the Company provided approximately Euro 2,100 thousand (approximately $2,228 million, as of December 31, 2016) to Ludan ("the Ludan Loans"), for purposes of the acquisition of the rights in Groen Gas Goor B.V. ("Groen Goor"), a project company developing an anaerobic digestion plant, with a green gas production capacity of approximately 375 Nm3/h, in Goor, the Netherlands ("the Goor Project") and the land on which the Goor Project will be constructed. Ellomay Luxemburg was issued shares representing a 51% interest in Groen Goor. The Ludan Loans converted into shareholder's loans on December 20, 2016, upon the financial closing of the Goor Project.

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

C. Subsidiaries - Business combinations (cont'd)

During September 2016, the Company, through Ellomay Luxembourg, entered into two separate memorandums of understanding ("MOUs"), with Ludan, setting forth Ludan's and the Company agreed material principles and understandings with respect to the Goor Project's EPC and O&M agreements. Pursuant to such MOUs, in November 2016 Groen Goor entered into an EPC agreement with Ludan.

D. Subsidiaries – Regulatory updates

Italy

- 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.

  In June 2015, an appeal was filed with the Italian Constitutional Court aimed to assess whether Law 116/2014 entails unconstitutional provisions, particularly insofar as they apply in a retrospective fashion. In December 2016 the Italian Constitutional Court declared that the Spalma Incentivi Law is not anti-constitutional. 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.

- As part of the implementation of legislative decree 49/2014, in December 2015 the GSE published the guidelines regarding disposal of PV plants that benefit from incentives. In particular, the decree had established that GSE was entitled to retain a certain amount from payment of incentives as a guarantee for the cost of disposal of the panels installed on PV plants and GSE set out the determination of such retention. The guidelines provide that the retention shall start from the 11th year of incentive. The retention will be held by GSE in an interest-bearing escrow account and is to be returned to producers after evidence is provided to GSE that the panels have been disposed of correctly.

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

D. Subsidiaries – Regulatory updates

- Art. 21 of Law 208/2015 (the 2016 Italian Budget Law) set out new criteria concerning the determination of the cadastral value of immovable assets. PV plants fall within the scope of such provision. Following the issuance of the law, on February 1, 2016, the Italian Tax Office published official clarifications to the scope of said provision. With specific reference to ground PV plants, the Italian Tax Office pointed out that on the basis of the new provision modules and inverters shall not be accounted in the determination of the associated cadastral value, which should entail a significant reduction in the calculation of the related municipal tax burden**.**

- During 2015, the Company applied a tax incentive as per Article 6 paras. 13-19 of Law 23 December 2000, no. 388 (‘"Tremonti- ambiente"). Article 19 of Decree 5 July 2012 provides an explanation of instances in which the tax incentive may be granted in connection with investments in photovoltaic plants and combined with feed-in-tariffs to the extent that the Tremonti-ambiente does not exceed 20% of the amount eligible for taxation. Such incentive consists of a reduction of the taxable profit for a fiscal year equal to the amount of investments in tangible fixed assets in the same year, which are necessary to prevent, reduce and repair environmental damages, providing these investments exceed the average environmental investments made in the two previous years. The procedure to claim the tax incentive requires that the relevant approved balance sheet or its explanatory notes show the amount of the environmental investments. Additionally, within one month from the approval of the balance sheet a specific communication concerning the amount of the eligible Tremonti-ambiente must be made to the relevant public authority. The Tremonti-ambiente is claimable upon filing the relevant tax return by reducing the amount of taxable profit. The Company engaged a tax consultant to determine the specific amount of environmental investments and filed the required communications with the tax authorities. The Company recorded tax benefit in the amount of approximately $2,800 thousand. (See note 19).

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

Note 7 - Fixed assets

	Photovoltaic Plants	Biogas installation	Office furniture and equipment	Leasehold Improvements	Total
			US$ in thousands		
Cost					
Balance as at January 1, 2015	**106,765**	**-**	**136**	**64**	**106,965**
Effect of changes in exchange rates	**(11,119)**	**-**	**(9)**	**(7)**	**(11,135)**
Balance as at December 31, 2015	**95,646**	**-**	**127**	**57**	**95,830**
Balance as at January 1, 2016	**95,646**	**-**	**127**	**57**	**95,830**
Additions	**44**	**5,344**	**-**	**-**	**5,388**
Effect of changes in exchange rates	**(3,221)**	**-**	**(4)**	**(2)**	**(3,227)**
Balance as at December 31, 2016	**92,469**	**5,344**	**123**	**55**	**97,991**
Depreciation					
Balance as at January 1, 2015	13,340	-	65	47	13,452
Depreciation for the year	4,879	-	23	10	4,912
Effect of changes in exchange rates	(1,497)	-	(7)	(5)	(1,509)
Balance as at December 31, 2015	16,722	-	81	52	16,855
Balance as at January 1, 2016	**16,722**	**-**	**81**	**52**	**16,855**
Depreciation for the year	**4,866**	**-**	**11**	**7**	**4,884**
Effect of changes in exchange rates	**(809)**	**-**	**(1)**	**(4)**	**(814)**
Balance as at December 31, 2016	**20,779**	**-**	**91**	**55**	**20,925**
Carrying amounts					
As at January 1, 2015	93,425	-	71	17	93,513
As at December 31, 2015	78,924	-	46	5	78,975
As at December 31, 2016	**71,690**	**5,344**	**32**	**-**	**77,066**

Note 7 - Fixed assets (cont'd)

Investment in Photovoltaic Plants

Since March 4, 2010, the Company 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, 2016, fixed assets at an aggregate value of approximately $92,469 thousand, in accordance with actual costs incurred.

Depreciation with respect to the PV Plants in Italy is calculated using the straight-line method over 20 years commencing from the connection to the national grid that represent the estimated useful lives of the assets. Depreciation with respect to the PV Plants in Spain is calculated using the straight-line method over 25 years starting connection to the national grid that represent the estimated useful lives of the assets. During the year ended December 31, 2016, the Company had recorded depreciation expenses with respect to its PV Plants in Italy and Spain of approximately $4,866 thousand.

Presented hereunder are data regarding the Company's investments in photovoltaic plants as at December 31, 2016 :

PV Plant Title	Nominal Capacity	Connection to Grid	Cost included in the Book value as at December 31, 2016 US$ in thousands
"Troia 8"	995.67 kWp	January 2011	3,683
"Troia 9"	995.67 kWp	January 2011	3,658
"Del Bianco"	734.40 kWp	April 2011	2,204
"Giaché"	730.01 kWp	April 2011	2,911
"Costantini"	734.40 kWp	April 2011	2,225
"Massaccesi"	749.7 kWp	April 2011	2,891
"Galatina"	994.43 kWp	May 2011	4,345
"Pedale	2,993 kWp	May 2011	11,836
"Acquafresca"	947.6 kWp	June 2011	3,329
"D'Angella"	930.5 kWp	June 2011	3,281
"Soleco"	5,924 kWp	August 2011	16,128
"Technoenergy"	5,900 kWp	August 2011	15,982
"Ellomay Spain – Rinconada II"	2,275 kWp	June 2010	5,793
"Rodríguez I"	1,675 kWp	November 2011	3,851
"Rodríguez II"	2,691 kWp	November 2011	6,974
"Fuente Librilla"	1,248 kWp	June 2011	3,378

Note 8 - Other Payables

	December 31	
	2016	2015
	US$ in thousands	
Employees and payroll accruals	**261**	193
Government authorities	**177**	144
SWAP and forward related balances	**503**	486
Current tax	**1,314**	1,578
Accrued expenses	**1,024**	822
	3,279	3,223

Note 9 - Current maturities of long term loans

Composed as follows:

	Linkage terms	Interest rate 2015 and 2016	December 31 2016	December 31 2015
		%	US$ in thousands	
Current maturities of long term loans (refer to Notes 10 and 11)	**EURIBOR**	**1.6-3.5**	**1,150**	1,133
			1,150	1,133

Note 10 – Finance Lease Obligation

A. Composed as follows:

	Linkage Terms	Interest rate 2015 and 2016	December 31 2016	December 31 2015
		%	US$ in thousands	
Leasing institution	**EURIBOR**	**3.5**	**4,562**	**5,060**
Current maturities			**334**	**336**
Leasing institution-long term			**4,228**	**4,724**

1. 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).

Note 10 – Finance Lease Obligation (cont'd)

A. Composed as follows: (cont'd)

2. The Leasing Agreements include the following covenants:

   a. A declaration that the shareholders credit towards the two Italian wholly-owned subsidiaries will be subordinated to the leasing company's credit;

   b. 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;

   c. The Company undertook to assign (as guarantee) the receivables from GSE; and

   d. 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.

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.

   As of December 31, 2016, the financial covenants were met.

B. The aggregate annual maturities are as follows:

	December 31 2016	December 31 2015
	US$ in thousands	
Second year	**347**	347
Third year	**359**	359
Fourth year	**372**	372
Fifth year	**385**	385
Sixth year and thereafter	**2,765**	3,261
	4,228	4,724
Current maturities	**334**	336
Finance lease obligation	**4,562**	5,060

Note 11 - Long-term Loans

A. Composed as follows:

	Linkage terms	Interest rate 2016	December 31 2016
		%	US$ in thousands
Bank loans	**EURIBOR**	**1.6-3**	**15,702**
Other long-term loans		**2.5-3**	**2,135**
			17,837

	Linkage terms	Interest rate 2015	December 31 2015
		%	US$ in thousands
Bank loans	**EURIBOR**	1.6-2.85	12,851
Other long-term loans		3.05	192
			13,043

1. On February 17, 2011, one of the Company's Italian subsidiaries entered into a project finance facilities credit agreement (the "Finance Agreement") with an Italian bank (Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A., acquired by UBI in 2013). Pursuant to the Finance Agreement a Senior Loan was provided with respect to the costs of construction of the 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. On November 30, 2011, an amount of approximately Euro 3.8 million (approximately $4,900 thousand) was drawn down on account of this Senior Loan. Related expenses capitalized to the loan comprised mainly of related notary fee and bank charges amount to approximately Euro 170 thousand (approximately $220 thousand).

   The Finance Agreement also requires the payment of commitment fees equal to 0.5% per annum calculated on the undrawn and un-cancelled amount of both the Senior Loan and the VAT Line and certain additional payments, including an arranging fee and 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.

   As of December 31, 2016, the financial covenants were met.

Note 11 - Long-term Loans (cont'd)

A. Composed as follows: (cont'd)

2. On June 29, 2015, the Company entered into a loan agreement with UBI Banca S.c.p.a., in connection with the financing of one of its PV Plants, pursuant to which the Company received financing amounting to approximately Euro 10,271 thousand (approximately $11,522 thousand), net of expenses capitalized in the amount of approximately Euro 409 thousand (approximately $459 thousand) bearing an interest at the Euribor 6 month rate plus 2.85% per annum. The interest on the loan and the principal are to be repaid semi-annually. The final maturity date of this loan is December 31, 2029. Draw down of the loan occurred in September 2015.

   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 loan and up to the final redemption date:

   DSCR (Debt Rate Cover Ratio): equal or greater than 1.20:1;
   LLCR (Loan Life Coverage Ratio): equal or greater than 1.20:1; and
   Debt/Equity: equal or less than 75:25.

   As of December 31, 2016, the financial covenants were met.

3. The Company's 75% owned Israeli subsidiary promoting the Manara Project, entered into a loan agreement with the owner of the remaining 25% of its outstanding shares, Sheva Mizrakot Ltd. The unpaid balance (principal and interest) of the loan will bear interest at an annual rate in accordance with the interest rate for the purpose of Section 3(j) of the Israeli Income Tax Ordinance in accordance with the provisions of Regulation 2(a) of the Income Tax Regulations (Determination of Interest Rate for the Purpose of Section 3(j)) And 1986. The maturity date of this loan is December 31, 2020. As of December 31, 2016, the amount of the loan is $418 thousand.

4. Groen Goor, Independent Power Plant B.V. ("IPP") (the entity that holds the permits and subsidies in connection with the Goor Project and is wholly-owned by Groen Goor), Ludan, and Ellomay Luxembourg entered into a senior project finance agreement ("the Goor Loan Agreement"), with Coöperatieve Rabobank U.A. ("Rabobank"), that includes the following tranches: (i) two loans with principal amounts of Euro 3,510 thousand (with a fixed interest rate of 3% for the first five years) and Euro 2,090 thousand, (with a fixed interest rate of 2.5% for the first five years), for a period of 12.25 years, repayable in equal monthly installments commencing three months following the connection of the Goor Project's facility to the grid and (ii) an on-call credit facility of Euro 370 thousand with variable interest. As of December 31, 2016 an amount of Euro 3,900 thousand (approximately $4,102 thousand) was withdrawn on account of these loans. In connection with the Goor Loan Agreement, the following securities are to be provided to Rabobank: (i) pledge on the present and future rights arising from the feedstock purchase agreement, the EPC agreement, the O&M agreement, the SDE subsidy, the various power and green gas purchase agreements, and the green gas certification supply agreement, (ii) pledge on all present and future (a) receivables arising from business and trade, and (b) stock and inventory including machinery and transport vehicles of Groen Goor and IPP; (iii) all rights/claims of Groen Goor and IPP against third parties existing at the time of the execution of the Loan Agreement, including rights from insurance agreements. It is also currently expected that Groen Goor will grant Rabobank a negative pledge and a mortgage up to an amount of Euro 6.5 million (to be increased with 35% (thirty five percent) of the said amount for interest and costs) on real estate or other assets subject to public registration.

Note 11 - Long-term Loans (cont'd)

A. Composed as follows: (cont'd)

In connection with the Loan Agreement, Ludan and Ellomay Luxemburg, the Company wholly-owned subsidiary: (i) provided the following undertakings to Rabobank: (a) that Groen Goor will not make distributions to its shareholders for a period of two years following the execution of the Loan Agreement, (b) that Groen Goor will not make distributions or repurchase its shares so long as the equity to debt ratio of Groen Goor is less than 40%, (c) that in the event the equity to debt ratio of Groen Goor will be below 40%, its shareholders will invest the equity required in order to increase this ratio to 40%, pro rata to their holdings in Groen Goor and up to a maximum of Euro 1.2 million, and (d) that they will provide the equity required for the completion of the Goor Project and (ii) provided pledges on their respective rights in connection with the shareholders loans which each provided to Groen Goor, which loans shall also be subordinated by Ellomay Luxembourg and Ludan in the favor of Rabobank.

Shortages in liquidity as a result of exceeding the construction budget and/or extension of start-up costs of the Goor Project shall be provided by Ludan and Ellomay Luxembourg and not financed by Rabobank.

In addition, the Company provided a guarantee to Rabobank for the fulfillment of Ellomay Luxemburg's undertakings set forth above.

B. The aggregate annual maturities are as follows:

	December 31 2016	December 31 2015
	US$ in thousands	
Second year	**1,266**	844
Third year	**1,268**	883
Fourth year	**1,298**	915
Fifth year	**1,728**	1,137
Sixth year and thereafter	**12,277**	9,264
	17,837	13,043
Current maturities	**816**	797
Long-term loans	**18,653**	13,840

C. In order to minimize the interest-rate risk resulting from liabilities to banks and financing institutions in Italy linked to the Euribor, the Company executed swap transactions. See Note 21.

Note 12 - Debentures

A. Composed as follows:

	December 31, 2016		December 31, 2015	
	Face value	Carrying amount	Face value	Carrying amount
	US$ in thousands		US$ in thousands	
Debentures	**36,474**	**35,537**	**41,123**	**39,952**
Less current maturities	**5,210**	**4,989**	**5,127**	**4,878**
Total long-term debentures	**31,264**	**30,548**	**35,996**	**35,074**

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 1,010 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.

Note 12 – Debentures (cont'd)

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

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:

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

As of December 31, 2016, the financial covenants were met.

C. The aggregate annual maturities are as follows:

	December 31 2016	December 31 2015
	US$ in thousands	
Second year	**5,016**	4,924
Third year	**5,044**	4,949
Fourth year	**5,071**	4,977
Fifth year	**5,105**	5,004
Sixth year and thereafter	**10,312**	15,220
	30,548	35,074
Current maturities	**4,989**	4,878
Long-term loans	**35,537**	39,952

Note 13 - Other Long-term Liabilities

	December 31 2016	December 31 2015
	US$ in thousands	
Government authorities	**315**	131
Derivatives	**2,447**	2,344
Liabilities for employees benefits	**2**	20
	2,764	**2,495**

Note 14 - Commitments and Contingent Liabilities

A. Lease commitments

The PV Plants are constructed on land leased for 20-25 years under operating lease agreements, which expire on various dates, ranging from 2031 to 2036. In respect to several of the leases the Company has the option to extend the lease for different terms, the latest of which is until 2051. The Company leases its office space under an operating lease that expires in September 2017. 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, 2016:

	Operating lease
	US$ in thousands
Year ended December 31	
2017	288
2018	222
2019	222
2020	222
2021 and thereafter	2,879
Total minimum lease payments	3,833

B. Legal proceedings:

Other than described elsewhere in these financial statements, there are no additional material legal proceedings that require further disclosure.

C. Pledges:

The Company placed the following first ranking unlimited pledges and provided the following undertakings to secure its credit facilities:

- A fixed pledge and mortgage on the Company's holdings of Ellomay Clean Energy, Limited Partnership, the holdings of such partnership in U. Dori Energy Infrastructures Ltd. and the holdings of the Company in the general partner of said partnership, Ellomay Clean Energy Ltd as well as on the rights (including shareholders loans) of said general partner in and/or towards the partnership.
- A fixed pledge on Ellomay Clean Energy, Limited Partnership and Ellomay Clean Energy Ltd's bank accounts.
- A floating lien on Ellomay Clean Energy Ltd.'s rights, assets, registered and non-issued capital and goodwill.

Note 15 - Transactions and Balances with Related Parties

A. On December 30, 2008, the Company's shareholders approved the terms of a management services agreement entered into among the Company, Kanir Joint Investments (2005) Limited Partnership ("Kanir") and Meisaf Blue & White Holdings Ltd. ("Meisaf"), a company controlled by the Company's chairman of the board and controlling shareholder, effective as of March 31, 2008 (the "Management Agreement"). According to the Management Agreement, Kanir and Meisaf, through their employees, officers and directors, provide assistance to the Company in all aspects of the new operations process, including but not limited to, any activities to be conducted in connection with identification and evaluation of the business opportunities, the negotiations and the integration and management of any new operations and including discussions with the Company's management to assist and advise them on such matters and on any matters concerning the Company's affairs and business. In consideration of the performance of the management services and the board services pursuant to the Management Agreement, the Company initially agreed to pay Kanir and Meisaf an aggregate annual management services fee in the amount of $250 thousand.

This annual amount was increased to $400 thousand in June 2013 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 term of the Management Agreement was further extended until June 17, 2019 at the shareholders' meeting held in June 2016.

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.

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

Directors participate in the Company's share option programs. For further information see Note 16 regarding share-based payments.

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

	Year ended December 31					
	2016		2015		2014	
	Number of People	Amount	Number of People (**)	Amount	Number of people	Amount
		US$ thousands		US$ thousands		US$ thousands
Short-term employee Benefits	**2**	**407**	4	618	3	617
Post-employment Benefits	**2**	**99**	4	75	3	53
Share-based payments	**2**	*	2	*	1	*

* Less than $1 thousand

** Including retired employees that were not employed throughout the entire year

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

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

Compensation to key management personnel (including directors but excluding compensation paid under the Management Agreement) that are not employed by the Company:

	Year ended December 31					
	2016		2015		2014	
	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**	**70**	3	68	3	76
share-based payments	**3**	**3**	3	7	3	*

* Less than $1 thousand
** Including Board members that did not serve throughout the entire year

C. Debts and loans to related and interested parties

	The terms of the loan		Balance as at December 31		Interest income recognized in statement of income for the year ended December 31		
	Interest rate	Linkage base	2016	2015	2016	2015	2014
	%				US$ thousands		
Dori Energy	8.5 (*)	NIS+CPI	**13,419**	19,382	**1,384**	1,378	1,158

(*) See note 6A

Note 16 - Equity

A. Composition of share capital

	December 31, 2016		December 31, 2015		December 31, 2014	
	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**	**10,677,370(1)**	17,000,000	10,678,888(1)	17,000,000	10,692,371(1)

(1) Net of treasury shares as follows: 256,184 Ordinary shares as of December 31, 2016, 254,666 Ordinary shares as of December 31, 2015 and 85,655 Ordinary shares as of December 31, 2014, which have been purchased according to share buyback programs that were authorized the Company's Board of Directors.

B. Rights attached to shares:

1. Voting rights at the general meeting, right to dividend and rights upon liquidation of the Company.

2. The Ordinary shares of the Company were traded until May 2005 on the NASDAQ Capital Market. From May 19, 2005, the Company's Ordinary shares have been quoted over-the-counter in the "pink sheets" and, commencing August 22, 2011, have been listed on the NYSE 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 and share options

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 provided that it may only be exercised via cashless exercise methods described in the warrant. Mr. Zisapel exercised the warrant, through a cashless exercise, in June 2015 and received 15,335 Ordinary shares.

During August 2015, the Company received an aggregate amount of approximately $1,201 thousand as consideration in connection with the exercise of employee share options to acquire 140,193 Ordinary shares.

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 and presentation currency translation adjustments.

Note 16 - Equity (cont'd)

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.

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.

F. Dividend distribution and buyback program

On March 18, 2015, the Company's Board of Directors adopted a dividend distribution policy (the "Policy"), pursuant to which the Company intends to distribute a dividend of up to 33% of the annual distributable profits each year, either by way of a cash dividend, a share buyback program or a combination of both. The distribution of the dividends and the dividend amounts pursuant to the Policy are not guaranteed and are subject to the specific approval of the Company's Board of Directors, based on various factors they deem appropriate including, among others, the Company's financial position, the Company's outstanding liabilities and contractual obligations, prospective acquisitions, the Company's business plan and the market conditions.

In May 2015, the Company's Board of Directors approved the repurchase of up to $3,000 thousand of the Company's ordinary shares. The authorized repurchases will be made from time to time in the open market on the NYSE MKT and Tel Aviv Stock Exchange or in privately negotiated transactions. The timing, volume and nature of share repurchases will be at the sole discretion of management and will be dependent on regulatory restrictions, market conditions, the price and availability of the Company's ordinary shares, applicable securities laws and other factors, including compliance with the terms of the Series A Debentures. No assurance can be given that any particular amount of ordinary shares will be repurchased. The buyback program does not obligate the Company to acquire a specific number of shares in any period, and it may be modified, suspended, extended or discontinued at any time, without prior notice. As of December 31, 2016, the Company repurchased 170,529 ordinary shares at aggregate amount price of $1,463 thousand in the NYSE MKT under this buyback program.

Note 17 - Share-Based Payment

A. Expenses recognized in the financial statements

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

	Year ended December 31		
	2016	**2015**	**2014**
	US$ thousand		
Expenses arising from share-based payment Transactions	**4**	7	*

* Less than $1 thousand

The share-based payments that the Company granted to its employees and directors are described below. There have been no modifications or cancellations to any of the stock options plans during 2016, 2015 or 2014. 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	
	2016	**2015**
Dividend yield	**0%**	0%
Expected volatility	**0.332**	0.332
Risk-free interest	**0. 67%**	0. 68%
Expected life (in years)	**2-3**	2-3

A. Expenses recognized in the financial statements (cont'd)

All options granted during 2016, 2015 and 2014 were granted with exercise price equal to or higher than the market price on the date of grant. Weighted average fair values and exercise price of options on dates of grant are as follows:

	Equal market price	
	2016	**2015**
	US$	
Weighted average exercise prices	**8.3**	8.96
Weighted average fair value on grant date	**1.6**	1.7

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. An aggregate amount of not more than 75,000 ordinary shares was reserved for grants under the 1998 Plan. The original expiration date of the 1998 Plan pursuant to its terms was December 8, 2008 (10 years after its adoption). 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.

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

During each of the years 2016, 2015 and 2014, the Company granted to independent directors options to purchase 3,000 Ordinary shares under the 1998 Plan.

In August 2000, the Company's board of directors adopted the 2000 Stock Option Plan (the "2000 Plan"). The initial reserve to the 2000 Plan was 200,000 options that may be granted to officers, directors, employees and consultants of the Company and its subsidiaries and this initial reserve was increased several times. The options usually vest over a three year period. The exercise price of the options under the 2000 Plan is determined to be not less than 80% of the fair market value of the Company's ordinary shares at the time of grant, and they usually expire after 10 years from the date of grant. In June 2008 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.

As of December 31, 2016, 22,502 options are outstanding and 35,083 ordinary shares are available for future grants under the 1998 Plan. As of December 31, 2016, no options are outstanding and 595,009 ordinary shares are available for future grants under the 2000 Plan. Options that are cancelled or forfeited become available for future grant.

C. Changes during the year:

The following table lists the number of share options, the weighted average exercise prices of share options during the current year:

	2016		**2015**		**2014**	
	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	**19,502**	**8.26**	157,821	8.26	155,787	8.24
Granted during the year	**3,000**	**8.3**	3,000	8.96	3,034	9.37
Exercised during the year	**-**	**-**	(140,193)	8.33	-	-
Expired during the year	-	-	(1,126)	8.4	(1,000)	8.48
Outstanding at end of year	**22,502**	**7.34**	19,502	7.19	157,821	8.26
Exercisable at end of year	**18,502**	**7.19**	18,502	7.1	156,745	8.32

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

D. The weighted average remaining contractual life for the share options outstanding as of December 31, 2016 was 4.1- 8.1 years (as of December 31, 2015: 4.95-8.59. years and as of December 31, 2014: 2.56-4.15 years).

E. The range of exercise prices for share options outstanding as of December 31, 2016 was $4.7- $9.37 (as of December 31, 2015: $4.7- $9.37 and as of December 31, 2014: $3.1- $9.37).

Note 18 - Details of the Statements of Profit or Loss and Other Comprehensive Income (Loss)

A. Financing income and expenses:

1. Financing income

	For the year ended December 31		
	2016	**2015**	**2014**
		US$ in thousands	
Interest income	**290**	260	230
Change in fair value of derivatives	**704**	3,485	-
Forward gain	**-**	2,087	-
Gain from exchange rate differences, net	-	-	2,015
Total financing income	**994**	5,832	2,245

2. Financing expenses

	For the year ended December 31		
	2016	**2015**	**2014**
		US$ in thousands	
Change in fair value of derivatives	**-**	-	1,048
Swap interest	**672**	446	1,383
Debentures interest and related expenses	**2,203**	2,450	2,336
Interest on loans	**560**	360	782
Loss from exchange rate differences, net	**454**	1,820	-
Bank charges and other commissions	**161**	164	91
Total financing expenses	**4,050**	5,240	5,640

B. Operating Costs and Depreciation

	For the year ended December 31		
	2016	**2015**	**2014**
		US$ in thousands	
Depreciation	**4,884**	4,912	5,452
Professional services	**117**	119	163
Annual rent	**259**	261	263
Operating and maintenance services	**1,424**	1,498	1,708
Insurance	**217**	221	261
Other	**288**	755	692
Total operating costs	**7,189**	7,766	8,539

Note 18 - Details of the Statements of Profit or Loss and Other Comprehensive Income (Loss) (Cont'd)

C. General and administrative expenses

	For the year ended December 31		
	2016	**2015**	**2014**
		US$ in thousands	
Salaries and related compensation	**1,137**	1,458	1,503
Professional services	**2,239**	1,747	2,709
Expenses in connection with Manara Project	**1,800**	1,027	-
Other	**(497)**	(487)	41
Total general and administrative expenses	**4,679**	3,745	4,253

D. Other income (expense), net

	For the year ended December 31		
	2016	**2015**	**2014**
		US$ in thousands	
Other income in connection with the Erez electricity pumped storage project (see Note 6)	**62**	16	1,704
Reevaluation of option to acquire additional shares	**-**	5	(372)
Other	**37**	-	106
Total other income, net	**99**	21	1,438

Note 19 - Taxes on Income

A. Regional Taxation

Israeli taxation

Presented hereunder are the corporate income tax rates relevant to the Company in the years 2014-2016:

2014 – 26.5%, 2015 – 26.5%, 2016 – 25%.

On January 4, 2016 the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216) - 2016, by which, inter alia, the corporate tax rate would be reduced by 1.5% to a rate of 25% as from January 1, 2016.

Furthermore, on December 22, 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018.

Luxembourg taxation

Corporate Income Tax rate is 29.22 %. Minimum tax payments are made based on the entity’s total assets and are considered as a conditional advance tax payment on corporate income tax due in future tax periods.

Italian taxation

As a rule, corporate income tax (named IRES from 2004) is payable by all resident companies on income from any source, whether earned in Italy or abroad, at the rate of 27.5%. Starting from 2017 the IRES rate is reduced to 24%.

Note 19 - Taxes on Income (cont'd)

Both resident and non-resident companies are subject to regional income tax (IRAP), but only on income arising in Italy at the rate from 0% to 4.82%, depending on the Region (see note 6G).

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%.

B. Composition of income tax benefit (taxes on income):

	For the year ended December 31		
	2016	2015	2014
		US$ in thousands	
Current tax income (expense)			
Current year	**(281)**	(417)	(806)
Previous years	**10**	970	40
Reversal and changes in uncertain tax positions	**(86)**	(86)	469
	(357)	467	(297)
Deferred tax income			
Creation and reversal of temporary differences	**(268)**	1,466	96
Tax benefit (taxes on income)	**(625)**	1,933	(201)

C. Theoretical tax:

Statutory rate applied to corporations in Israel and the actual tax expense, is as follows:

	2016	2015	2014
		US$ in thousands	
Profit (loss) before taxes on income	**(448)**	5,365	6,847
Primary tax rate of the Company	**25%**	26.5%	26.5%
Tax on income	**112**	(1,422)	(1,814)
Profit (loss) subject to different tax rate	**(17)**	(292)	94
Foreign exchange differences	**-**	2	(142)
Differences in connection with gain on bargain purchases	**-**	-	999
Creation of deferred taxes for tax losses and benefits from previous years for which deferred taxes were not created in the past	**-**	2,710	357
Neutralization of tax calculated in respect of the Company's share in profits of equity accounted investees	**376**	648	482
Change in temporary differences for which deferred tax were not recognized	**(379)**	283	(482)
Current year tax losses and benefits for which deferred taxes were not created, reserve of uncertain tax position and others	**(717)**	4	305
Actual tax benefit (tax on income)	**(625)**	1,933	(201)

Note 19 - Taxes on Income (cont'd)

D. Carry forward tax losses:

As of December 31, 2016, Ellomay Capital Ltd. had available carry forward tax losses, carry forward capital tax losses and deductions aggregating to approximately $40,470 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 losses carry forward will not be utilized in the foreseeable future.

E Deferred taxes:

	Financial assets	Fixed assets	Finance lease obligations and long term loans	Swap contract	Losses on income	Total
	US$ in thousands					
Balance of deferred tax asset (liability) as at January 1, 2015	(1,276)	(3,771)	3,239	153	2,072	417
Changes recognized in profit or loss	(13)	95	(535)	15	1,904	1,466
Changes recognized in other comprehensive income	-	390	(367)	(16)	127	134
Balance of deferred tax asset (liability) as at December 31, 2015	(1,289)	(3,286)	2,337	152	4,103	2,017

	Financial assets	Fixed assets	Finance lease obligations and long term loans	Swap contract	Losses on income	Total
	US$ in thousands					
Balance of deferred tax asset (liability) as at January 1, 2016	**(1,289)**	**(3,286)**	**2,337**	**152**	**4,103**	**2,017**
Changes recognized in profit or loss	**(56)**	**(46)**	**(87)**	**42**	**(121)**	**(268)**
Changes recognized in other comprehensive income	-	**114**	**(37)**	**(6)**	**(131)**	**(60)**
Balance of deferred tax asset (liability) as at December 31, 2016	**(1,345)**	**(3,218)**	**2,213**	**188**	**3,851**	**1,689**

Note 19 - Taxes on Income (cont'd)

F. Provision for tax uncertainties:

As of December 31, 2016, the total amount of unrecognized tax benefits was $1,237 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.

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		
	2016	**2015**	**2014**
	US$ in thousands (other than share and per share data)		
Net income (loss) attributed to owners of the Company	**(605)**	7,553	6,658
Weighted average ordinary shares outstanding (1)	**10,677,700**	10,715,634	10,692,371
Dilutive effect:			
Stock options and warrants	**-**	42,736	115,917
Diluted weighted average ordinary shares Outstanding	**10,677,700**	10,758,370	10,808,288
Basic profit (loss) per share from continuing operations	**(0.6)**	0.7	0.62
Diluted profit (loss) per share from continuing operations	**(0.6)**	0.7	0.62

(1) Net of treasury shares.

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	
	2016	2015
	US$ in thousands	
Derivatives presented under non-current assets		
Forward contracts	-	3,615
Derivatives presented under current liabilities		
SWAP contracts	**(503)**	(486)
Derivatives presented under non-current liabilities		
Forward contracts	**(50)**	-
SWAP contracts	**(2,397)**	(2,344)
	(2,447)	(2,344)

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

	December 31, 2016			
	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	(776)
Euro 10 million interest swap transaction for a period of 17 years, amortized quarterly	Euribor 3 months	Fixed 3.595%	April 3, 2028	(1,417)
Euro 3.75 million interest swap transaction for a period of 15 years, semi-annually.	Euribor 6 months	Fixed 2.53%	June 30, 2027	(365)
Euro 7.5 million interest rate swap transaction for a period of 12 years, semi-annually.	Euribor 6 months	Fixed 1.17%	December 31, 2027	(342)
Forward EUR/USD contracts with an aggregate EUR denominated principal of EUR 25 million.	weighted average rate of approximately 1.18		November 2021	(50)

Note 21 - Financial Instruments (cont'd)

B. Risk management framework

The Company's management and board of directors have overall responsibility for the establishment and oversight of the Company's risk management framework.

C. Credit Risk

As at December 31, 2016, the Company does not have any significant concentration of credit risk.

Cash and short-term deposits
As at December 31, 2016 and 2015, the Company had cash and cash equivalents in the amount of $23,650 thousand and $18,717 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, 2016 and 2015, the Company invested in a traded Bond in an amount of $1,023 thousand and $6,499 thousand, respectively, with the intention to maintain the value of its liquid resources. See also Note 4 and Note 2-G.

Restricted cash
As at December 31, 2016 and 2015, the Company had a balance of current restricted cash of $16 thousand and $79 thousand, respectively, and a balance of non-current restricted cash of $5,399 thousand and $5,317 thousand, respectively. See also Note 4.

Trade and other receivables
As at December 31, 2016 and 2015, the Company had a balance of trade receivables of $345 thousand and $69 thousand, respectively. This balance mainly refers to NEXUS or GNERA that represent the PV Plants located in Spain in its dealings with the Spanish National Energy Commission, and are due within 60 days from issuance.

As at December 31, 2016 and 2015, the Company had a balance of revenue receivables of $2,895 thousand and $2,875 thousand, respectively. This balance refers to amounts to be paid from GSE, Italy's energy regulation agency, and from NEXUS or GNERA that represent the PV Plants located in Spain in its dealings with the Spanish National Energy Commission , and is due within 90 days from the end of the month.

The Company's management closely monitors the economic and political environment in which it operates. As a result of continued economic crisis in Europe, especially in Italy and Spain, the applicable legislator reduced benefits provided to operators of PV plants. Such reductions did not have a significant adverse impact on the Company's future revenues. As per the Company's management estimations there are no significant credit risks assigned to the trade receivables and income receivables as these amounts are due by governmental agencies.

As at December 31, 2016 and 2015, the Company had a balance of government authorities' receivables of $ 2,303 thousand and $1,276 thousand, respectively. This balance refers to VAT and withholding tax receivables in Italy and Spain.

Note 21 - Financial Instruments (cont'd)

D. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has contractual commitments due to debentures issued and financing agreements and EPC and O&M agreements of its subsidiaries in Italy and Spain. See also Note 14A.

The following are the contractual maturities of financial liabilities at undiscounted amounts and based on the spot rates at the reporting date, including estimated interest payments. This disclosure excludes the impact of netting agreements:

	December 31, 2016					
	Carrying amount	Contractual cash flows	Less than 1 year	2 years	3-5 years	More than 5 years
	US$ in thousands					
Non-derivative financial liabilities						
Long term loans, including current maturities	**18,653**	**22,256**	**1,309**	**1,727**	**5,466**	**13,754**
Finance lease obligation including current maturities	**4,562**	**5,753**	**508**	**508**	**1,524**	**3,213**
Debentures	**35,537**	**43,184**	**6,888**	**6,648**	**18,508**	**11,140**
Trade payables and other accounts payable	**2,533**	**2,533**	**2,533**	**-**	**-**	**-**
	61,285	**73,726**	**11,238**	**8,883**	**25,498**	**28,107**
Derivative finance liabilities						
Swap contracts*	**2,900**	**2,900**	**503**	**718**	**689**	**990**
	2,900	**2,900**	**503**	**718**	**689**	**990**
Derivative finance Assets						
Forward contracts	**(50)**	**-**	**-**	**-**	**(50)**	**-**
	(50)	**-**	**-**	**-**	**(50)**	**-**

*See Note 23B

Note 21 - Financial Instruments (cont'd)

D. Liquidity risk (cont'd)

	December 31, 2015					
	Carrying Amount	Contractual cash flows	Less than 1 year	2 years	3-5 years	More than 5 years
	US$ in thousands					
Non-derivative financial liabilities						
Long term loans, including current maturities	13,840	17,253	1,212	1,237	3,970	10,834
Finance lease obligation including current maturities	5,060	6,481	526	526	1,578	3,851
Debentures	39,952	49,578	7,024	6,788	18,946	16,820
Trade payables and other accounts payable	1,559	1,559	1,559	-	-	-
	60,411	74,871	10,321	8,551	24,494	31,505
Derivative finance liabilities						
Swap contracts	2,830	2,830	486	823	623	898
	2,830	2,830	486	823	623	898
Derivative finance Assets						
Forward contracts	3,615	3,615	-	3,325	290	-
	3,615	3,615	-	3,325	290	-

Note 21 - Financial Instruments (cont'd)

E. Market risk

Market risk is the risk that changes in market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The principal risks that the Company faces, as assessed by management, are as follows: a change in the regulation applicable to the area of activity, a change in the tariffs as approved by the relevant electricity authorities in the countries in which the Company operates, changes in the situation of the electricity and gas market, political and security events.

(1) Foreign currency risk

As a result of the Company's operations and presentation currency, the Company is exposed to the impact of exchange rate fluctuations of the EUR/USD and NIS/EUR on the Company's balance sheet.

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, 2016				
	Non-monetary	NIS	Unlinked	EURO	Total
			US$ in thousands		
Current assets:					
Cash and cash equivalents	-	107	17,582	5,961	23,650
Marketable securities	-	-	1,023	-	1,023
ST restricted cash	-	-	-	16	16
Other accounts receivables	532	1,635	2,172	5,613	9,952
Non-current assets:					
Investments in equity accounted investees	18,669	12,119	-	-	30,788
Advances on account of investments in process	905	-	-	-	905
Financial asset	-	1,330	-	-	1,330
Fixed assets	77,066	-	-	-	77,066
LT restricted cash	-	-	3,807	1,592	5,399
Deferred tax	2,614	-	-	-	2,614
Other assets	952	101	2,341	37	3,431
Current liabilities:					
Loans and borrowings	-	-	-	(1,150)	(1,150)
ST Debentures	-	(4,989)	-	-	(4,989)
Accounts payable	-	(158)	-	(1,526)	(1,684)
Accrued expenses and other payables	(1,237)	(923)	(376)	(743)	(3,279)
Non-current liabilities:					
Finance lease obligations	-	-	-	(4,228)	(4,228)
Long-term loans	-	(418)	-	(17,419)	(17,837)
LT Debentures	-	(30,548)	-	-	(30,548)
Deferred tax	(925)	-	-	-	(925)
Other long-term liabilities	-	(2)	-	(2,762)	(2,764)
Total exposure in statement of financial position in respect of financial assets and financial liabilities	98,576	(21,746)	26,549	(14,609)	88,770

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, 2015				
	Non-monetary	**NIS**	**Unlinked**	**EURO**	**Total**
			US$ in thousands		
Current assets:					
Cash and cash equivalents	-	160	16,355	2,202	18,717
Marketable securities	-	-	6,499	-	6,499
ST deposits	-	-	-	-	-
ST restricted cash	-	-	-	79	79
Other accounts receivables	3,090	290	30	4,808	8,218
Non-current assets:					
Investments in equity accounted investees	17,649	16,321	-	-	33,970
Financial asset	-	1,250	-	3,615	4,865
Fixed assets	78,975	-	-	-	78,975
LT restricted cash	-	-	4,217	1,100	5,317
Deferred tax	2,840	-	-	-	2,840
Other assets	847	-	-	-	847
Current liabilities:					
Loans and borrowings	-	-	-	(1,133)	(1,133)
ST Debentures	-	(4,878)	-	-	(4,878)
Accounts payable	-	(28)	-	(841)	(869)
Accrued expenses and other payables	-	(592)	(1,444)	(1,187)	(3,223)
Non-current liabilities:					
Finance lease obligations	-	-	-	(4,724)	(4,724)
Long-term loans	-	(192)	-	(12,851)	(13,043)
LT Debentures	-	(35,074)	-	-	(35,074)
Deferred tax	(823)	-	-	-	(823)
Other long-term liabilities	-	(20)	(2,183)	(292)	(2,495)
Total exposure in statement of financial position in respect of financial assets and financial liabilities	118,899	(39,084)	23,474	(9,224)	94,065

Note 21 - Financial Instruments (cont'd)

E. Market risk (cont'd)

(1) Linkage and foreign currency risks (cont'd)

(a) The exposure to linkage and foreign currency risk (cont'd)

Information regarding significant exchange rates:

	For the year ended December 31			
	Rate of Change		Rate of Change	
	%	Dollar	%	NIS
1 Euro in 2016	**(3.4)**	**1.052**	(4.8)	4.044
1 Euro in 2015	**(10.4)**	**1.088**	(10.1)	4.247

(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) 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, 2016	
	Increase Equity	Decrease Equity
	US$ thousands	
Change in the exchange rate of:		
5% in the Euro	**(768)**	**768**
5% in NIS	**(4,181)**	**4,181**

	December 31, 2015	
	Increase Equity	Decrease Equity
	US$ thousands	
Change in the exchange rate of:		
5% in the Euro	(465)	465
5% in NIS	(7,625)	7,625

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,	
	2016	2015
	Profit or loss	Profit or loss
	US$ in thousands	
Increase of 1%	**1,005**	864
Increase of 3%	**3,053**	2,587
Decrease of 1%	**(1,043)**	(857)
Decrease of 3%	**(3,091)**	(2,581)

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, 2016					
		Fair value				
	Carrying amount	Level 1	Level 2	Level 3	Valuation techniques for determining fair value	Inputs used to determine fair value
	US$ in thousands					
Non-current liabilities:						
Debentures	**35,537**	**38,432**				
Loans from banks and others (including current maturities)	**18,653**	**-**	**19,794**	**-**	Future cash flows by the market interest rate on the date of measurement.	Discount rate of Euribor+ 2.53%
Finance lease obligations (including current maturities)	**4,562**	**-**	**4,615**	**-**	Future cash flows by the market interest rate on the date of measurement.	Discount rate of Euribor+ 2.85%
	58,752	**38,432**	**24,409**	**-**		

Note 21 - Financial Instruments (cont'd)

F. Fair value (cont'd)

(1) Fair values versus carrying amounts (Cont'd)

	December 31, 2015					
		Fair value				
	Carrying amount	Level 1	Level 2	Level 3	Valuation techniques for determining fair value	Inputs used to determine fair value
	US$ in thousands					
Non-current liabilities:						
Debentures	39,952	42,639				
Loans from banks and others (including current maturities)	13,840	-	14,905	-	Future cash flows by the market interest rate on the date of measurement.	Discount rate of Euribor+ 2.53%
Finance lease obligations (including current maturities)	5,060	-	5,041	-	Future cash flows by the market interest rate on the date of measurement.	Discount rate of Euribor+ 2.85%
	58,852	42,639	19,946	-		

(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	
	2016	2015
	%	
Non-current liabilities:		
Loans from banks	**Euribor+ 2.53%**	Euribor+ 2.53%
Finance lease obligations	**Euribor+ 2.85%**	Euribor+ 2.85%

(3) Fair values hierarchy

The financial instruments presented at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of data used in the measurement:

Level 1	-	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	-	Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
Level 3	-	Inputs that are not based on observable market data (unobservable inputs).

Note 21 - Financial Instruments (cont'd)

F. Fair value (cont'd)

(3) Fair values hierarchy (Cont'd)

	December 31, 2016				
	Level 1	**Level 2**	**Level 3**	**Total**	**Valuation techniques for determining fair value**
	US$ in thousands				
Income receivable in connection with the Erez electricity pumped storage project (see Note 6)	**-**	**-**	**1,330**	**1,330**	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.
Marketable securities	**-**	**1,023**	**-**	**1,023**	Market price
Forward contracts	**-**	**(50)**	**-**	**(50)**	Fair value measured on the basis of discounting the difference between the forward price in the contract and the current forward price for the residual period until redemption using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.
Swap contracts	**-**	**(2,900)**	**-**	**(2,900)**	Fair value is measured by discounting the future cash flows, over the period of the contract and using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.

	December 31, 2015				
	Level 1	**Level 2**	**Level 3**	**Total**	**Valuation techniques for determining fair value**
	US$ in thousands				
Income receivable in connection with the Erez electricity pumped storage project (see Note 6)	-	-	1,249	1,249	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.
Option to require additional shares in investee	-	-	*	-	
Marketable securities	-	6,499	-	6,499	Market price
Forward contracts	-	3,615	-	3,615	Fair value measured on the basis of discounting the difference between the forward price in the contract and the current forward price for the residual period until redemption using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.
Swap contracts	-	(2,830)	-	(2,830)	Fair value is measured by discounting the future cash flows, over the period of the contract and using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.

Note 21 - Financial Instruments (cont'd)

F. Fair value (cont'd)

(4) Level 3 financial instruments carried at fair value

The table hereunder presents reconciliation from the beginning balance to the ending balance of financial instruments carried at fair value in level 3 of the fair value hierarchy:

	Financial assets	
	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, 2014	17	1,238
Total income recognized in profit or loss	-	144
Exercise of first option to acquire additional shares	(17)	-
Foreign Currency translation adjustments	(*)	(132)
Balance as at December 31, 2015	(*)	1,250
Total income recognized in profit or loss	**-**	**130**
Exercise of second option to acquire additional shares	**(*)**	**-**
Foreign Currency translation adjustments	**-**	**(50)**
Balance as at December 31, 2016	**-**	**1,330**

* Less than $1 thousand

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 primarily through Dori Energy.

The following table lists the revenues from the Company's operation in Italy and Spain:

	For the year ended December 31		
	2016	**2015**	**2014**
		US$ in thousands	
Italy	**9,870**	10,620	13,259
Spain	**3,002**	3,197	2,523
Total income	**12,872**	13,817	15,782

The following table lists the fixed assets, net from the Company's operation:

	For the year ended December 31	
	2016	**2015**
	US$ in thousands	
Israel	**32**	51
Netherland	**5,344**	-
Italy	**54,824**	60,565
Spain	**16,866**	18,359
Total fixed assets, net	**77,066**	78,975

Major customers
Revenues are mainly derived from one customer in each of the Italian and Spanish subsidiaries (government agencies).

Note 23 - Subsequent Events

A. Series B Debentures

On March 14, 2017, the Company issued NIS 123,232 thousand (approximately $33,500 thousand) unsecured non-convertible Series B Debentures (the "Series B Debentures"), each unit comprised of NIS 1,000 par value, through a public offering that was limited to residents of Israel. The Series B Debentures were issued at a fixed annual interest of 3.44%. The Series B Debentures are traded on the TASE (Tel Aviv Stock Exchange) and have been rated ilA-/Negative, on a local scale, by Standard & Poor's Maalot Ltd.

The principal amount of Series B Debentures is not linked to the CPI or otherwise and is repayable in six (6) annual installments as follows: on June 30 of each of the years 2019-2022 (inclusive) 15% of the Principal shall be paid, and on June 30 of each of 2023-2024 (inclusive) 20% of the Principal shall be paid. The offering proceeds, net of offering expenses were approximately NIS 121,400 thousand (approximately $33,000 thousand as of the issuance date).

Note 23 - Subsequent Events (cont'd)

A. Series B Debentures (cont'd)

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

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

1. 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 financing of projects, including hedging transactions in connection with such financing, 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:

    a. Until and including the financial results for June 30, 2018 – shall not exceed the rate of 65% for purposes of the immediate repayment provision and shall not exceed the rate of 60% for purposes of the interest increase provision (due to failure to meet financial covenants as noted above); and

    b. Commencing from the financial results for September 30, 2018 – shall not exceed the rate of 60% for purposes of the immediate repayment provision and shall not exceed the rate of 55% for purposes of the interest increase provision; and

3. The ratio of (a) the Company's equity, on a consolidated basis, to (b) the Company's balance sheet, on a consolidated basis:

    a. Until and including the financial results for June 30, 2018 – shall not be less than a rate of 20% for purposes of the immediate repayment provision and shall not be less than a rate of 25% for purposes of the interest increase provision; and

Note 23 - Subsequent Events (cont'd)

A. Series B Debentures (cont'd)

b. Commencing from the financial results for September 30, 2018 – shall not be less than a rate of 25% for purposes of the immediate repayment provision and shall not be less than a rate of 30% for purposes of the interest increase provision.

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

B. Interest swap transactions

In January 2017, following the Company's intention to close one of its bank accounts, the Company closed two outstanding interest swap transactions, for a period of 17 years and with an aggregate notional principle amount of EUR 12,216,418 (initial aggregate notional principle amount of EUR 18 million). The Company reopened these positions with a different banking institution with the following terms:

A Euro 5,500,000 interest swap transaction with a decreasing notional principle amount based on the amortization table, with final maturity on September 7, 2027. The interest swap transaction is amortized semi-annually (Euro 250,000) every payment date commencing on March 7, 2017, whereby the Company is the fixed rate payer (the fixed rate is set at 0.56%) and the financing institute is the floating rate payer.

A Euro 6,716,418 interest swap transaction with a decreasing notional principle amount based on the amortization table, with final maturity on April 3, 2028. The interest swap transaction is amortized quarterly (Euro 149,253.73), every payment date commencing on April 3, 2017, whereby the Company is the fixed rate payer (the fixed rate is set at 0.475%) and the financing institute is the floating rate payer.

C. Forward contracts

In February 2017, the Company entered into a EUR 5 million forward EUR/USD contract with a rate of 1.2012 USD/EUR and following such transaction currently holds a total of forward EUR/USD contracts with an aggregate EUR denominated principal of EUR 30 million, with a weighted average rate of approximately 1.18 USD/EUR and expiration dates in October 2021 and February 2022.

Dorad Energy Ltd.

Financial Statements

As at December 31, 2016

Financial Statements as at December 31, 2016

Contents

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
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Independent Auditors' Report

The Board of Directors
Dorad Energy Ltd.

We have audited the accompanying financial statements of Dorad Energy Ltd., which comprise the statements of financial position as of December 31, 2016 and 2015 and the related statements of profit or loss, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dorad Energy Ltd. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Tel Aviv
March 2, 2017

Statements of Financial Position

	Note	December 31 2016 NIS thousands	December 31 2015 NIS thousands
Current assets			
Cash and cash equivalents	4	**80,967**	51,894
Trade receivables		**294,351**	278,982
Other receivables	5	**37,174**	31,994
Pledged deposit	6	**-**	29,485
Financial derivatives		**-**	646
Total current assets		**412,492**	393,001
Non-current assets			
Restricted deposit	12A1B	**411,574**	335,085
Prepaid expenses	12A2, 12A5	**45,938**	46,918
Fixed assets	7	**4,170,151**	4,386,971
Intangible assets		**8,551**	8,391
Total non-current assets		**4,636,214**	4,777,365
Total assets		**5,048,706**	5,170,366
Current liabilities			
Current maturities of loans from banks	8	**197,389**	170,722
Current maturity of loans from related parties	10	**80,000**	130,000
Trade payables		**293,613**	247,129
Other payables	9	**9,152**	16,906
Total current liabilities		**580,154**	564,757
Non-current liabilities			
Loans from banks	8	**3,367,832**	3,316,740
Loans from related parties	10	**151,638**	396,259
Provision for dismantling and restoration		**35,700**	35,170
Deferred tax liabilities	11	**65,618**	60,882
Liabilities for employee benefits, net		**160**	160
Total non-current liabilities		**3,620,948**	3,809,211
Equity	13		
Share capital		**11**	11
Share premium		**642,199**	642,199
Capital reserve for activities with controlling shareholders		**3,748**	3,748
Retained earnings		**201,646**	150,440
Total equity		**847,604**	796,398
Total liabilities and equity		**5,048,706**	5,170,366

[illegible]	*[illegible]*	*[illegible]*
Erez Halfon Chairman of the Board of Directors	Eli Asulin Chief Executive Officer	David Bitton Chief Financial Officer

Date of approval of the financial statements: March 2, 2017

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

Statements of Profit or Loss

	Note	Year ended December 31, 2016 NIS thousands	2015 NIS thousands	2014 NIS thousands
Revenues		**2,299,565**	2,356,832	1,484,176
Operating costs of the power plant				
Energy costs		**550,401**	613,689	343,647
Electricity purchase and infrastructure services		**1,104,826**	1,000,947	690,827
Depreciation and amortization		**209,057**	209,953	124,339
Other operating costs		**141,132**	149,808	92,618
Total cost of power plant		**2,005,416**	1,974,397	1,251,431
Profit from operating the power plant		**294,149**	382,435	232,745
General and administrative expenses	14	**19,178**	25,681	14,022
Other expenses	12A8	**-**		5,771
		19,178	25,681	19,793
Operating profit		**274,971**	356,754	212,952
Financing income		**7,025**	476	46,964
Financing expenses		**226,054**	216,808	156,990
Financing expenses, net	15	**(219,029)**	(216,332)	(110,026)
Profit before taxes on income		**55,942**	140,422	102,926
Taxes on income	11	**4,736**	37,607	23,275
Profit for the year		**51,206**	102,815	79,651

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

Statements of Changes in Equity

	Share capital	Share premium	Capital reserve for activities with controlling shareholders	Retained earnings (accumulated loss)	Total equity
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
For the year ended December 31, 2016					
Balance as at January 1, 2016	**11**	**642,199**	**3,748**	**150,440**	**796,398**
Profit for the year	-	-	-	**51,206**	**51,206**
Balance as at December 31, 2016	**11**	**642,199**	**3,748**	**201,646**	**847,604**
For the year ended December 31, 2015					
Balance as at January 1, 2015	11	642,199	3,748	47,625	693,583
Profit for the year	-	-	-	102,815	102,815
Balance as at December 31, 2015	11	642,199	3,748	150,440	796,398
For the year ended December 31, 2014					
Balance as at January 1, 2014	11	642,199	3,748	(32,026)	613,932
Profit for the year	-	-	-	79,651	79,651
Balance as at December 31, 2014	11	642,199	3,748	47,625	693,583

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

Statements of Cash Flows

	Year ended December 31,		
	2016	**2015**	**2014**
	NIS thousands	**NIS thousands**	**NIS thousands**
Cash flows from operating activities:			
Profit for the year	**51,206**	102,815	79,651
Adjustments:			
Depreciation, amortization and fuel consumption	**238,484**	237,295	124,764
Taxes on income	**4,736**	37,607	23,275
Financing expenses, net	**219,029**	216,332	110,026
	462,249	491,234	258,065
Change in trade receivables	**(14,761)**	49,693	(328,438)
Change in other receivables	**(5,179)**	(20,876)	(10,886)
Change in trade payables	**48,807**	(129,385)	376,515
Change in other payables	**677**	(6,842)	(3,909)
Change in employee benefits, net	**-**	55	49
	29,544	(107,355)	33,331
Net cash provided by operating activities	**542,999**	486,694	371,047
Cash flows from investing activities:			
Proceeds from (payment for) settlement of financial derivatives	**(2,017)**	9,609	27,679
Payment of pledged deposits	**29,486**	38,679	44,627
Investment in pledged deposits	**-**	-	(33,716)
Investment in long-term restricted deposits	**(143,891)**	(135,000)	(200,000)
Release of long-term restricted deposit	**70,000**	-	-
Long-term prepaid expenses	**(1,056)**	-	-
Investment in fixed assets	**(25,415)**	(447,338)	(267,824)
Investment in intangible assets	**(2,804)**	(1,767)	(2,086)
Interest received	**624**	115	275
Net cash used in investing activities	**(75,073)**	(535,702)	(431,045)
Cash flows from financing activities:			
Receipt of long-term loans from related parties	**16,689**	23,208	60,491
Receipt of long-term loans from banks	**242,772**	318,100	174,764
Repayment of loans from related parties	**(147,219)**	-	-
Repayment of loans from banks	**(143,896)**	(105,121)	(12,791)
Interest paid	**(408,071)**	(206,032)	(96,031)
Net cash provided by (used in) financing activities	**(439,725)**	30,155	126,433
Net increase (decrease) in cash and cash equivalents	**28,201**	(18,853)	66,435
Effect of exchange rate fluctuations on cash and cash equivalents	**872**	(1,031)	1,144
Cash and cash equivalents at beginning of year	**51,894**	71,778	4,199
Cash and cash equivalents at end of year	**80,967**	51,894	71,778

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

Note 1 - General

A. Reporting entity

Dorad Energy Ltd. (hereinafter - "the Company") was incorporated on November 25, 2002, with the aim of engaging in the production of electricity and construction of the infrastructure required for said operation.

The company's shareholders:

Eilat Ashkelon Infrastructure Services Ltd. (hereinafter – EAIS) – 37.5%
Zorlu Enerji Elektrik Uretim A.S (a foreign company) (hereinafter – Zorlu) – 25%
U. Dori Energy Infrastructures Ltd. (hereinafter – Dori Energy) – 18.75%
Edelcom Ltd. (hereinafter – Edelcom) – 18.75%

B. Licenses and legal environment

1. The construction of the power plant was officially designated a "National Infrastructure" Project, as defined in paragraph 1 of the Planning and Building Law-1965 by the Prime Minister, Minister of Finance and Minister of the Interior. In July 2009, the Licensing Authority of the National Planning and Construction Board for National Infrastructures approved the building permit for the establishment of a power station. (Building License No. 2-01-2008).

   On April 13, 2014 the Public Utilities Authority - Electricity ("PUA") passed a resolution of which a permanent production license and a supply license will be granted to the Company, subject to the approval of the Minister of National Infrastructure, Energy and Water ("Minister of Energy"). Accordingly, on May 12, 2014 the Company was issued production licenses for 20 years with an option for additional period of extension and a supply license for one year and on May 19, 2014 the Company began commercial operation of the station. The statements of Profit or Loss for the year ended December 31, 2014 includes the Company's activity from the date of operating of the station on May 19, 2014 until the end of that year.

   On August 12, 2014 the Company filed a request to extend the supply license for an additional 19 years. On July 13, 2015, after the Company filed a petition with the High Court of Justice against the Minister of National Infrastructures and the Public Electricity Services Authority for issuance of a conditional order that will require extending the license for the said period, the license was received, which is effective up to May 11, 2034.

2. On July 9, 2014 and on June 1 2015, the company submitted to the High Court two petitions against the Public Utilities Authority - Electricity ("PUA") and the Israeli Electric Corporation Ltd. ("IEC") in view of the PUA's intention to make a decision which includes, inter alia, to require the private electricity producers to pay IEC a general tariff which referred to by the PUA as "system costs". The Company's claims which were raised in the petitions were, inter alia, that the decision is contrary to the explicit instructions of the Electricity Sector Law, 1996, with respect to the manner of determining tariffs by the PUA, also, it has the potential to change the rules of the game established by the PUA and in addition severely undermines the principle of reliance of the Company, the financing entities and other third parties who relied on the information and activities of the PUA. In addition the company claimed that the PUA did not provide the Company data, information and calculations that were in its possession when determining the rate of system cost, without which the Company is not able to fully and completely examine the proposed decision and the tariffs proposed therein, and it is not able to raise all of its contentions in connection therewith.

Note 1 - General (cont'd)

B. Licenses and legal environment (cont'd)

2. (cont'd)

On December 7, 2014 and on June 22, 2015 the PUA filed a response to the petition in which it contended that the petition should be denied for various reasons as detailed in PUA's response.

On June 25, 2015, the Supreme Court decided that there is no basis for instructing the PUA not to make the decision.

Pursuant to the decision of the Supreme Court, on July 5, 2015, the Company notified that it remains steadfast with respect to its petition and instructed to join the petitions regarding the matter of the system costs. On July 9, 2015, the Court rejected the Additional Petition since the proceeding was premature and the PUA had not yet decided with respect to the contentions regarding the hearing. On October 13, 2015, an agreed-to request was filed on the part of the Company for cancellation of the petition and on October 15, 2015, the Court's decision was rendered whereby the petition was cancelled.

In the meantime, the PUA published a summary decision regarding the "Determination of Tariffs for Management Services of the Electricity System (System cost Tariffs)". As part of the decision, detail was provided of, among other things, management services for the system and it was provided that an accounting will be made with reference to the past commencing from June 1, 2013, however from the standpoint of the Company, only commencing from the commercial operation date at the rate of 90% of the annual system tariff.

As at December 31, 2015 the accounting had been completed for the period until June 2015 at the amount of NIS 73 million paid by the company to the IEC.

In 2015, the Company updated the provisions in its financial statements that as at December 31, 2014 amounted to NIS 123 million and adjusted them to, inter alia, the amounts that were paid according to the aforesaid. The aforesaid adjustment was included in the item of operating cost of the power plant.

3. On January 21, 2015 PUA published a summary decision regarding "Electricity Rates for Customers of IEC in 2015" which includes a reduction of the rates for the Company's customers. Pursuant to the decision the rates of the manufacturing component which serves as the basis for charging the Company's customers and to which the gas price is linked, were reduced by about 9% as from February 1, 2015.

Later on, on September 7, 2015, PUA published another summary decision, which in accordance the rates for the production component was further reduced by about 6.8%, commencing from September 13, 2015. It should be noted that the linkage mechanism of the gas price including a final floor price which started to occur in March 2016.

On December 19 2016 the PUA published a summary decision regarding "Electricity Rates for Customers of IEC in 2016" which in accordance the average production component was reduced by about 0.5% as from January 1, 2017 and will remain in effect to the end of 2017. The Company estimates that the effect of the update is expected to be negligible.

In addition, it was stated in the decision that during 2017 the Electricity Authority intends to implement a new methodology adapted to the current market structure.

Note 2 - Basis of Preparation

A. Declaration of compliance with international financial reporting standards.

The financial statements have been prepared by the Company, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements were authorized for issue by the Company's Board of Directors on March 2, 2017.

B. Functional and presentation currency

These financial statements are presented in NIS, which is the Company's functional currency, and have been rounded to the nearest thousand. The NIS is the currency that represents the principal economic environment in which the Company operates.

C. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities:

- Derivative financial instruments at fair value through profit or loss;
- Deferred tax liabilities
- Provisions

For further information regarding the basis of measurement of the above assets and liabilities, see Note 3, regarding Significant Accounting Policies.

D. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of accounting estimates used in the preparation of the Company's financial statements requires management to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Note 2 - Basis of Preparation (cont'd)

D. Use of estimates and judgments (cont'd)

Information about assumptions made by the Company with respect to the future and other reasons for uncertainty with respect to estimates that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities in the next financial year includes the following:

Useful lives of fixed assets and residual value
On May 19, 2014 the construction of the power plant was completed and is available for use as of this date and therefore as of this date, the depreciation of the power plant began. Accordingly, the Company examined the useful life of each significant item of fixed assets as described in Note 3C below taking into account the expected residual value at the end of the useful life. The estimated residual value, depreciation method and useful life, will be evaluated by the Company, as of the date of depreciation and an update will be made if necessary.

Impairment of assets
The Company examines on each cutoff date whether there have been any events or changes in circumstances that indicate impairment of fixed assets. It is examined whether the carrying amount of the fixed assets is recoverable out of the discounted cash flows expected from that asset or the fair value of the asset less selling costs ("net selling price") of that asset, and if necessary an impairment provision is recorded up to the amount that is recoverable.

Separation of embedded derivatives
The Company determines whether embedded derivatives should be separated from a host contract. If the separation is required, then the embedded derivative component is measured separately from the host contract, as a financial instrument at fair value through profit or loss, otherwise it is measured as a whole instrument, in accordance with the applicable measurement. Separation of embedded derivatives and their measurement at fair value through profit or loss may have a material impact on the financial position and results of operations of the Company.

Assessment of the probability of contingent liabilities
The Company creates provisions or reverses provisions in respect of contingent liabilities on the basis of, inter alia, whether it is more likely than not that an outflow of economic resources will be required in respect of the aforesaid liabilities.

E. Operating cycle period

The Company's normal operating cycle is one year. As a result, current assets and current liabilities include items whose exercise date will take place in the Company's normal operating cycle.

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

Note 3 - Significant Accounting Policies

A. Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

B. Financial instruments

1. Non-derivative financial assets

Initial recognition of financial assets
The Company initially recognizes loans and receivables and deposits on the date that they are created. All other financial assets acquired in a regular way purchase, including assets designated at fair value through profit or loss, are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument, meaning on the date the Company undertook to purchase or sell the asset.

Non derivative financial assets include accounts receivables, other accounts receivable and pledged deposits.

Derecognition of financial assets
Financial assets are derecognized when the contractual rights of the Company to the cash flows from the asset expire, or the Company transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Regular way sales of financial assets are recognized on the trade date, meaning on the date the Company undertook to sell the asset.

See (2) hereunder regarding the offset of financial assets and financial liabilities.

Loans and receivables
Loans and receivables include cash and cash equivalents, pledged deposits and other receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Note 3 - Significant Accounting Policies (cont'd)

B. Financial instruments (cont'd)

1. Non-derivative financial assets (cont'd)

Cash and cash equivalents include cash balances available for immediate use and call deposits. Cash equivalents include short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

2. Non-derivative financial liabilities

Initial recognition of financial liabilities
Non-derivative financial liabilities include loans and borrowings from banks and related parties, trade and other payables.

The Company initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are recognized initially at fair value plus all of the costs that can be attributed to the transaction. After the initial recognition, the financial liabilities are measured at amortized cost according to the effective interest rate method.

Derecognition of financial liabilities
Financial liabilities are derecognized when the obligation of the Company, as specified in the agreement, expires or when it is discharged or cancelled.

Offset of financial instruments
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. Derivative financial instruments

The Company holds derivative financial instruments for the purpose of economic hedging against foreign currency risks. Changes in the fair value of such derivatives are recognized in profit or loss under financing income or expenses.

4. CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is remeasured every period in accordance with the actual increase/decrease in the CPI.

5. Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity.

Note 3 - Significant Accounting Policies (cont'd)

C. Fixed assets

1. Recognition and measurement

Fixed asset items are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of self-constructed assets includes costs directly attributable to the assets, direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, estimates of dismantling and restoration costs of the power plant, and capitalized borrowing costs. During the running period, the Company capitalized costs and revenues incurred as a result of competence tests attributed to the power plant.

Spare parts, auxiliary equipment and backup equipment are classified as fixed assets once they meet the definition of fixed assets in accordance with IAS-16, otherwise they are classified as Inventory.

When major parts of a fixed asset item (including costs of major periodic inspections) have different useful lives, they are accounted for as separate items (major components) of fixed assets. Gains and losses on disposal of a fixed asset item are determined by comparing the proceeds from disposal with the carrying amount of the asset, and are recognized net within "other income" or "other expenses", as relevant, in profit or loss.

Changes in commitments to dismantle and restore the power plant except for changes caused by the passage of time, are added to or deducted from the cost of asset during the period in which they occur. The amount deducted from the cost of asset will not exceed its book value. The balance, if any, is recognized immediately in the profit or loss statement.

2. Subsequent costs

The cost of replacing part of a fixed asset item and other subsequent expenses is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The costs of day-to-day servicing are recognized in profit or loss as incurred.

3. Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Recoverable amount is the cost of the asset, or other amount replacement cost, less its residual value.

Depreciation of fixed assets begins when it is available for use. This means that it should be in the location and condition necessary for it to be capable of operating in the manner intended by the management. As stated in Note 1B (1), the Company began to depreciate fixed assets from the day of the beginning of commercial operations, in accordance with the depreciation rates listed below. Depreciation is recognized in the profit and loss statement on a straight-line basis (unless otherwise stated) over the estimated useful life of each significant part of the fixed asset, since this method reflects the expected pattern of consumption of future economic benefits best embodied in the asset.

Note 3 - Significant Accounting Policies (cont'd)

C. Fixed assets (cont'd)

3. Depreciation (cont'd)

The estimated useful lives for the current period are as follows:

	Depreciation rate (percentage)
Buildings and permanent connections	4
Turbine components	4 or by operating hours
Machinery, equipment and apparatus	mainly 4
Monitoring station	10
Spare parts	4
Backup diesel	upon usage

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

D. Intangible assets

1. Recognition and measurement

Intangible assets are identifiable non-monetary assets that do not have a physical substance. The Company's intangible assets consist of the costs of software systems that were adapted to the Company's needs. Among others, these include the billing system, the customer consumption forecast system, operating system and the ERP system. The intangible assets that were acquired by the Company have a finite useful life and are measured at cost less accumulated amortization and accumulated impairment losses.

2. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

3. Amortization

Amortization is the systematic allocation of the amount of an intangible asset over its useful life. Recoverable amount is the cost of the asset, or other amount replacement cost, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible assets from the date that they are available for use, since these methods reflect the anticipated consumption program of future economic benefits embodied in the asset in the best form.

The estimated useful life for the current software systems is five years.

Estimates regarding the amortization method and useful lives are reviewed at each reporting period and adjusted when necessary.

Note 3 - Significant Accounting Policies (cont'd)

E. Impairment

1) Non derivative financial assets

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the assets, and that the loss event had a negative effect on the estimated future cash flows of the asset that can be estimated reliably.

Accounting for impairment losses of financial assets measured at amortized cost
An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in a provision for loss against the balance of the financial asset measured at amortized cost. Interest income on the impaired assets is recognized using the interest rate that was used to discount the future cash flows for the purpose of measuring the impairment loss.

2) Non-financial assets

Timing of impairment testing
The carrying amounts of the Company's non-financial assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Determining cash-generating units
For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

Measurement of recoverable amount
The recoverable amount of an assets or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value that reflects current market assessments of the value of money and the risks specific to the assets, for which the estimated future cash flows from the asset were not adjusted.

Recognition of impairment loss
An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Reversal of impairment loss
In respect of other assets, for which impairment losses were recognized in prior periods, an assessment is performed at each reporting date for any indications that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

F. Capitalization of borrowing costs

Specific and non-specific borrowing costs were capitalized to qualifying assets throughout the period required for completion and construction until they are ready for their intended use. Non-specific borrowing costs are capitalized in the same manner to the same investment in qualifying assets, or portion thereof, which was not financed with specific credit by means of a rate which is the weighted-average cost of the credit sources which were not specifically capitalized. Foreign currency differences from credit in foreign currency are capitalized if they are considered an adjustment of interest costs. Other borrowing costs are expensed as incurred.

Note 3 - Significant Accounting Policies (cont'd)

G. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The carrying amount of the provision is adjusted each period to reflect the time that has passed and is recognized as a financing expense.

Provision for dismantling and restoration – The Company recognized a provision for removal and restoration costs regarding its commitment under long-term lease on which the power plant is located. Changes to this provision arising from changes of the interest rate are added to or deducted against the fixed asset.

H. Revenues

The Company recognizes a revenue when it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably.

Revenues are measured at the fair value of the amounts received and/or the amounts the Company is entitled to receive in respect of revenues from sale of electricity net of discounts and credits.

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

I. Taxes on Income

Income tax expense is comprised of deferred taxes.

Deferred taxes are recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The measurement of deferred taxes reflects the tax consequences that will result from the way the Company expects, at the end of the reporting period, to restore or remove the carrying amounts of assets and liabilities. Deferred tax is measured at the tax rates expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized for tax loss carry forwards, tax benefits and deductible temporary differences, when it is probable that future taxable income against which can be utilized. Deferred tax assets are reviewed at each reporting date and if it is not expected that the related tax benefit will be exercised, they are reduced.

The Company offsets assets and deferred tax liability if there is a legally enforceable right to offset the assets and current tax liabilities, and they relate to the same taxable income levied by the same tax authority.

Note 3 - Significant Accounting Policies (cont'd)

J. Employee benefits

Israeli labor laws and the Severance Pay Law require that the Company pay severance pay to its employees upon their dismissal or retirement.

The liability for employee severance benefits is calculated on the basis of the employment agreement in effect, and is based on the most recent salary of the employee which, in the opinion of management, creates the right to receive severance pay and takes into account the employee's years of employment.

The Company did not make an actuarial calculation due to the immateriality of the amounts.

K. Leased assets

Leases, where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased assets are measured and a liability is recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Other leases are classified as operating leases, and the leased assets are not recognized on the Company's statement of financial position.

Lease fees paid in respect of land leases classified as operating leases are presented on the statement of financial position as prepaid expenses and recognized in profit or loss over the lease period. The lease period takes into consideration an option to extend the lease period if at the beginning of the lease it was probable that the option will be exercised.

L. Financing income and expenses

Financing income and expenses include changes in the fair value of financial assets presented at fair value through the profit and loss and derivative hedging instruments which are recognized in profit and loss. Interest income is recognized as it accrues using the effective interest method. Financing expenses include interest expenses on bank loans, bank commissions and change in time value regarding provisions.

In the statements of cash flows, interest received is presented as part of cash flows from investing activities. Interest paid is presented as part of cash flows from financing activities.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either financing income or financing expenses depending on whether foreign currency movements are in a net gain or net loss position.

M. Transactions with controlling shareholder

Assets and liabilities included in a transaction with a controlling shareholder are measured at fair value on the date of the transaction. As the transaction is on the equity level, the Company includes the difference between the fair value and the consideration from the transaction in its equity.

Note 3 - Significant Accounting Policies (cont'd)

N. New standards and interpretations not yet adopted

(1) IFRS 9 (2014), Financial Instruments

IFRS 9 (2014) replaces the current guidance in IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 (2014) includes revised guidance on the classification and measurement of financial instruments, a new 'expected credit loss' model for calculating impairment for most financial assets, and new guidance and requirements with respect to hedge accounting.

IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018 with early adoption being permitted.

The Company has examined the effects of applying IFRS 9 (2014), and in its opinion the effect on the financial statements will be immaterial.

(2) IFRS 15, Revenue from Contracts with Customers

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.

The Company has identified that there may be several separate performance obligations which could affect the timing of the recognition of revenue.

The Company will make more detailed assessments of the impact over the next months.

IFRS 15 is applicable for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company currently anticipates adopting the new standard from January 1, 2018.

(3) IFRS 16, Leases

IFRS 16 replaces IAS 17, Leases and its related interpretations. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements.

IFRS 16 is applicable for annual periods as of January 1, 2019, with the possibility of early adoption, so long as the company has also early adopted IFRS 15, Revenue.

The Company is examining the effects of IFRS 16 on the financial statements with no plans for early adoption.

Note 4 - Cash and Cash Equivalents

	December 31	
	2016	**2015**
	NIS thousands	**NIS thousands**
Balance in banks	**6**	8
Deposits on demand (*)	**80,961**	51,886
	80,967	51,894

(*) Deposits on demand bear interest rate of 0.1%.

Note 5 - Other Receivable

	December 31	
	2016	**2015**
	NIS thousands	**NIS thousands**
Government institutions	**262**	14,908
Receivables for warranty and insurance	**25,751**	3,952
Advances to suppliers and prepaid expenses	**11,161**	13,134
	37,174	31,994

Note 6 - Pledged Deposits

Within the framework of signing the financing agreements (as mentioned in Note 12A(1)), the shareholders have committed to provide the Company with equity at the rate of 20% of the cost of construction of the power plant. Zorlu, Edelcom and from January 2014 Dori Energy have paid to the Company the balance of their commitment, which was presented in the financial statements as a pledged short-term deposit. Eilat Ashkelon Infrastructure Services Ltd. gave bank guarantees in accordance with their share. During 2016, following the completion of payments relating to the construction, the pledged deposits and guarantees were released (as of December 31 2015 – NIS 29,485 thousand).

Note 7 - Fixed Assets

A. Composition

	Power plant	Furniture and equipment	Leasehold improvements	Total
	NIS thousands			
Cost				
Balance as at January 1, 2015	4,707,706	2,280	728	4,710,714
Additions	31,829	113	8	31,950
Balance as at December 31, 2015	4,739,535	2,393	736	4,742,664
Additions	**16,882**	**103**	**-**	**16,985**
Disposals	**(26,174)**	**-**	**-**	**(26,174)**
Balance as at December 31, 2016	**4,730,243**	**2,496**	**736**	**4,733,475**
Depreciation				
Balance as at January 1, 2015	121,932	381	45	122,358
Additions	232,623	639	73	233,335
Balance as at December 31, 2015	354,555	1,020	118	355,693
Additions	**233,050**	**682**	**73**	**233,805**
Disposals	**(26,174)**	**-**	**-**	**(26,174)**
Balance as at December 31, 2016	**561,431**	**1,702**	**191**	**563,324**
Carrying amounts				
As at January 1, 2015	4,585,774	1,899	683	4,588,356
As at December 31, 2015	4,384,980	1,373	618	4,386,971
As at December 31, 2016	**4,168,812**	**794**	**545**	**4,170,151**

B. Security

See Note 12C regarding a lien on the Company's assets that serves as security for the liabilities of the Company and the shareholders.

C. Acquisition of fixed assets on credit

In 2016 there were no acquisitions by the Company of fixed assets on credit. In 2016 the Company paid for fixed assets purchased in previous years at a total of NIS 8 million (In 2015 - NIS 421 million).

D. Provision for restoration and dismantling

In 2015, as a result of changes in interest rates, the Company updated the provision for restoration and dismantling in the amount of NIS 6,002 thousand which was recorded against fixed assets. Changes in the time value of the provision on the books are recognized within financing expenses.

Note 8 - Loans from Banks

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

Details regarding interest rates and linkage*

	Currency and linkage base	Effective interest	Carrying amount as at December 31	
			2016	2015
		%	NIS thousands	NIS thousands
Loans from banks	CPI-linked	**5.58%-5.77%**	**3,565,221**	3,487,462
Less current maturities (including interest as at December 31)	NIS		**(197,389)**	(170,722)
			3,367,832	3,316,740

* See also Note 12A(1) regarding credit terms and financial covenants.

Note 9 - Other Payables

	December 31	
	2016	2015
	NIS thousands	NIS thousands
Governmental institutes	**72**	-
Accrued expenses (*)	**5,790**	13,731
Other payables	**3,290**	3,175
	9,152	16,906
(*) Including other payables due to related and interested parties	**4,140**	12,405

Note 10 - Loans from Related Parties

	December 31	
	2016	2015
	NIS thousands	NIS thousands
Shareholders(1)		
Eilat-Ashkelon Infrastructure Services Ltd.	**85,680**	186,952
Zorlu Enerji Elektrik Uretim A.S. (2)	**59,344**	133,817
U. Dori Energy Infrastructure Ltd. (2)	**42,663**	102,153
Edelcom Ltd. (2)	**43,951**	103,337
	231,638	526,259
Less current maturities (3)	**(80,000)**	(130,000)
	151,638	396,259

1. In accordance with the agreement regarding the subordinated shareholders' loans, the loans bear interest at the rate of 10% and are linked to the CPI. As at December 31, 2015, the amount of loans received including accrued interest is NIS 1,168,469 thousand, of which an amount of NIS 642 million was converted to equity during 2011-2013, an amount of NIS 350 million was repaid during 2016 and the remaining balance is expected to be repaid in the future subject to compliance with financial covenants as specified in the financing agreements. See Note 12A(1)(a).

Note 10 - Loans from Related Parties (cont'd)

2. The loan balances as of December 31 2015 include certain amounts paid in advance and were pledged as a short term deposits, see Note 6.

3. According to the financing agreements, two years after the date of commercial operation, and subject to the Company's compliance with financial covenants and other commitments as specified in the agreement, it will be possible to repay shareholders' loans. During 2016 the Company repaid amount of NIS 346 million out of approved amount of NIS 350 million and the remaining balance was repaid subsequent to the date of the report (out of the approved amount NIS 204 million is repayment of interest and linkage differentials and the remaining balance of NIS 146 millions is principle repayment). The Company expects to comply with the financial covenants and commitments provided in the financing agreements, and that it will be able to repay shareholders' loans in an estimated amount of NIS 80 million during 2017. According to these assessments, the Company has classified this amount as a current maturity in its financial statements as at December 31, 2016. Subsequent to the date of the report the Company repaid an amount of NIS 50 million.

Note 11 - Income Tax

A. Details regarding the tax environment of the Company

(1) Presented hereunder are the tax rates relevant to the Company in the years 2014-2016:

2014 – 26.5%
2015 – 26.5%
2016 – 25%

On January 4, 2016 the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216) - 2016, by which, inter alia, the corporate tax rate would be reduced by 1.5% to a rate of 25% as from January 1, 2016.

Furthermore, on December 22, 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018.

As a result of the reduction in the tax rate as described above, the deferred tax balances were calculated according to the new tax rate specified in the Law for the Amendment of the Income Tax Ordinance, at the tax rate expected to apply on the date of reversal.

The effect of the changes described above on the financial statements as at December 31, 2016 is reflected in a net decrease in the deferred tax liabilities and a decrease of deferred tax expenses in the amount of NIS 9,154 thousands.

(2) On January 12, 2012 Amendment 188 to the Ordinance was issued, by which the Temporary Order was amended so that Standard 29 shall not apply also when determining the taxable income for 2007-2011. On July 31, 2014 Amendment 202 to the Income Tax Ordinance was published. The Amendment extended the temporary order for the tax years 2012 and 2013.

(3) The Company is an "Industrial Company" as defined in the Encouragement of Industry (Taxes) – 1969 and accordingly is entitled to benefits which the primarily one is accelerated depreciation.

Note 11 - Income Tax (cont'd)

B. Composition of income tax expense

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
	NIS thousands	NIS thousands	NIS thousands
Current tax	-	-	-
Deferred tax expense	**4,736**	37,607	23,275
	4,736	37,607	23,275

C. Deferred tax liabilities and assets recognized

The deferred taxes are calculated using the tax rate expected to apply when reversed as described above. Changes in the tax liabilities and assets are attributed to the following items:

	Fixed assets	Provisions and other timing differences	Tax losses carried forward	Total
	NIS thousands			
Balance of deferred tax asset (liability) as at January 1, 2015	(99,502)	39,117	37,110	(23,275)
Changes recognized in the profit and loss statements	(151,915)	(25,666)	139,974	(37,607)
Balance of deferred tax asset (liability) as at December 31, 2015	(251,417)	13,451	177,084	(60,882)
Changes recognized in the profit and loss statements	**(146,564)**	**(3,096)**	**135,768**	**(13,890)**
impact of decrease in tax rate	**44,931**	**(1,525)**	**(34,250)**	**9,154**
	(101,633)	**(4,621)**	**101,518**	**(4,736)**
Balance of deferred tax asset (liability) as at December 31, 2016	**(353,050)**	**8,830**	**278,602**	**(65,618)**

Note 11 - Income Tax (cont'd)

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

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
	NIS thousands	NIS thousands	NIS thousands
Profit before taxes on income	**55,942**	140,422	102,926
Statutory tax rate of the company	**25%**	26.5%	26.5%
Tax calculated according to the Company's statutory tax rate	**13,985**	37,212	27,275
Creation of deferred taxes for tax losses and benefits from previous years for which deferred taxes were not created in the past	**-**	-	(4,782)
Impact of decrease in tax rate	**(9,154)**	-	-
Non-deductible expenses and others	**(95)**	395	782
Income tax expense	**4,736**	37,607	23,275

E. Tax losses carried forward

The total amount of forward losses from business as at December 31, 2016 is about NIS 1,211million (as of December 31 2015 – NIS 668 million). The Company has recorded deferred taxes in respect of these losses because it expects the exploitation against taxable incomes will be created in the foreseeable future.

F. Tax assessments

The Company has not yet received tax assessments since its establishment. Although, the company has final tax assessments up to and including the year ended December 31, 2012 (subject to the limitations prescribed by law).

Note 12 - Contingent Liabilities, Commitments and Guarantees

A. Commitments

1. Financing agreements

On November 29, 2010 (hereinafter: "the Financial Closing Date"), the Company signed a financing agreement and several related agreements with Bank Hapoalim Ltd. as the financial organizer, Clal Credit and Financing Ltd. from the Clal Insurance Enterprises Holdings Ltd. Group as the organizer of the institutional consortium as well as the bank and institutional investors consortium (hereinafter: "the Financing Parties") to provide financing in the amount of up to NIS 3,850,000,000 linked to CPI, though not more than 80% of the costs of the construction of a power plant for generating electricity in Ashkelon, subject to the terms of the provisions of the financing agreement and the related agreements (hereinafter: "the Financing Agreements"). Likewise, bank guarantees will be provided to third parties according to the project documents. The financing agreement includes representations and warranties concerning the Company and the project where breaching these representations and warranties is likely to lead, inter alia, to the demand for immediate repayment of the outstanding credit and/or a breach of its obligations and/or to the cancellation of the license.

Accordingly, the Company is required to comply the following debt coverage:

1. The Company is required to maintain a debt coverage ratio of 1.10:1 over two consecutive calculation periods, and a debt coverage ratio of 1.05:1 over the entire calculation period.

2. The Company is required to maintain a minimal loan life coverage ratio of 1.10:1.

As at December 31, 2016, according to the Company's expected cash flow, the company is in compliance with the coverage ratios mentioned above.

On July 2016 the Company withdraw its final drawdown from the credit facilities of the project amount of NIS 243 million in order to finance construction costs and reserve accounts that were included under the credit facility of the project. Following the final drawdown the remaining facility was cancelled.

Within the framework of the Financing Agreements, and at the same time as the signing of the financing agreement, other agreements related to the financing agreement were signed including the following:

a. Capital Injection Agreement and a Subordinated Loan Agreement

These agreements include the obligation of the shareholders towards the Company and the Financing Parties, to inject, separately, and each according to their relative share, from time to time and in parallel with each request to draw from the financing facilities, a total of up to approximately 20% cash (hereinafter: "the Shareholders' Investment"), and this either for the issuance of shares or as shareholders loans, which in any case, will be subordinate to and pledged to the obligations of the Company towards the Financing Parties, according to the terms of the agreements. According to the Capital Infusion Agreement and as security for the commitment of the shareholders to provide their relative portion of the Shareholders' Investment, the shareholders provided on the same date, cash and bank guarantees in the amount of their obligation to inject the Shareholders Investment; this, less any equity provided to the Company prior to that date.

Note 12 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

1. Financing agreements (cont'd)

a. Capital Injection Agreement and a Subordinated Loan Agreement (cont'd)

The Capital Infusion Agreement includes representations and obligations with regards to the shareholders and the project where their breach is likely to lead, inter alia, to the demand for immediate repayment of the outstanding credit and/or a breach of the Company's obligations and/or to the cancellation of the license. According to the Subordinated Loan Agreement, any shareholder loan will be linked to the CPI and bear interest at an annual rate of 10%. In addition, it was agreed that any distribution to the shareholders, including loans repayment, will be subject to the compliance of the company with the financial covenants as described in the financial agreement (see Note 10). During the period of this statement there was no change in the relative holdings of the shareholders. Within the framework of the financing agreement, there is a lien on all of the issued share capital of the Company in favor of Poalim Trust Services Ltd., as the trustee of the Financing Parties.

b. Bank accounts agreement

The agreement sets the establishment of the project bank accounts and sets out the distribution of the cash flows among the accounts. In addition, the agreement sets out terms and procedures for executing deposits and withdrawals from each account, determines the minimum balances in each of the capital reserves, and sets out the priorities with respect to payments between the accounts and other terms regarding the management of the accounts, including the issue of transfers between accounts.

The main reserves are a debt service reserve, a heavy maintenance reserve, a reserve for third party guarantees and a distribution reserve.

As at December 31, 2016, the Company deposited in the debt service reserve an amount of NIS 200 million, an amount of NIS 43 million in the major maintenance fund and an amount of NIS 153 million in the distribution fund, an amount of NIS 15 million in the fines and regulation fund. These amounts are classified in the statement of financial position as "long-term restricted deposits".

2. Agreement to lease land under operating lease

In 2008 an agreement was signed between the Company and EAIS from the lease of 74.5 dunams of land for the power plant, for a period of 24 years and 11 months from the date of its operation. Also in 2008, the Company participated in this payment and transferred to EAIS the amount of NIS 3,047 thousand in respect of its relative share in the lease period which were paid by EAIS to ILA. This amount is classified as "long-term prepaid expenses" and is amortized over the lease period.

During 2010 the Company signed on addendum to the land sub-lease agreement. According to the addendum to the agreement, in exchange for the lease of the lands designated for the project, an annual payment of NIS 3,705 thousand will be paid for a period of 25 years. See also Note 17.

Note 12 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

3. The EPC Agreement

An agreement between the Company and Wood Group Gas Turbines Services Ltd. (hereinafter – the Construction Contractor) for the planning, purchasing and construction of the power plant at a set and predetermined price of $877,150 thousand.

On December 6, 2013 the Company received from the Construction Contractor notification of the estimated costs of a number of the project's change orders that it alleges were caused as a result of it carrying out the Company's request to make changes in the project's planning. In view of the counter allegations that were raised by the Company and were discussed in negotiations with the Contractor, the accounts were settled and in December 2014 the parties reached a compromise by which the Contractor would receive an additional final payment for settling all the Company's liabilities towards the Contractor (hereinafter: the additional payment).

As at December 31, 2015, the Company paid the construction contractor all of the contractual liabilities, including the additional payment.

4. O&M Agreement

An agreement between the Company and the Eilat-Ashkelon Power Plant Services Company - EAPPS ("the Maintenance Contractor") for the operation and maintenance of the power plant for a predetermined monthly payment defined in the Agreement for a period of 24 years and 11 months commencing the date of receipt of the Permanent Production certificate. The Maintenance Contractor will transfer some of the larger maintenance projects to a subcontractor (Zolru O&M) under a separate agreement, however it will retain full responsibility towards the Company with respect to all of its obligations under the agreement.

During 2013, the Maintenance Contractor entered into a sub-contracting agreement with EZOM Ltd, a related party held by related companies. The maintenance and operation will be managed by EZOM Ltd. The maintenance contractor will retain full responsibility regarding his obligations toward the Company.

During August 2016 and in accordance with price review mechanism existing in the O&M agreement there was an update for the prices of some of the items included in the O&M agreement. The update was applied retroactively from the beginning of 2016.

5. Gas Pipeline Agreement

On November 25, 2010, the Company signed a standard agreement approved by the Gas Authority according to which in accordance the government company Israel Natural Gas Lines Ltd. ("INGL") connected the power plant to the natural gas pipeline. Dorad paid connection fees in the amount of NIS 47 million which was recognized as prepaid expenses classified under non-current assets and will be amortized over the operating period. In addition according to the agreement, Dorad is obligated to pay INGL a payment in respect of the pipe capacity commencing on the date that the connection is completed. In addition, Dorad is obligated to pay a variable payment for the gas flowing through the pipeline.

Note 12 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

6. Petrol Storage agreement

On June 17, 2013 the company entered into an agreement with Eilat Ashklon Pipeline Company Ltd (hereinafter: "EAPC") regarding storage of petrol in their plant.

According to the agreement, the company will store petrol at the necessary quantities for backup of reserve fuel as required by Electricity Market Regulations and also for the Company's current needs, estimating at 14,000 square meters.

EAPC are the Controller - of Eilat Ashkelon Infrastructure Services Ltd. who are an interested party and related party, see Note 18.

7. Agreement to purchase natural gas

On October 15, 2012 the Company entered into an agreement with the partners in the Tamar license ("Tamar") by which, subject to the fulfillment of suspense conditions provided in the agreement, the Company will purchase natural gas from Tamar for operating the power plant it is constructing in Ashkelon.

There is a dispute between the parties regarding the tariff linked to the gas price in view of the split in production rates table, to two separate tables, which were updated during May 2013. The parties are negotiating to resolve the dispute.

The Company is committed to purchase gas from the flow date, as it defined in the agreement. As at December 31, 2014 the amount of the obligation is estimated at NIS 100,800 thousand. This obligation was not recognized in the Company's books. Nevertheless, according to the agreement, if the Company 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 the company is committed to.

In November 2015, the Company reached an arrangement with Tamar whereby the Company's obligation to acquire the gas for the period preceding the commencement date of the actual consumption of the gas will be cancelled, where in addition the parties also settled the disagreement regarding the tariff to which the price of the gas is linked, with no monetary consequences.

On April 30, 2015, the Company received a notification from Tamar whereby the "interim period", as defined in the agreement, began on May 5, 2015. Pursuant to the agreement, during the interim period supply of the gas to the Company will be subject to the quantities of the natural gas that will be available to Tamar at that time after supply of natural gas to other customers of Tamar with which contracts were signed for supply of natural gas prior to the signing of the agreement with the Company. The interim period will end when Tamar completes, should it ultimately complete, a project for expansion of the supply capacity of a system for treatment and transfer of natural gas from the Tamar reserve, upon existence of the preconditions detailed in the agreement. In the Company's estimation, the impact of Tamar's notification on its activities is not expected to be significant.

Note 12 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

8. Agreement to sell electricity

As at the reporting date the Company has agreements to sell electricity at a scope of 95% of the production capacity of the power station. The electricity delivery agreements are, mainly, based on a reduced rate compared to the rate applicable to electricity consumers in the general market, as defined by the Authority for Public Services-Electricity.

In the framework of agreements for the sale of electricity to the Ministry of Defense and Mekorot Water Company Ltd. ("Clients"), the Company was committed to begin commercial operation during the second quarter of 2013, and it was committed to compensate the clients for any delay in the commercial operation. In 2013 the Company reached an agreement with the Ministry of Defense, by which, inter alia, the compensation for the delay was given in the form of a higher reduction during the first year of operation.

In addition, the Company reached an agreement with Mekorot under which, in respect of the delay in the commercial operation, Mekorot will receive a higher reduction during the first six months of the commercial operation. Even so, Mekorot has the option to request the compensation in cash. Accordingly, until the date of the commercial operation, the Company recognized a provision in amount of the compensation which was recorded as Other Expenses in the statement of profit or loss. In June 2014 the Company compensated Mekorot by the full amount of the compensation due to it (including interest accrued until that date).

9. Property tax assessments in respect of the station

In April 2014, the Company received a property tax assessment from Ashkelon Municipality for the years 2012-2014 in the amount of NIS 17,633 thousand including interest and linkage in the amount of NIS 2,487 thousand. It should be noted that the main assessments amounts and interest expenses and linkage, refer to the period in which the Company had not yet received a completion of building permit. After negotiations for a compromise between the Company and the Municipality of Ashkelon, the parties reached a compromise whereby in exchange for the payment agreed upon in the compromise, all of the Municipality's charges will be discharged for periods up to the end of 2015, and the final annual amount was also determined for the period up to and including 2025. The compromise amount was paid during the final quarter of 2015.

10. Claim between the construction contractor and subcontractor

On August 1, 2013, U. Dori Group Ltd., who is an interest party in the Company together with U. Dori Construction Ltd. ("the prosecutors") filed a claim against the construction main contractor in Dorad's project in Ashklon, regarding a debt of the prosecutors in the amount of $13.8 million. This is due to work which was carried out by the prosecutors in accordance with the agreement between the parties, which according to the prosecutors they were not paid for their work.

In accordance with the claim the Company received a Decree of temporary confiscation on the funds held by the company as a third party and which were expected to be paid to the contractor in accordance with the construction agreement.

Note 12 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

10. Claim between the construction contractor and subcontractor (cont'd)

On September 10, 2013 the Company was announced by the court that the construction main contractor deposit the amount of the claim in a restricted deposit and therefore the Decree of Temporary confiscation that was received by the Company was cancelled.

On April 13, 2014 the Company received a temporary writ of attachment with respect to an amount of up to NIS 146 million that is held by the Company as a third party and is payable to the construction contractor according to the construction agreement. On August 18, 2014 the Company received an amended temporary writ of attachment that lowered the amount of the temporary attachment from NIS 146 million to NIS 55 million (hereinafter: "the additional claimed amount"). On February 18, 2015, the Company received a court ruling ordering removal of the attachment that was imposed on the Company.

11. Claims by Dori Energy, Zorlu and Edelcom

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

On April 12, 2015 the Company received two letters from representatives of Dori Energy (hereinafter- "The Representatives") that were addressed to the Company's Chairman of the Board. As part of these letters, the company is requested to take legal action in order to reveal the engagement between one of the shareholders of the Company, Zorlu Enerji Elektrik Uretim A.S., and the construction contractor of the Dorad power station, Wood Group (EPC contractor). The aforesaid letters are advance notices to the Company regarding the intention of the representatives to file a derivative claim insofar as their requests are not accepted.

After examining all the facts relevant to the aforesaid letters and consulting with legal counsel, the Company replied to the representatives on May 26, 2015 and rejected their request to take legal action. On July 16, 2015 the representatives filed with the court a motion to approve a derivative claim in the name of the Company against Zorlu (including the representatives of Zorlu on the Company's Board of Directors) and the EPC contractor. In the framework of the motion to which also the derivative claim was attached, the representatives demanded that documents and information regarding the engagement between Zorlu and the EPC contractor be disclosed and handed over.

On November 15, 2015 the Company filed its reply in which it reiterated its position that the motion for approval of the derivative claim should be denied.

On January 12, 2016 the representatives filed a motion to amend the motion for approval of a derivative claim (hereinafter: 'the motion for amendment"). The motion for amendment raises new allegations by which Zorlu together with Ori Edelsberg (a director in Dorad) and companies under his control supposedly conspired to deceive the Company by "inflating" the cost of the EPC agreement for the purpose of splitting between them the profits from such "inflation". In addition, in the framework of the motion for amendment it is requested to add Mr. Ori Edelsberg and companies under his control as defendants to the amended motion for approval of a derivative claim and, also, to remove from the claim the representatives of Zorlu on the Company's Board of Directors. It is noted that the motion for approval of a derivative claim as well as the amended motion for approval of a derivative claim that was attached to the motion for amendment, do not include any monetary relief rather request that the court give the representatives permission to split the relief so that they may file a separate monetary claim in the future on behalf of Dorad with respect to Dorad's financial damages, after they receive all the documents and information they are requesting.

Note 12 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

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

a) *Petition to Approve a Derivative Claim filed by Dori Energy and Hemi Raphael (cont'd)*

On April 20, 2016 a discussion in court focused on the application to amend the derivative claim was held in court. At the end of the discussion, the court accepted the application to amend the derivative claim in a matter that the amended derivative claim is on the agenda.

At the end of July 2016, the respondents filed their responses to the court regarding the amended application of the derivative claim. In accordance with their responses, they deny the Allegations included in the application and according to them they did not do any injustice to the company and therefore the company has no cause of action against them.

On December 27, 2016, following a negotiation between the parties, an arbitration agreement has been signed between the parties which in accordance, it was agreed to transfer the proceeding to arbitration and on January 3 2017 The Representatives filed a motion to cancel the proceedings which was approved by the Supreme Court on January 8 2017.

In the Company's estimation, based on the opinion of its legal counsel, at this early stage cannot intelligently assess the results of the arbitration proceedings.

b) A letter from Zorlu

On December 27, 2015 the Company received a letter from the representatives of Zorlu that is addressed to the Company's board of directors (hereinafter: "Zorlu's letter"). Most of Zorlu's letter refers to the execution of civil engineering work in a project of Dorad by the U. Dori group Ltd. and U. Dori Construction Ltd. (hereinafter and together: "Dori") whose services were retained by the EPC contractor. According the letter of Zorlu, Dori did not fulfill its commitments regarding execution of the civil engineering work in Dorad's project which resulted in delays in construction of the power station. Zorlu is requesting that the Company exercise its legal rights against Dori and the representatives, and insofar as its requests do not receive a positive reply, Zorlu plans to file a motion for approval of a derivative claim.

On February 3, 2016 the Company replied to Zorlu's letter and advised that it requires an additional period beyond that prescribed in the law to examine the matters referred to in Zorlu's letter. Zorlu replied that it agrees to the Company's request for additional time.

c) Petition to Approve a Derivative Claim filed by Edelcom

On July 25 2016, Edelcom submitted an application for approval of a derivative claim on behalf of the Company against U. Dori group, currently set Amos Luzon Development and Energy Ltd. (hereinafter: ""the Dori Group"), Dori Energy and Ellomay Clean Energy Ltd. (hereinafter: "Ellomay"). Edelcom's claim is about an entrepreneurship agreement that was signed on November 25, 2010 between the Company and Dori Group, pursuant to which in consideration for the management and entrepreneurship services of the power station project the Dori Group received from the Company payment in the amount of NIS 49.4 million and it undertook to continue holding, directly or indirectly, at least 10% of the Company's share capital for a period of 12 months from the date the power station is handed over to the Company by the construction contractor (hereinafter and respectively: "the entrepreneurship agreement" and "the entrepreneurship fee"). According to Edelcom, Dori Group's holdings in the Company are through Dori Energy, which on November 25, 2010 entered into a triangular investment agreement between Dori Energy, Ellomay and the Dori Group (hereinafter: "the Dori Energy investment agreement").

Note 12 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

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

c) Petition to Approve a Derivative Claim filed by Edelcom (cont'd)

In addition, according to Edelcom, when the Dori Energy investment agreement was signed Ellomay received management rights in Dori Energy that are equal to those of the Dori Group while at the same time Ellomay formally held only 40% of the issued share capital of Dori Energy and therefore it was expected that the management rights granted to it would correspond to its holding rate in Dori Energy at that time. In view of the aforesaid, according to Edelcom the Dori Group holdings have fallen below 10% and it has therefore breached its commitment according to the entrepreneurship agreement.

On January 4 2017, following a signed arbitration agreement between the parties, a request was filed to the court by the parties for cancellation of the claim and the claim will be heard within the arbitration proceedings.

d) Statement of Claim filed by Edelcom

On July 27 2016, Edelcom submitted a lawsuit against Dori Group, Dori Energy and Ellumei ("Defendants"), in respect of the transfer of company's shares in contrary to the provisions of the shareholders' agreement signed between the Company and its shareholders on November 25, 2010 ("Shareholders Agreement"). According to Edelcom, the defendants interpreted unlawfully and in bad faith the provisions of the shareholders' agreement while contracted in investment agreement followed by an allocation of shares made in contrary to the provisions of the shareholders agreement.

Edelcom claims for a various of declaratory remedies and an operative remedy which will enforce of the sanctions set forth in the shareholders agreement, an order directed to the company and ordered her to withhold any payment due to Dori Energy by virtue of its status as a shareholder in the company, including dividends or repayment of shareholders' loan, and an order addressed to the company and ordered her to suspend Mr. Menachem Refael role as a director of the Company from Dori energy and prohibit Mr. Rephael be present or vote in meetings of the Board.

The parties agreed that this claim will be transferred to the arbitration proceedings.

B. Bank guarantees

As at the date of the report, the Company provided, through its shareholders, based on their proportionate holdings in the Company and pursuant by the financing agreements bank guarantees to INGL, the Public Utilities Authority ("PUA"), for purposes of compliance with the terms of the licenses granted to the Company, and in favor of the System Management Unit in the Electric Company, as required under the Company's agreement with the Electric Company, and in accordance with the guidelines published by the PUA. The total amount of the guarantees given, as detailed above, is approximately NIS 160 million. Subsequent to the date of the report, on January 2017, there was an update to the amount of the guarantee provided to system manager whereas the total updated amount is NIS 163 million.

Note 12 - Contingent Liabilities, Commitments and Guarantees (cont'd)

C. Liens

During the month of January 2011, the Company placed liens on its assets as collateral for the obligations of the Company and its shareholders as follows:

1. Fixed lien – A fixed lien and first priority mortgage and an assignment by way of lien on all the assets and rights with respect to the power plant in Ashkelon ("the Project") and all as detailed in the mortgage deed and its appendices.

2. Floating lien - An unlimited first priority floating lien on all of the rights and assets of the borrower, any object and/or equipment and any other tangible or intangible asset of any type as specified in the financing agreements.

3. Lien on account of guarantees to third parties – a fixed lien, mortgage and assignment by way of a first priority lien, and a second priority lien on all assets and rights with respect to the account of guarantees including the funds, the securities, the documents and the notes of others of any type that will be deposited in the account from time to time, as detailed in the mortgage deed and all of its appendices. In addition during 2015, deposited NIS 70 million to guarantees to third parties account. During 2016, following the cancellation of the guarantee the lien was removed and the deposit was released.

4. Lien on the land of the project – A fixed lien and first priority mortgage and an assignment by way of lien on all of the rights, existing and future, of the pledger with no exceptions, per the development agreement that was signed between the pledger and the Israel Lands Administration ("ILA") with respect to the land.

Note 13 - Share Capital

Composition of the share capital in nominal values:

	Number of shares		
	December 31		
	Authorized	Issued and paid-in	Issued and paid-in
		2016	2015
Ordinary shares of NIS 1 par value	**500,000**	**10,640**	10,640

See Note 12A1(A) regarding an issuance of shares against a conversion of loans into equity.

Note 14 - General and Administrative Expenses

	For the year ended December 31		
	2016	**2015**	**2014**
		NIS thousands	
Wages and related expenses	**9,407**	13,347	4,637
Rental and office maintenance	**2,233**	2,553	1,242
Profession services	**6,592**	8,927	7,689
Depreciation	**755**	712	426
Other	**191**	142	28
	19,178	25,681	14,022

Note 15 - Financing Income and Expenses, Net

	Year ended December 31		
	2016	**2015**	**2014**
		NIS thousands	
Financing income			
Revaluation of derivatives	**-**	-	46,662
Net foreign exchange	**3,944**	124	-
Other	**3,081**	352	302
	7,025	476	46,964
Financing expenses			
Revaluation of derivatives	**2,663**	835	-
Interest expense on bank loans	**186,139**	168,887	118,322
Interest expense on loans from related parties	**35,267**	40,791	22,708
Net foreign exchange loss	**-**	-	12,012
Bank commissions	**1,455**	2,858	3,369
Other financing expenses	**530**	3,437	579
	226,054	216,808	156,990
Net financing expenses	**219,029**	216,332	110,026

For further information regarding financial expenses due to transactions with related parties, see Note 17 - Related and Interested Parties.

Note 16 - Financial Instruments

A. Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents quantitative and qualitative information about the Company's exposure to each of the above risks, and the Company's objectives, policies and processes for measuring and managing risk.

In order to manage these risks and as described hereunder, the Company executes transactions in derivative financial instruments. Presented hereunder is the composition of the derivatives:

	December 31	
	2016	2015
	NIS thousands	
Derivatives presented under current assets		
Forward exchange contracts used for economic hedge	-	646

B. Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Financial Committee, which is responsible for defining a risk management policy. The committee reports regularly to the Board of Directors on its activities.

C. Credit Risk

Credit Risk is a risk for a financial loss caused to the company if the counterparty of the financial instrument fails to meet his contractual obligations.

Cash and cash equivalents
As at December 31, 2016, the Company has cash and cash equivalents in the amount of NIS 80,967 thousand (December 31, 2015 - NIS 51,894 thousand). The Company's cash and cash equivalents are deposited with a financial institution having a high credit rating (international rating scale).

Pledged deposits
As at December 31, 2016, the Company did not hold pledged deposits (December 31, 2015 – NIS 29,485 thousand), see also Note 6.

Restricted deposits
As at December 31, 2016 the Company has deposits in the amount of NIS 411,574 thousand that are restricted according to the financing agreements (December 31, 2015 – NIS 335,085 thousand). The Company's restricted deposits are held with a financial institution having a high credit rating (international rating scale).

Note 16 - Financial Instruments (cont'd)

C. Credit Risk (cont'd)

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company has established a credit policy under which each new customer is analyzed individually for credit worthiness. The Company's review includes external ratings, when available.

As at December 31, 2016 no impairment was recorded.

Bodies that provided financing for the project's construction

Credit risk from bodies that provided financing to the Company for the project's construction in respect of the financing agreements as described in Note 12.A.1. These bodies have a high credit rating.

D. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has contractual commitments due to financing agreements, O&M agreement, the Gas Purchase agreement and the Gas Pipeline agreement. For further information see Note 12.

Note 16 - Financial Instruments (cont'd)

D. Liquidity risk (cont'd)

The following are the contractual maturities of financial liabilities at undiscounted amounts and based on the rates at the reporting date, including estimated interest payments.

	December 31, 2016						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	NIS thousands						
Non-derivative financial liabilities							
Trade payables	**293,613**	**293,613**	**293,613**	**-**	**-**	**-**	**-**
Other payables	**6,410**	**6,410**	**6,410**	**-**	**-**	**-**	**-**
Loans from banks	**3,565,221**	**5,054,106**	**188,000**	**176,066**	**366,521**	**1,106,546**	**3,216,973**
Loans from related parties	**231,638**	**278,237**	**50,000**	**30,000**	**80,000**	**118,237**	**-**
	4,096,882	**5,632,366**	**538,023**	**206,066**	**446,521**	**1,224,783**	**3,216,973**

Note 16 - Financial Instruments (cont'd)

D. Liquidity risk (cont'd)

	December 31, 2015						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	NIS thousands						
Non-derivative financial liabilities							
Trade payables	247,129	247,129	247,129	-	-	-	-
Other payables	13,731	13,731	13,731	-	-	-	-
Loans from banks	3,487,462	5,128,178	176,647	165,014	344,767	1,046,281	3,395,469
Loans from related parties	526,259	547,820	130,000	-	139,273	278,547	-
	4,274,581	5,936,858	567,507	165,014	484,040	1,324,828	3,395,469

Note 16 - Financial Instruments (cont'd)

E. Market risk

Market risk is the risk that changes in market prices will affect the Company's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

As of December 31, 2016 and since the beginning of commercial operation of the power plant, the management estimates that the main risks are: changes in regulations applicable to the area of operations as approved by the electricity authority, a change in the gas purchase costs and other changes in the electricity and gas market, political and security events.

(1) Linkage and foreign currency risk

As a result of the Company's agreement with the construction contractor, maintenance contractor and the gas suppliers, as described in Note 12, the Company is exposed to changes in the dollar/NIS exchange rate. In order to reduce this exposure the Company entered into forward transactions to purchase dollars for NIS.

(a) The exposure to linkage and foreign currency risk

The Company's exposure to linkage and foreign currency risk is as follows:

	December 31, 2016				
	Non-financial	Unlinked	CPI-linked	US Dollar	Total
			NIS thousand		
Financial assets and financial liabilities:					
Current assets:					
Cash and cash equivalents	-	74,973	-	5,994	80,967
Trade receivables	-	294,351	-	-	294,351
Other receivables	37,174	-	-	-	37,174
Non-current assets:					
Restricted deposits	-	272,280	-	139,294	411,574
Prepaid expenses	45,938	-	-	-	45,938
Fixed assets	4,170,151	-	-	-	4,170,151
Intangible assets	8,551	-	-	-	8,551
Current liabilities:					
Current maturities of loans from banks	-	-	197,389	-	197,389
Current maturities of loans from related parties	-	-	80,000	-	80,000
Trade payables	-	241,469	-	52,144	293,613
Other accounts payable	2,742	1,610	-	4,800	9,152
Non-current liabilities:					
Deferred tax liabilities	65,618	-	-	-	65,618
Provisions for dismantling and restoration	35,700	-	-	-	35,700
Loans from banks	-	-	3,367,832	-	3,367,832
Long-term loans from related parties	-	-	151,638	-	151,638
Liabilities for employee benefits, net	160	-	-	-	160
Total exposure in statement of financial position in respect of financial assets and financial liabilities	4,157,594	398,525	(3,796,859)	88,344	847,604

Note 16 - Financial Instruments (cont'd)

E. Market risk (cont'd)

(1) Linkage and foreign currency risks (cont'd)

(a) The exposure to linkage and foreign currency risk (cont'd)

The Company's exposure to linkage and foreign currency risk is as follows:

	December 31, 2015				
	Non-financial	Unlinked	CPI-linked	US Dollar	Total
			NIS thousand		
Financial assets and financial liabilities:					
Current assets:					
Cash and cash equivalents	-	42,827	-	9,067	51,894
Trade receivables	-	278,982	-	-	278,982
Pledged deposits	-	29,485	-	-	29,485
Accounts receivable	31,994	-	-	-	31,994
Derivative financial instruments	-	-	-	646	646
Non-current assets:					
Prepaid expenses	46,918	-	-	-	46,918
Fixed assets	4,386,971	-	-	-	4,386,971
Intangible assets	8,391	-	-	-	8,391
Restricted deposits	-	335,085	-	-	335,085
Current liabilities:					
Current maturities of loans from banks	-	-	170,722	-	170,722
Current maturities of loans from related parties	-	-	130,000	-	130,000
Other accounts payable	3,175	1,326	-	12,405	16,906
Trade payables	-	218,143	-	28,986	247,129
Non-current liabilities:					
Deferred tax liabilities	60,882	-	-	-	60,882
Provisions for dismantling and restoration	35,170	-	-	-	35,170
Loans from banks	-	-	3,316,740	-	3,316,740
Long-term loans from related parties	-	-	396,259	-	396,259
Liabilities for employee benefits, net	160	-	-	-	160
Total exposure in statement of financial position in respect of financial assets and financial liabilities	4,374,887	466,910	(4,013,721)	(31,678)	796,398

Note 16 - Financial Instruments (cont'd)

E. Market risk (cont'd)

(1) Linkage and foreign currency risks (cont'd)

(a) The exposure to linkage and foreign currency risk (cont'd)

The Company's exposure to foreign currency risk due to derivative financial instruments is as follows:

	December 31, 2016				
	Currency/ linkage receivable	Currency/ linkage payable	Principal amount in $ millions	Dates of expiration	Fair value NIS thousands
Instruments used for hedging:					
Forward foreign currency contracts	US dollars	NIS	-	-	-

	December 31, 2015				
	Currency/ linkage receivable	Currency/ linkage payable	Principal amount in $ millions	Dates of expiration	Fair value NIS thousands
Instruments used for hedging:				Jan. 29, 2016 up to	
Forward foreign currency contracts	US dollars	NIS	20	March 31, 2016	646

(b) Sensitivity analysis

A change as at December 31 in the exchange rates of the following currencies against the NIS, as indicated below, and a change in the CPI would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis is based on foreign currency exchange rate and CPI variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

Note 16 - Financial Instruments (cont'd)

E. Market risk (cont'd)

(1) Linkage and foreign currency risks (cont'd)

(b) Sensitivity analysis (cont'd)

	December 31, 2016		December 31, 2015	
	Increase	Decrease	Increase	Decrease
	Profit or loss	Profit or loss	Profit or loss	Profit or loss
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Change in the exchange rate of:				
5% in the US dollar (1)	**4,417**	**(4,417)**	2,270	(2,107)
10% in the U.S. dollar (1)	**8,834**	**(8,834)**	4,458	(4,295)
1% change in CPI (2)	**(37,969)**	**37,969**	(39,842)	39,842
2% change in CPI (2)	**(75,937)**	**75,937**	(79,685)	79,685

(1) The sensitivity derives mainly from balances of cash, restricted deposits, derivatives and balances of trade and other payables in foreign currency. Up to the date of the commercial operation of the power station, revaluation of the balances of the trade and other payables denominated in foreign currency and the balance of cash were capitalized to the construction cost of the power station.

(2) The effect of the change on equity is the same as in profit or loss.

(2) Interest rate risk

As of December 31 2015, the Company was exposed to changes in fair value, as a result of changes in the interest curve, from its financial derivatives measured at fair value. The debt instruments of the Company bear fixed interest rate. The Company did not present a sensitivity analysis as a result of changes in the interest curve, as it is immaterial. As of December 31 2016, the Company is not exposed to changes in fair value since it not having financial derivatives measured at fair value.

Note 16 - Financial Instruments (cont'd)

F. Fair value

(1) Fair values versus carrying amounts

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, other accounts receivable, pledged deposits, derivative financial instruments, trade payables, long term loans from related parties and other accounts payable are the same or proximate to their fair value.

The fair values of the financial liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	December 31			
	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Long-term loans from banks (*)	**3,565,221**	**3,798,313**	3,487,462	4,234,799

(*) Including current maturities.

(2) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date (level 2 on fair value hierarchy) plus an adequate credit spread, and were as follows:

	December 31	
	2016	2015
	%	%
Long-term loans from banks	**4.6%**	3.9%

(3) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical instruments
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: inputs that are not based on observable market data (unobservable inputs).

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Derivatives used for hedging:				
Forward foreign currency contracts	-	-	-	-

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Derivatives used for hedging:				
Forward foreign currency contracts	-	**646**	-	**646**

Note 17 - Related and Interested Parties

A. Transactions with related and interested parties

Details of transactions with related and interested parties are presented below (all the transactions are at market terms):

		Year ended December 31			December 31	
		2016	**2015**	**2014**	**2016**	**2015**
Related party/Interested party	**Nature of transaction**	**Transactions amounts**			**Outstanding balance**	
Parties having significant influence	On February 2015, the Company entered into an agreement with Ezom to completion of works related to the constructions of the station.	**-**	* 58,272	-	**4,140**	12,405
Parties having significant influence	The Company entered into an agreement with EAPSS regarding operation and maintenance of the power plant including the purchasing of spare parts as from November 2012. The payments will be made on a monthly basis throughout the period of the agreement. See Note 12A(4)) regarding a subcontracting agreement between EAPSS and Ezom Ltd.	**128,147**	126,205	87,956	**32,680**	27,918
Parties having significant influence	The Company entered into an agreement with Eilat Ashkelon Pipelene Company Ltd. (EAPC) regarding petrol storage services as of July 2013. The payments will be paid on a quarterly basis (see Note 12A(6)).	**3,596**	3,619	3,654	**-**	-
Parties having significant influence	The Company entered into a lease agreement of the land for the power plant (see Note 12A(2)).	**3,892**	3,928	5,035	**-**	-
Parties having significant influence	On March 2015, the Company entered into an agreement with EAPC for renting an operational areas near to the power station	**151**	251	-	**-**	-

* The amount recognized in 2014 as fixed assets against accrued expenses

Note 17 - Related and Interested Parties (cont'd)

A. Transactions with related and interested parties (cont'd)

Details of transactions with related and interested parties are presented below (all the transactions are at market terms): (cont'd)

		Year ended December 31			December 31	
		2016	2015	2014	2016	2015
Related party/Interested party	Nature of transaction	Transactions amounts			Outstanding balance	
Parties having significant influence	The Company has several agreements with related companies for the sale of electricity.	**27,252**	44,401	33,891	**2,035**	5,080
Related Party	The Company engage with Ramat Negev Energy for purchase electricity.	**86**	-	-	**-**	-
Key management personnel	CEO benefits	**2,113**	**5,419	2,769	**720**	1,460

** The amount includes a bonus for the years 2014 and 2015.

B. The liabilities of the Company to related and interested parties

	The terms of the loan				Balance as at December 31	
	Face value	Term of repayment	Interest rate	Linkage base	2016	2015
	NIS thousands		%		NIS thousands	
Loans from related parties (*)	231,638	(*)	10%	CPI	**231,638**	526,259

* Financial expenses for loans from related parties until the date of commercial operation incurred in the loan fund. The loans would be returned in accordance with the Financing Agreements, see also Note 10. For further information regarding commitment of the shareholders to provide financing according to their relative share in the Company's shares - see Note 12(A)(1)(A).

Exhibit 4.24

UNOFFICIAL TRANSLATION FROM HEBREW

THE BINDING VERSION IS THE HEBREW VERSION

Deed of Trust

Dated March 1, 2017

By and between: **Ellomay Capital Ltd.**
52-003986-8
of 9 Rothschild Boulevard, Tel Aviv
(hereinafter: the "**Company**")

Of the first part;

And: **Hermetic Trust (1975) Ltd.**
51-070519-7
of 113 HaYarkon Street, Tel-Aviv
(hereinafter: the "**Trustee**")

Of the second part;

Whereas: the Company's Board of Directors resolved on February 27, 2017 to approve the issuance of the Debentures (as hereinafter defined), the terms of which are as set forth in this Deed of Trust and which shall be offered to the public by the Prospectus (as hereinafter defined);

And whereas: the Trustee is a company limited by shares that was incorporated in Israel in 1975 in accordance with the Companies Ordinance, whose main object is to engage in trusts, and it meets the eligibility requirements established by law, and in particular the requirements of the Securities Law (as hereinafter defined) to serve as a trustee of the debentures which are the subject of this deed;

And whereas: the Trustee declared that there is no hindrance in accordance with the Securities Law or any other law barring it from entering into this Deed of Trust with the Company, including pertaining to conflicts of interests preventing him from engaging with the Company as stated, and that it meets all of the demands and eligibility requirements set forth in the Securities Law to serve as Trustee for the issuance of the Debentures;

And whereas: the Trustee has no material interest in the Company, and the Company has no personal interest in the Trustee, which exceeds from the Trustee being the trustee of additional Company debentures;

And whereas: the Company has made a request to the Trustee that subject to the issuance of the debentures (Series B), he shall serve as Trustee for the holders of the Debentures (Series B) and the Trustee has agreed, all subject to and in accordance with the terms of this Deed of Trust;

And whereas: the Trustee has agreed to sign this Deed of Trust and to act as Trustee for the holders of Debentures;

And whereas: the Company declares that as of the date of signing this Deed of Trust, all approvals required for the purpose of performing the issuance have been obtained, and there is no hindrance by law and/or agreement to perform the issuance of the Debentures (Series B) and/or to engage with the Trustee in accordance with the Deed of Trust;

And whereas: the parties wish to arrange the terms of the Debentures (Series B) in this Deed of Trust, in light of the Company's intention to make a first public offering of the Debentures (Series B) in accordance with the Prospectus, as shall be set forth in the Prospectus and the complementary notice, which the Company shall publish, in a way that the Deed of Trust will apply to the Debentures (Series B) alone;

Therefore it was agreed, declared and stipulated by and between the parties as follows:

1. Preamble; Interpretation; Definitions and Entry into Force

1.1. The preamble of this Deed of Trust and the appendixes attached to it constitute a material and inseparable part hereof.

1.2. The division of this Deed of Trust into clauses and providing titles to the clauses was made for convenience and as reference only and they should not be used for the purpose of interpretation.

1.3. Anything mentioned in this Deed of Trust in plural shall also refer to singular and vice versa, anything mentioned in the masculine shall also refer to the feminine and vice versa, and anything mentioned regarding a person shall also refer to a body corporate, provided that this Deed does not contain any provision otherwise, whether express and/or implied and/or if the contents of the matter or its context do not require otherwise.

1.4. In any case of contradiction between this Deed of Trust and the accompanying documents and the stated in the Prospectus, the parties shall act in accordance with the provisions of this Deed of Trust, subject to the regulations and instructions of the Stock Exchange.

1.5. In this Deed of Trust the following expressions shall have the meaning set beside them:

1.5.1 "**Debentures (Series B)**" or the "**Debentures**" or "**Debentures in Circulation**" or "**Certificates of Undertaking**" or "**the Debentures Series**" or "**Series B**": Debentures (Series B) of the Company, registered, which will be issued according to the Prospectus and/or by any other means by the Company, including via private issuance, from time to time, and that have not been fully paid or expired or cancelled.

1.5.2 Deleted.

1.5.3 "**Meeting**" or "**Debenture Holders Meeting**": a meeting of Debenture Holders, including a class meeting.

1.5.4 "**Deferred Debenture Holders Meeting**": a Debenture Holders Meeting that was deferred to another time than the one scheduled for opening the Meeting, as a legal quorum was not present at the end of half an hour after the time that was scheduled for the beginning of the Meeting.

1.5.5 "**Stock Exchange**": the Tel-Aviv Stock Exchange Ltd.

1.5.6 "**Collaterals**": Any pledge on assets, guarantee or any other undertakings that secure the undertakings of the Company towards the Trustee and/or the Debenture Holders whether given by the Company and/or any third party.

1.5.7 "**Immediate Report**": A report of the Company that is submitted in accordance with the provisions of the Securities Regulations (Periodical Reports and Immediate Reports of a Foreign Corporation), 5761-2001.

1.5.8 The "**Law**" or the "**Securities Law**": The Securities Law, 5728-1968 and the regulations according to it, as they shall be from time to time. It is clarified that as of the date of this Deed of Trust the Company reports according and is subject to the provisions of Chapter E.3 of the Law.

1.5.9 "**Regular Resolution**": a resolution adopted at a meeting of holders of debentures of the relevant series, convened in accordance with Sections 35L13 and 35L14(a) of the Law (whether in the original meeting or the adjourned meeting) by a majority of at least fifty percent (50%) of all votes of participants in the vote, without taking into account abstaining votes.

1.5.10 "**Special Resolution**": a resolution adopted at a meeting of holders of the Debentures, in which were present, by themselves of by proxies, the holders of Debentures who own at least fifty percent (50%) of the remaining nominal value of the Debentures (Series B) in Circulation, or at an adjourned meeting of such a meeting, who were present in it by themselves or by proxies, and who hold twenty percent (20%) at least of the stated remainder, and which was adopted (whether in the original meeting or the adjourned meeting) by a majority of those who hold at least two thirds of the remaining nominal value of the Debentures represented in the vote, apart from abstainers who shall not be counted in the count of votes.

1.5.11 "**Nominee Company**": Mizrahi Tefahot Nominee Company Ltd. or any other nominee company in its place, at the Company's sole discretion, provided that all of the Company's debentures are registered in the name of the same Nominee Company.

1.5.12 "**The Companies Law**": the Companies Law, 5759-1999.

1.5.13 "**Trading Day**": any day on which transactions are performed at the Stock Exchange.

1.5.14 "**Business Day**": Sundays-Thursdays, in which a majority of the banks in Israel are open for performing transactions with the public, except for official holidays and days of rest in Israel.

1.5.15 "**Magna**"- the Electronic Proper Disclosure System of the Israel Securities Authority.

1.5.16 Deleted.

1.5.17 Deleted.

1.5.18 Deleted.

1.5.19 "**Holder**" or "**Debenture Holder**": as this term is defined in the Securities Law.

1.5.20 "**Registry**": Registry of Debenture Holders as mentioned in clause 30 of this Deed.

1.5.21 "**Trustee**": The First Trustee (as hereinafter defined) and/or anyone that shall serve from time to time as Trustee of the Debenture Holders according to this Deed.

1.5.22 "**First Trustee**" Hermetic Trust (1975) Ltd. that shall serve as Trustee up to the date set forth in clause 2.3 hereafter.

1.5.23 "**Office Holder**": as defined in the Companies Law, 5759-1999.

1.5.24 "**Principal**": the total nominal value of the Debentures in Circulation.

1.5.25 "**Control**" as this term is defined in the Law.

1.5.26 "**This Deed**" or "**Deed of Trust**": This Deed of Trust and the amendments thereof, inasmuch as there shall be any, including the addendums and appendixes attached to it and that constitute a material and integral part hereof.

1.5.27 "**Debenture Certificate**": The Debenture certificate the version of which is attached as the first addendum of this Deed of Trust.

1.5.28 "**Prospectus**": the prospectus of the Company that shall be published in February 2017 for issuing the Debentures and any later Prospectus according to which additional Debentures (from Series B) shall be issued.

2. Issuing the Debentures; the Terms of Issuance; Equal Ranking

2.1. The Company shall issue a series of Debentures (Series B) under the terms written on the other side of the page of the first addendum. If after the date of the first issuance of the Debentures (Series B) this same series of Debentures shall be expanded by the Company, the Holders of the Debenture (Series B) that shall be issued in the framework of the expansion of that series shall not be entitled to receive payment on account of the Principal and/or interest for these Debentures that the record date for payment thereof shall be before the date of their issuance as mentioned.

2.2. The Company shall be entitled or required, as the case may be, to perform an early redemption of the Debentures in the event the terms set forth in clause 8 of the Deed of Trust have been fulfilled.

2.3. The Debentures shall all be set at an equal security ranking pari passu between them with respect with the Company's undertakings according to this Deed of Trust, and without a preferred right or right of priority over one another.

2.4. The provisions of this Deed shall apply to the Debentures issued in accordance therewith, and which shall be held, from time to time, to each purchaser of Debentures, including the public, unless stated otherwise.

2.5. This Deed of Trust shall enter into effect upon the Company's issuance of the Debentures. It is agreed that in case the issuance of Debentures is revoked for any reason whatsoever, this Deed of Trust shall be null and void.

3. Appointment of the Trustee; Commencement of Term; Term of Office of the Trustee; Expiration of the Office of the Trustee; Resignation; Dismissal; the Duties of the Trustee; the Powers of the Trustee

Appointment of Trustee

3.1. The Company hereby appoints the Trustee as the First Trustee for the Debenture Holders (Series B) pursuant to the provisions of Chapter E.1 of the Securities Law including for those entitled to payments pursuant to the Debentures that were not paid after the date for their payment arrived.

3.2. If the Trustee shall be replaced by another Trustee, the other Trustee shall be Trustee for the Debenture Holders pursuant to Chapter E.1 of the Securities Law including for those entitled to payments pursuant to the Debentures which were not paid after the date for their payment arrived.

Commencement of Term

3.3. The Trust for the Debenture Holders and the duties of the Trustee according to this Deed of Trust shall come into force upon the issuance of the Debentures pursuant to the Deed by the Company.

Term of Office of the Trustee; Expiration of Term of Office of the Trustee, Resignation; Dismissal

3.4. The First Trustee shall serve commencing on the date mentioned in clause 3.3 above and his office shall end at the time on which the Debenture Holders Meeting is convened (the "**First Appointment Meeting**"), that the Trustee shall convene no later than 14 days after submitting the annual report regarding Trusteeship matters in accordance with Section 35H1(a) of the Law. Insofar as the First Appointment Meeting (by ordinary majority) approved the continuation of the term of office of the First Trustee, it shall continue to serve as Trustee until the end of the additional appointment period that was determined in a resolution of the First Appointment Meeting (which could be until the final repayment date of the Debentures). Insofar as the First Appointment Meeting and/or any later Meeting determined the term of office of the Trustee, its term of office shall end with the adoption of a resolution of the Debenture Holders regarding the termination of his term of office and the appointment of another Trustee in his place.

3.5. Notwithstanding everything stipulated in clause 3, the provisions of the Law shall apply to the appointment of the Trustee, his replacement, term of office, expiration, resignation and dismissal.

The Trustee's Duties

3.6. In addition to the provisions of the Law and without derogating from them, the duties of the Trustee shall be those mentioned in **Appendix 3** of this Deed of Trust, and according to the law.

3.7. The Trustee entering into this Deed of Trust is as an agent on behalf of the Debenture Holders.

The Trustee's Powers

3.8. The Trustee shall represent the Holders of the certificates of undertaking in any matter that arises from the undertakings of the issuer towards them, and it shall be entitled for this purpose to act in order to realize the rights given to the Debenture Holders according to the Law or according to this Deed. The Trustee is entitled to take any proceeding for the purpose of protecting the Holders' rights in accordance with any law and the provisions set forth in this Deed of Trust.

3.9. The actions of the Trustee are valid notwithstanding a flaw discovered in its appointment or qualifications.

3.10. The Trustee shall use the trust, powers, permissions and authorities that were conferred upon him according to this Deed of Trust, at its discretion or in accordance with the resolutions of a Meeting.

3.11. The Trustee shall be entitled to deposit all of the deeds and the documents that indicate, represent and/or stipulate its rights with respect to the trust pertaining to this Deed of Trust, including with respect to any asset that is in its possession at that time, in a safe and/or in another place that shall be chosen and/or at any bank and/or any banking auxiliary corporation and/or lawyer and/or accountant.

3.12. The Trustee is permitted in the framework of performing the Trusteeship matters according to this Deed of Trust, to order an opinion and/or the advice of any lawyer, accountant, appraiser, assessor, surveyor, broker or any other expert (the **"Consultants**"), whether such opinion and/or advice was prepared at the Trustee's request and/or at the Company's request, and to act in accordance with its conclusion, and the Trustee shall not be responsible for any loss or damage that shall occur as a result of any action and/or omission that were made by it based on such advice or opinion as aforesaid, unless it was determined in a final judgment that the Trustee acted negligently (apart from negligence which is exempt by law a shall be from time to time) and/or in bad faith and/or maliciously. Inasmuch as it shall be possible, the Trustee shall provide a copy of the opinion or advice as mentioned for the viewing of Debenture Holders and the Company, at their request. The Company shall bear the full fee and reasonable expenses of hiring the Consultants appointed as stated. The Trustee and the Company shall reach an agreement over a list of no more than three consulting firms with relevant reputation and expertise, which the Trustee shall approach for receiving fee quotes as stated. The Company shall select one of the offers submitted, and shall be entitled to negotiate with the firms regarding their quote for a period of up to 10 business days, provided that in urgent cases the delay due to the negotiation shall not risk, at the Trustee's opinion, the rights of the Holders of Debentures.

Any advice and/or opinion such as this can be given, sent or received by letter, telex, facsimile and/or any other electronic means for transferring information and the Trustee may act based on them, even if it turns out afterwards that errors occurred in them or that they were not authentic, unless it was possible to detect the errors or the lack of authenticity in a reasonable examination, provided that it has not acted negligently (apart from negligent exempt by law, as it shall be from time to time) and/or in bad faith and/or maliciously. It is clarified that the documents could be transferred, on the one hand, and that the Trustee is entitled to rely upon them, on the other hand, only where they are received clearly, and when they are legible. In any other case, the Trustee shall be responsible to request their receipt in a manner enabling their proper reading and understanding as stated.

3.13. The Trustee shall be entitled to give its consent or approval to any motion to the court as per the demand of a Debenture Holder, and the Company shall compensate the Trustee for all reasonable costs that were incurred by such motion and from actions performed as a result of it or with respect to it provided that before making such expense as abovementioned the Trustee will update the Company regarding its intention to make such expenses and will receive the Company's approval for this, unless in the opinion of the Trustee such prior update as aforementioned could harm the rights of the Debenture Holders.

3.14. The Trustee is entitled to institute any proceeding for protecting the rights of the Debenture Holders as set forth in clause 10 of the Deed.

3.15. The Trustee is entitled to appoint agents as set forth in clause 25 of this Deed. The representing body of the Debenture Holders, insofar as will be appointed, is an agent of the Trustee from the time of its appointment.

4. <u>Purchasing Debentures by the Company or by an Affiliated Holder</u>

4.1. Subject to any law, and without derogating from the Company's right to redeem the Debentures by early redemption as set forth in this Deed, the Company reserves the right to purchase at any time, whether on the Stock Exchange or outside of the Sock Exchange, Debentures which shall be in circulation from time to time from other sellers apart from the Company (which shall be selected at its discretion and without the duty of approaching and/or notifying all Holders), at any price and quantity that it shall see fit, all without harming the duty of repayment imposed on it pertaining to the remaining Debentures (Series B) in circulation. In the event of such purchase by the Company, the Company shall notify this in an Immediate Report, inasmuch as it is required by law.

Debentures purchased by the Company shall be revoked and delisted from trade on the Stock Exchange, and the Company shall not be entitled to re-issue them. In case the Debentures are purchased in the framework of Stock Exchange trade, the Company shall approach the Stock Exchange clearing house in a request to withdraw the Debenture Certificates purchased by it as stated.

4.2. Subject to any law, the holders of controlling interests in the Company (directly or indirectly) and/or their relative (spouse, sibling, parent, grandparent, offspring or spouse's offspring, or the spouse of any of them) and/or a subsidiary of the Company and/or an affiliated company of the Company and/or an included company of the Company and/or a corporation in the control of any of them (directly or indirectly) (apart from the Company itself, regarding which the stated in clause 4.1 of the Deed shall apply) ("**Affiliated Holder**"), shall be entitled to purchase and/or sell at any time and from time to time, at the Stock Exchange or outside of it (including by way of an issuance by the Company), Debentures (Series B) at their discretion (subject to any law). The Debentures that are held by an Affiliated Holder shall be considered as the asset of the Affiliated Holder, shall not be delisted from trade on the Stock Exchange and they shall be transferable as the other Debentures of the Company (subject to the provisions of the Deed of Trust and the Debenture).

4.3. The Debentures (Series B) held by an Affiliated Holder shall not grant him voting rights in the Meetings of Holders of Debentures (Series B) and shall not be counted for the purpose of determining a legal quorum for opening these Meetings. Inasmuch as an Affiliated Holder shall report to the Company regarding the purchase of Debentures (Series B), the Company shall deliver to the Trustee, at its request, the list of Affiliated Holders and the amounts held by them.

4.4. The stated in clauses 4.1 to 4.3 above does not derogate from the provisions of any law (including the instructions of the Israeli Securities Authority) applying to the Company, including pertaining to approvals required for performing transactions with a holder of controlling interest (or in which the holder of controlling interest has a personal interest) and/or pertaining to the sale of securities to a Company subsidiary and distributing them to the public.

4.5. The stated in this clause 4, in and of itself, does not bind the Company or the Debenture Holders to purchase Debentures or to sell the Debentures they hold.

5. Issuance of Debentures from New Series; Expanding a Series

5.1. The Company reserves the right to issue, subject to the provisions of the law, at any time (whether by a private offering or an offering to the public), at its sole discretion, to any factor whatsoever, including to an Affiliated Holder, and without needing the consent of the Trustee and/or the Debenture Holders, debentures of another series or additional series of Debentures (hereinafter: the "**Other Series**") or other securities, under those terms of redemption, interest, linkage, priority of payment in the event of liquidation and other terms, including securing them in collaterals, as the Company shall see fit, and whether they are preferable over the terms of the Debentures, equal to them or inferior to them, and this without derogating from the duty of repayment imposed on it in accordance with this Deed. Despite the foregoing, inasmuch as the Company shall issue an additional series of debentures, and this additional series shall not be secured by collaterals (and so long as it is not secured by collaterals), the rights of the additional series upon liquidation shall not be preferable to those of the Debentures (Series B). The Company shall provide the Trustee with a written confirmation, no later than 7 days prior to the issuance of an additional series as stated, regarding its meeting the conditions set forth in this clause, signed by the Company CEO or the senior financial officer in the Company. Without derogation from the foregoing, the Company's stated rights do not detract from the Trustee's rights to inspect the implications of an issuance as stated, and does not detract from the rights of the Trustee and/or Debenture Holders in accordance with this Deed, including their right to make the Debentures (Series B) immediately repayable in accordance with the provisions of the Deed of Trust.

5.2. The Company shall be entitled, from time to time, without the need for obtaining the approval of the Trustee and/or the current Holders at that time, to issue additional Debentures (Series B) (whether by private offering, whether in the framework of a prospectus, whether by shelf offering report or any other way), including to an Affiliated Holder (as the term is defined in clause 4.2 of the Deed), for any price and at any manner as it shall see fit, provided that it notifies the Trustee in this regard. The Company shall approach the Stock Exchange in a request to register the additional Debentures (Series B) for trade as stated.

Despite the stated in this clause 5.2 above, the Company shall not be entitled to issue, whether by issuance to the public according to a prospectus, and whether in any other manner, additional Debentures of Series B, unless all of the terms set forth in **Appendix 5.2** of this Deed have been fulfilled or after receiving the approval of the Debenture Holders Meeting.

For the avoidance of doubt it shall be clarified, that all of the provisions of the Deed of Trust that apply to the Debentures in Circulation shall apply to additional Debentures of Series B that shall be issued, as mentioned, and the existing Debentures of Series B and the additional Debentures of that series (as of the time of their issuance) shall constitute a single series for all matters and purposes, and the Deed of Trust shall also apply to all additional Debentures (Series B) as stated. For the avoidance of doubt, holders of additional Debentures of Series B, which shall be issued in a series expansion as mentioned, shall not be entitled to payment of any principal and/or interest and/or any other payment that the record date for payment is prior to their date of their issuance. (It is clarified, in this respect, that in the event that additional Debentures of Series B shall be issued, after any time that entitlement has been stipulated in this Deed to the payment of interest, the interest for them shall be paid at the next payment date of interest, after the date of their issue, for the period from the date of their issue, at a relative rate from the payment of interest paid for the Debentures at that time, that is equal to the ratio between the period that passed from the time of their issue and between the original period for which the interest is paid at that time). Subject to the provisions of any law and the Deed of Trust, the Trustee shall hold office as trustee for the Debentures (Series B), as they shall be from time to time in circulation, even in case of a series expansion, and the Trustee's consent for his office as stated pertaining to the expanded series shall not be required.

The Company's right to expand a series, as stated above, does not detract from the Trustee's right to inspect the implications of an issuance as stated, and does not detract from the rights of the Trustee and/or the Debenture Holders in accordance with this Deed, including their right to make the Debentures (Series B) immediately repayable in accordance with the provisions of the Deed of Trust.

5.3. Without derogating from the foregoing, the Company reserves the right to issue additional Debentures of Series B, by way of series expansion at a different discount rate from that of the Debentures (Series B) which shall be in circulation at that time (inasmuch as there shall be any). If the discount rate which shall be determined for the Debentures (Series B) due to the series expansion shall be different from the discount rate of the Debentures (Series B) in Circulation at that time (inasmuch as there shall be any), the Company shall approach the tax authority, prior to expanding the series, in order to obtain its approval that with regards to withholding tax from the discount fees for the Debentures, the Debentures shall be set a uniform discount rate in accordance with a formula weighting the various discount rates in the Debentures (Series B), inasmuch as there shall be any. In the event of receiving an approval as stated, the Company shall calculate the weighted discount rate for all the Debentures from the series after expanding the series, it shall publish in an Immediate Report the uniform weighted discount rate for the entire series of Debentures and the members of the Stock Exchange shall deduct tax at the payment dates of the Debentures according to the weighted discount rate as mentioned an in accordance with the provisions of the law. If an approval of the tax authorities regarding such discount rates shall not be received, the Company shall notify in an Immediate Report, prior to issuing the Debentures as a result of expanding the series, of not receiving the approval as stated and that the uniform discount rate will be the highest discount rate that was created for the series. The members of the Stock Exchange shall deduct withholding tax at the time of repayment of the Debentures in Circulation, in accordance with the discount rate that shall be reported as aforementioned. Therefore, there may be cases where the Company shall deduct withholding tax for discount fees, at a higher rate than the discount fees determined to whoever held Debentures before the series was expanded. In this case, it is the responsibility of the Debenture Holder (and the Debenture Holder only) who held the Debentures before the series was expanded and until their repayment and who is entitled, in light of their payment, to a refund of withholding tax, for the over-discount, to submit a report to the tax authority on this matter insofar as he shall wish to receive a tax refund as stated and inasmuch as he is entitled to a tax refund by law.

5.4. The Company shall notify in an Immediate Report regarding the issuance of debentures as mentioned in this clause above.

6. <u>The Company's Undertakings</u>

The Company hereby undertakes towards the Trustee and the Debenture Holders, for as long as the Debentures were not fully paid (including the linkage differentials on them, inasmuch as they shall apply), and for as long as all the undertakings towards the Debenture Holders and the Trustee were not fulfilled according to this Deed, as follows:

6.1. To pay, at the times scheduled for this purpose, the sums of the Principal, the interest (including interest in arrears, if and inasmuch as it shall apply, and additional interest for change of ranking and/or for breaching a financial standard, inasmuch as they shall apply) and the linkage differentials, insofar as these shall apply, which shall be paid according to the terms of the Debentures, and to fulfill all the other terms and undertakings that are imposed on it according to the terms of the Debentures and according to this Deed of Trust. In any case where the date of payment on account of a principal and/or interest shall be on a day which is not a Business Day, the payment date shall be deferred to the next Business Day, without any additional payment, interest or linkage.

6.2. To fulfill all of the financial standards and undertakings set forth in **<u>Appendix 6.2</u>** to this Deed including with respect to the limitation regarding the distribution of dividends and regarding the rating of the Company.

6.3. To persist and manage the business of the Company and companies in its control in a regular and proper manner.

6.4. To notify the Trustee as soon as reasonably possible, and no later than 2 Business Days regarding the occurrence of any of the events set forth in clause 9.1 of the Deed, including its sub-clauses, or regarding a real knowledge of the Company that an event as stated is about to take place, without taking into account the cure periods set forth in clause 9.1 of the Deed, inasmuch as any exist in the stated clauses.

6.5. To deliver to the Trustee as soon as reasonably possible and no later than the end of 30 days from the day of the first issuance of the Debentures (Series B) or from the time of performing a series expansion in any way, an amortization schedule for paying the Debentures (Principal and interest) in an Excel file.

6.6. To notify the Trustee in a written notice signed by the senior financial officer in the Company, within 4 Business Days from the date of payment, of any payment to the Debenture Holders and of the balance of the sums that the Company owes at that time to the Debenture Holders after making the aforementioned payment.

6.7. To deliver to the Trustee annual financial statements or quarterly financial results, as the case may be, and in accordance with the requirements of the Israeli law that apply to the Company from it being a dual listed Company, at the time of their publication and in any event no later than from the time scheduled for this in the Israeli law applying to a dual listed company to publish them (even in the event that the Company shall stop being a public or reporting Company, then it shall report in accordance with the provisions of the Law that apply to the Company at the time of signing this Deed of Trust). Notwithstanding the foregoing, it is clarified that the quarterly financial results shall be published by the end of the following quarter in a framework which shall be no less that the framework of the Press Release in which the Company has published its financial results for the second quarter of 2016.

6.8. Deleted.

6.9. To deliver to the Trustee in writing, notices regarding the purchase of Debentures by the Company or an Affiliated Holder, immediately upon the Company becoming informed of this.

6.10. On December 31st of each year, and for as long as this Deed is in effect, the Company shall furnish to the Trustee a confirmation of the Company signed by the Company CEO or the senior financial officer in the Company, that in the period starting from the date of the Deed and/or from the date of the prior confirmation that was given to the Trustee, whichever is later, and until the date of the confirmation, the Company has not breached this Deed, including a breach of the terms of the Debenture, unless expressly mentioned otherwise.

6.11. To deliver to the Trustee copies of the notices and invitations which the Company shall give to the Debenture Holders, as mentioned in clause 27 hereinafter.

6.12. To cause that a senior financial officer in the Company shall give, no later than fourteen (14) Business Days from the time of the Trustee's request, to the Trustee and/or to the people who the Trustee shall order, any explanation, document, calculation or information regarding the Company, its business and/or assets that shall be required in a reasonable manner, at the Trustee's discretion, for fulfilling the Trustee's duties and for protecting the rights of the Debenture Holders.

6.13. To manage regular accounting books in accordance with generally acceptable accounting principles. To keep the books and documents that serve as reference to them (including deeds of pledge and mortgage, bills and receipts) as required by law, and to enable the Trustee and/or any authorized representative of the Trustee to view, at a time pre-coordinated with the Company, within ten (10) Business Days, any book as stated and/or document as stated, which the Trustee shall request to view. For this matter, an authorized representative of the Trustee is any person appointed by the Trustee for the purpose of viewing as stated, in a written notice by the Trustee which shall be given to the Company prior to viewing as stated, subject to an undertaking of confidentiality in accordance with the provisions of clause 19 of the Deed.

6.14. To inform the Trustee, immediately upon becoming informed, and no later than 2 Business Days after being informed, of any event set forth in clauses 9.1.5, 9.1.6, 9.1.7, 9.1.10 and 9.1.11, and to take, at its expense, all reasonable means required for the purpose of removing foreclosures or revoking the receivership, the liquidation or the management, as the case may be.

6.15. To summon the Trustee to all of its general meetings (whether to annual general meetings or extraordinary general meetings) of the Company shareholders, without granting the Trustee the right to vote in these meetings.

6.16. To deliver to the Trustee on the 15th of each January starting from 2018, a written approval signed by the senior financial officer, that all of the payments to the Debenture Holders were fully paid on time, and the balance of the par value of the Debentures in Circulation. In addition, at that time, inasmuch as the Debentures shall be secured by collaterals, the Company shall provide the Trustee with an approval and/or opinion which the Trustee shall reasonably require in connection with the provisions of Section 35H(b)(2) of the Law.

6.17. In addition to the statements or notices which the Company is required to give according to Section 35J(a) of the Law, to give the Trustee or to its authorized representative (a notice regarding his appointment shall be given by the Trustee to the Company upon his appointment), no later than fourteen (14) Business Days from the time of the Trustee's request, additional information regarding the Company (including explanations, documents and calculations pertaining to the Company, its business or assets, and information which the Trustee, at its reasonable discretion, is required for the purpose of protecting the rights of the Debenture Holders, and to instruct its accountant and legal advisors to do so, as per the Trustee's reasonable request, inasmuch as at the Trustee's reasonable opinion the information is required for the purpose of applying and exercising the authorities, powers and authorizations of the Trustee and his proxies in accordance with this Deed, and subject to an undertaking of confidentiality as stated in this Deed. Based on the Trustee's request, the Company shall notify it in writing whether the given information is considered as inside information, as this term is defined in the Securities Law.

6.18. To perform all of the actions required and/or reasonably needed and in accordance with the provisions of this Deed and any law for validating the exercise of powers, authorities and authorizations of the Trustee and/or of its proxies in accordance with the provisions of this Deed of Trust.

6.19. To list the Debentures for trade in the Stock Exchange and to act so that the Debentures shall continue to be listed for trade on the Stock Exchange until the date of their final repayment.

6.20. To notify the Trustee in writing regarding any change to its name or address.

6.21. To assist the Trustee in any reasonable manner to fulfill its duties according to law and/or according to this Deed including examining the performance of the Company's undertakings in full and on time, examining actions and/or transactions that the Company performed, insofar as this is reasonably required in order to protect the rights of the Debenture Holders.

6.22. Inasmuch as the Company shall cease being a reporting corporation, as this term is defined in the Securities Law, or a corporation traded at a stock exchange outside of Israel, as set forth in the Second or Third Addition to the Securities Law, the Company shall provide the Trustee with annual, quarterly and immediate reports as set forth in the provisions of the Consolidated Circular of the Ministry of Finance – the Department of Capital Market, Insurance and Savings – Instructions regarding the Investment of Institutional Bodies in Non-Government Debentures, as they shall be from time to time.

Any report or information that shall be published by the Company in the Magna system shall be considered as a report or information or summons, as the case may be, which was given to the Trustee in accordance with the provisions of this clause. Notwithstanding the aforesaid, at the request of the Trustee, the Company shall transfer a printed copy of the report or information as mentioned.

It shall be clarified, that the confidentiality provisions in clause 19 hereinafter shall also apply to information given to the Trustee and/or his authorized representative and/or his agents, in accordance with the provisions of this clause 6.

7. <u>Not Securing the Debentures; Negative Pledge</u>

7.1. The Debentures are not secured by any pledge or any other collateral. The status of the Debenture Holders is the status of unsecured creditors of the Company, with all that this entails.

7.2. Except as set forth in clause 7.4 hereafter, the Company shall be entitled from time to time, to sell, pledge, lease, assign, deliver or transfer in any other manner its assets in whole or in part, in any manner, in favor of any third party, without the need for the Trustee's and/or the Debenture Holders' consent, but subject to the duties of the Company to report with respect to the aforesaid, as these are determined in the Deed of Trust or according to law.

7.3. The Debentures issued under a certain series shall be equal in priority (pari passu) between them, without any right of preference or priority of one over the other.

7.4. Notwithstanding the aforesaid in clause 7.2 above, for as long as the Debentures (Series B) have not yet been fully repaid in any manner, including by way of a self-purchase and/or early redemption, the Company undertakes not to create a floating charge on all of its assets and rights, existing and future, in favor of any third party to secure any debt or undertaking and this is as opposed to a fixed charge or floating charge on a certain asset or a floating charge on a certain number of assets that the Company may create. Notwithstanding the aforesaid, the Company shall be entitled to create a floating charge on all of its assets in favor of a third party, in each one of the following cases:

(1) A receipt in advance of the consent of the Debenture Holders (Series B), which shall be adopted in a special resolution in the Meeting of the Debenture Holders;

(2) The Company shall create, in favor of Holders of Debentures (Series B) together with creating the floating charge on all of its assets in favor of the third party, a floating charge on all of its assets also in favor of the Holders of Debentures (Series B) of the same priority, pari passu, which shall remain in force up to the date of removing the charge which shall be registered in favor of the third party, and this is as long as outstanding Debentures (Series B) shall exist (namely, as long as they were not fully paid or removed in any manner, including by way of a self-purchase and/or early redemption); or

(3) The Company shall make available in favor of the Holders of Debentures (Series B), by the Trustee, an irrevocable autonomous bank guarantee which shall be issued by bank/s or financial institution/s in Israel, rated at no less than AA minus (ilAA-) (in the rating of Standard & Poor's or an equivalent rating) or by global bank/s rated BBB+ and more (in the rating of Standard & Poor's or an equivalent rating), at a total equaling the amount guaranteed by the floating charge created in favor of the third party, or a total constituting the non-paid balance of the debt to Holders of Debentures (Series B), according to the lower of them at the time of creating the pledge.

Despite the foregoing, it is clarified that the Company's undertaking to not create a floating charge shall not apply to any of the following actions and pledges and that the Company has the right, at any time (subject to the restrictions according to any law and/or any other agreement that the Company is party to), to: (a) pledge its assets, including its rights, in whole or in part, by any other pledge except for a floating charge on all of its assets, including, but not limited to, fixed pledges, including the creation of floating charges on specific assets, one or more, of the Company with respect to creating these charges (and bank accounts that can be pledged by a floating charge even without a fixed charge); (b) create a floating charge on all Company assets to guarantee the recycling (or re-recycling) of a loan guaranteed by a floating charge on all Company assets (and which met upon its creation, one or more of the conditions set forth in clauses 7.4(1) to 7.4(3) above), provided that the debt guaranteed by the new pledge as stated shall not exceed the unpaid balance of the debt guaranteed by the original debt; and (c) pledge on assets or rights purchased (or which shall be purchased) in a way that they were pledged prior to their purchase.

It is clarified that all fixed charges and/or floating charges set forth in this clause shall be detracted from the applicability of a floating charge insofar as this shall be imposed according to the provisions of this sub-clause above.

Except for the aforesaid no restrictions shall apply to the Company in imposing all kinds of charges on its assets.

It is clarified that the stated in this sub-clause 7.4 does not limit the Company in selling its assets and/or its businesses (without detracting from the stated in clause 9.1 of this Deed and from the provisions of this Deed). It is further clarified, for the avoidance of doubt, that this clause cannot restrict the companies held by the Company (including subsidiaries and affiliates) from creating any charges, floating or fixed, on their assets, including on all of their assets.

The Company declares that as of the date of signing this Deed, there is no floating charge in favor of a third party on all of the Company's assets. As of the date of signing this Deed there are charges on the assets of the subsidiaries of the Company in the framework of project financing, pledges on deposits in the framework of hedging transactions and additional pledges to Discount Bank as set forth in Note 14 of the Company's financial statements as of December 31, 2015, included in the annual report which the Company filed with the US Securities and Exchange Commission on March 23, 2016.

The Company undertakes that if it shall create a floating charge on all of its assets in accordance with the exceptions set forth above, it shall notify the Trustee on the matter prior to creating the pledge, and shall specify in its notice, the clause due to which the Company is entitled to create a pledge as stated.

7.5. If and insofar as a floating charge shall be given as a security, as mentioned in clause 7.4 above, the following provisions shall apply:

(a) The existence of a cause to declare the Debentures immediately payable and/or the realization of Collaterals is a preliminary condition to realizing a floating charge as mentioned.

(b) The Trustee shall be entitled to enforce a floating charge before immediate repayment has been declared for the Debentures, in accordance with Section 35J1 of the Law or subject to adopting a decision of performing realizations in a resolution that shall be adopted by the Meeting of the Debenture Holders in accordance with the provisions of clause 9.7 of this Deed.

(c) Enforcing the floating charge shall be performed in a manner that is expected according to the Trustee's reasonable assessment to maximize the realization consideration from the floating charge and for this purpose the Trustee shall be entitled, subject to law, to determine the manner of enforcing this floating charge and the time when the floating charge should be enforced (hereinafter: the "**Manner of Enforcing the Collaterals**").

Without derogating from any right that the Trustee has according to any law, the Trustee shall be entitled to receive instructions with respect to the Manner of Enforcing the Collaterals also by a special resolution that shall be adopted in a Meeting of the Debenture Holders, on the agenda of which is the giving of instructions to the Trustee regarding the Manner of Enforcing the Collaterals. The Meeting of the Debenture Holders as mentioned, shall be entitled to authorize a representing body of the Debenture Holders for advising the Trustee regarding the Manner of Enforcing the Collaterals.

Whenever the Company shall create a charge as mentioned in this sub-clause in favor of the Debenture Holders, and this is a charge that requires registration in the Registry of Charges managed at the Registrar of Companies for its perfection, the charge shall be considered as legally registered only after the Company has furnished to the Trustee all the following documents:

(1) A charge document according to which the charge was registered in favor of the Trustee, bearing an original signature by the Company and stamped with an original "received" stamp by the office of the Registrar of Companies, and bearing a date which is not later than twenty one (21) days after the signature date on the charge document;

(2) A notice of details of mortgages and pledges (Form 10) signed with an original "received" stamp from the office of the Registrar of Companies, which bears a date that is not later than twenty one (21) days after creating the notice;

(3) An original pledge registration certificate from the Registrar of Companies;

(4) An extract of the pledges from the Registrar of Companies or any other office or registrar as shall be required by any law, according to which this charge was registered;

(5) An affidavit by the Company CEO or a senior financial officer in the Company that the charge does not contradict or it is not in contradiction to the Company's undertakings to third parties, and that all approvals have been received by the Company pertaining to the creation of the pledge as stated, all according to the wording that shall be acceptable to the Trustee at its reasonable discretion;

(6) An opinion of a lawyer on behalf of the Company, originally signed, inter alia, with respect to the nature of the rights of the pledging party in the pledged asset, the manner of the pledge registration, its validity, its creditor priority, its legality and it being exercisable and enforceable against the pledging party according to the applicable law in Israel, in the wording that shall be acceptable by the Trustee at its reasonable discretion, which shall be given to the Trustee each year according to its demand.

(7) Any additional document required for the purpose of creating and/or registering the pledge by any law, in any relevant Registry.

8. Early Redemption

8.1. **Early Redemption Initiated by the Stock Exchange**

If it is decided by the Stock Exchange to delist the Debentures (Series B) from trade as the value of the series has decreased from the sum that was determined in the Stock Exchange instructions regarding delisting from trade, the Company shall allow early redemption as mentioned of the series due to the delisting from trade of the Debentures as mentioned above, and it shall act as follows:

8.1.1 Within 45 days after the decision of the board of directors of the Stock Exchange regarding delisting as aforementioned, the Company shall notify of an early redemption date in which the Holders of Debentures may redeem them. The notice of early redemption shall be published in an Immediate Report that shall be sent to the securities authority and to the Stock Exchange and in two daily and prevalent newspapers in Israel in the Hebrew language and it shall be given in writing to all the registered Debenture Holders.

8.1.2 The early redemption date shall occur not before 17 days of the date of publishing the notice and no later than 45 days after this date, however not in a period between the record date for the payment of interest and its actual payment.

At the early redemption day the Company shall redeem the Debentures that the Debenture Holders requested to redeem. The redemption consideration shall not be less than the sum of the nominal value of the certificates of undertaking with additional interest that has accumulated until the date of actual payment, as set forth in the terms of the Debentures.

8.1.3 The determination of an early redemption date as mentioned above cannot harm the redemption rights stipulated in the Debentures, of any of the Debenture Holders that shall not redeem them at the early redemption date as mentioned above, however the Debentures shall be delisted from trade on the Stock Exchange and will be subject, inter alia, to the tax implications arising from this.

8.1.4 The early redemption of Debentures as mentioned above shall not confer upon any of the Holders of Debentures that shall be redeemed as mentioned the right to the payment of interest for the period after their redemption.

8.2. **Early Redemption Initiated by the Company**

The Company shall be entitled, at its sole discretion, to perform early redemption, full or partial, of the Debentures (Series B) and this is at its sole discretion commencing on the end of 60 days from the date on which the Debentures (Series B) were listed for trade, and in this case the following provisions shall apply, all subject to the instructions of the Israeli Securities Authority and the provisions of the Stock Exchange regulations and the instructions pursuant thereto, as they shall be at the relevant time:

8.2.1 The frequency of the early redemptions shall not exceed one redemption per quarter. For this matter, "quarter" means each of the following periods: January – March, April – June, July – September, and October- December. The minimal scope of each early redemption shall not be less than 1 million NIS. Notwithstanding the aforesaid, the Company shall be entitled to perform an early redemption at a scope which is less than 1 million NIS provided that the frequency of redemptions shall not exceed one redemption per year.

8.2.2 Any amount paid by early redemption by the Company, shall be paid with regards to all Holders of Debentures, pro-rata according to the nominal value of the held Debentures.

8.2.3 The Company shall deliver to the Trustee, within five (5) Business Days from the day on which a decision was made by the Company's board of directors regarding the performance of early redemption as stated above, an approval signed by the senior financial officer in the Company, attaching a calculation, regarding the amount to be paid by early redemption, as well as the interest accumulated for the stated principal amount until the performance of the early redemption. In addition, upon adoption of the resolution of the board of directors of the Company regarding the performance of an early redemption as mentioned above, the Company shall publish an Immediate Report which shall include, among others, a calculation of the amount to be paid by early redemption, no less than seventeen (17) days and no more than forty five (45) days before the early redemption date, and shall give the Trustee a copy thereof. If an early redemption is scheduled in a quarter in which payment of interest is also scheduled, or payment of partial redemption or payment of final redemption, the early redemption shall be performed at the time that was scheduled for payment as mentioned. The early redemption date shall not apply in a period between the record date for the payment of interest for the Debentures and the date of actual payment of interest. The Company shall publish, in the aforementioned Immediate Report, the sum of the Principal that shall be repaid in the early redemption and the interest that has accumulated for it until the date of the early redemption in accordance with the provisions in clause 8.2.5 hereinafter. Upon making a partial early redemption, the Company shall pay the Holders of Debentures (Series B) the interest accumulated for the part paid by partial redemption, and not for the entire non-paid balance of the Debentures' principal.

8.2.4 Early redemption shall not be made to part of the series of Debentures if the last redemption sum shall be less than 3.2 million NIS.

8.2.5 At the date of a partial early redemption, insofar as shall exist, the Company shall notify in an Immediate Report of: (1) The rate of the partial redemption in terms the unpaid balance; (2) The rate of the partial redemption in terms of the original series; (3) The interest rate in partial redemption of the redeemed part; (4) The interest rate that shall be paid in partial redemption calculated regarding the unpaid balance; (5) Update of the rate of the partial redemptions remaining, in terms of the original series; (6) The record date for entitlement to receive early redemption of the Principal of a Debentures that shall be six (6) days before the date scheduled for early redemption (it is clarified that if the record date for entitlement to receive partial redemption shall occur in a quarter during which there is the payment of current interest, the record date for entitlement to receive partial redemptions shall occur on the record date for receiving the payment of current interest that shall be paid during that quarter).

8.2.6 Prior to making an early redemption as stated in this clause, the Company shall give the Trustee an approval signed by a senior officer in the Company, confirming its meeting (or its failure to meet) the financial standards set forth in Appendix 6.2 of the Deed.

8.2.7 The sum that shall be paid to the Debenture Holders in the event of early redemption shall be the highest sum out of the following: (1) the market value of the balance of the Debentures in Circulation, which shall be determined according to the average close price of the Debentures in the thirty (30) Trading Days prior to the date the resolution of the board of directors was adopted regarding the performance of early redemption; (2) the undertaking value of the Debentures in Circulation that are subject to early redemption, in other words Principal plus interest (including interest in arrears inasmuch as there shall be any), up to the date of the actual early redemption; (3) the balance of cash flow of the Debentures that are subject to early redemption (Principal plus interest and interest in arrears inasmuch as there shall be any) capitalized according to the Government Debentures Yield (as defined below) plus an annual interest rate of 1.5%. Capitalization of the Debentures (Series B) that are subject to early redemption shall be calculated commencing from the early redemption date up to the last redemption date that was determined with respect to the Debentures (Series B) that are subject to early redemption.

For this matter: "Government Debenture Yield" means the average return (gross) for redemption, in a period of seven Business Days, that ends two Business Days prior to the date of notice of early redemption, of three series of governmental debentures with an average duration closest to the average duration of the Debentures (Series B) at the relevant time.

8.2.8 The early redemption of the Debentures as mentioned above shall not confer upon a Holder of Debentures that shall be redeemed as mentioned, the right to receive interest for the period after the redemption date.

9. Immediate Repayment

9.1. **Upon the occurrence of one or more of the causes set forth hereinafter and so long as they are occurring, the Trustee and the Holders of Debentures shall be entitled to put the balance of the amount due to the Holders in accordance with the Debentures for immediate repayment, or to realize collaterals (inasmuch as they shall be given) for guaranteeing the Company's undertakings to the Holders of Debentures, and the provisions of clause 9.2 hereafter shall apply, as the case may be:**

9.1.1 If a material worsening has occurred in the Company's business as compared to its state at the issuance date, and there is a real concern that the Company will not be able to repay the Debentures on time.

9.1.2 If the Company has not repaid by of the payments it owes in accordance with The Debentures or in accordance with this Deed, or another material undertaking provided in favor of the Debenture Holders was not fulfilled, however it shall be possible to declare the Debentures (Series B) immediately repayable due to this, only if the breach was not amended by the end of a period of seven (7) days after the date of breach.

9.1.3 If the Company did not publish a financial statement which it is required to publish according to any law or according to the provisions of this Deed, within 30 days after the last date on which it is obligated publish it. This clause shall not apply in the case where the Company shall receive an extension to submit its financial statements from a qualified authority or in accordance with the provisions of this Deed, in such an event this count of days shall begin to be counted commencing from the last date set forth in the aforementioned extension.

9.1.4 If the Debentures (Series B) have been delisted from trade on the Stock Exchange.

9.1.5 If a motion was filed for receivership or to appoint a receiver (temporary or permanent) on the Company's assets, all or most, or if an order shall be given to appoint a temporary receiver for the Company's assets, all or most of them – which was not dismissed or cancelled within forty five (45) days after they were filed or granted, respectively; or – if an order was given to appoint a permanent receiver on the Company's assets, all or most.

Notwithstanding the aforesaid, the Company shall not be given any cure period with respect to the motions or orders that were filed or granted, respectively, by the Company or with its consent.

For this matter, "most of the Company assets" – as this term is defined hereinafter.

9.1.6 (a) If the Company shall file a motion to issue a stay of proceedings or if the Company shall file a motion for settlement or arrangement with its creditors in accordance with Section 350 of the Companies Law (except for the purpose of a merger with another Company as stated in clause 9.1.20 of the Deed and/or a change in the Company's structure or split that is not prohibited according to the terms of this Deed, and except for arrangements between the Company and its shareholders that are not prohibited according to the terms of this Deed, and which do not affect the Company's ability to repay the Debentures) or if the Company shall propose in another manner a settlement or arrangement to its creditors, in light of the Company's lack of ability to meet its undertakings on time; or (b) – if a motion shall be submitted according to Section 350 of the Companies Law against the Company (not with its consent) which was not dismissed or cancelled within forty five (45) days after it was submitted. Despite the foregoing, the Company shall not be granted any cure period whatsoever pertaining to requests or orders submitted or given, as the case may be, by the Company or with its consent, or in case an order for stay of proceedings is issued against the Company.

9.1.7 If a foreclosure shall be imposed on a Material Asset (except for assets that the finance received for them is project financing and the foreclosure imposed on them was imposed by the financing body or by anyone on its behalf), or if any action shall be performed of execution against any such Material Asset; and the foreclosure was not removed, or the action was not cancelled, respectively, within 45 days after they were imposed or performed, respectively.

Notwithstanding the aforesaid, the Company shall not be given any cure period with respect to motions filed or given, respectively, by the Company or with its consent.

9.1.8 If the Company shall cease to continue to operate and/or manage its business, as these are at the time of this Deed of Trust, and/or it shall notify of its intent to cease from continuing to operate its business as it is at the time of this Deed of Trust, and/or to manage its business. It is clarified that as long as the majority of the Company's business is in the field of energy and infrastructure, the Company shall be considered as continuing to manage its business.

9.1.9 If the rating of the Debentures (Series B) has decreased below ilBBB minus (or an equivalent rating by another rating company, insofar as it shall come in place of the company that rates the Debentures (Series B) at the signature date of this Deed of Trust.

9.1.10 If the Company shall adopt a decision to liquidate (except for liquidation as a result of a change of structure or merger with another company as mentioned in clause 9.2.19 of this Deed) or if a final permanent liquidation order shall be given with respect to the Company by court or a permanent liquidator shall be appointed to it.

9.1.11 If a temporary liquidation order shall be given by the court, or a temporary liquidator shall be appointed for the Company, or if any judicial decision of a similar nature shall be granted, and the appointment, the order or the decision as mentioned were not dismissed or cancelled within forty five (45) days after the day on which they were given or from the date the decision was granted, respectively.

Notwithstanding the aforesaid, the Company shall not be given any cure period with respect to motions or orders that were filed or given, respectively, by the Company or with its consent.

9.1.12 If the Company ceased or notified of its intention to cease conducting its business as this shall be from time to time, and if the Company stopped or notified of its intention to stop its payments.

9.1.13 If the Company is requested to pay by immediate repayment (not in its initiative) a Material Debt of the Company, provided that a request as stated is not revoked within 14 Business Days from the day on which the Material Debt was declared immediately payable, or another series of debentures issued by the Company.

9.1.14 The Debentures have ceased to be rated and this is for a period exceeding 60 consecutive days, due to reasons and/or circumstances that are in the Company's control.

9.1.15 Not fulfilling one or more of the financial standards in Appendix 6.2 of this Deed of Trust at the end of the Examination Period (as defined in Appendix 6.2 of the Deed of Trust), provided that the Company was not given an extension to cure as mentioned in clause 28 of the Deed of Trust or in clause 18.1.1 of the Deed of Trust (in this clause: the "Cure Period") or, a waiver was not given to the Company for the breach as mentioned in clause 28 of the Deed of Trust.

9.1.16 If the Company shall perform a distribution (as it is defined in the Companies Law), which does not meet any of the provisions pertaining to a distribution as stated in Appendix 6.2 of the Deed.

9.1.17 There is a real concern that the Company shall not meet its material undertakings towards the Debenture Holders.

9.1.18 If the Company shall breach the terms of the Debentures or the Deed of Trust by a fundamental breach or if it will not perform any of its material undertakings within their framework, and the breach was not cured within 14 days after receiving a notice regarding the breach, during which the Company shall act to cure it or if a material representation of the representations of the Company in the Debentures or in the Deed of Trust is discovered to be incorrect and/or not complete, and in the event that this is a breach that can be cured – the breach was not cured within 14 days after receiving a notice regarding the breach, during which the Company shall act to cure it.

9.1.19 If the Company is liquidated or deregistered, for any reason whatsoever, including a deregistration or liquidation for the purpose of merger or in the framework of a share replacement transaction, apart from a merger where the surviving company has taken upon itself all of the Company's undertakings towards the Holders of Debentures (Series B) as stated in clause 9.1.20 of the Deed.

9.1.20 If a Merger was performed without receiving a prior approval of the Holders of the Debentures (Series B) by regular resolution, unless the surviving company declared, towards the Holders of the Debenture (Series B), including via the Trustee, at least ten (10) Business Days before the merger date that the surviving company has taken upon itself all of the undertakings towards Holders of Debentures and that there is no reasonable concern that as a result of such merger the surviving company would not be able to fulfill its undertakings towards the Holders of the Debentures (Series B).

9.1.21 If the Company breached its undertaking not to create floating charges as set forth in clause 7.4 of this Deed.

9.1.22 If a sale was made of most of the Company's assets. If a sale was made of most of the Company's assets as set forth in this clause, the Company shall submit an Immediate Report of this.

For this matter, "most of the Company assets" – as this term is defined hereinafter.

9.1.23 If the Stock Exchange suspended the trade of the Debentures (Series B), except for a suspension due to a cause of the creation of vagueness, as this cause is defined in the fourth part of the Stock Exchange bylaws, and the suspension was not cancelled within forty-five (45) Trading Days.

9.1.24 In the event the Company shall perform an expansion of the Debenture series (Series B) in a manner which does not meet the Company's undertakings with regards to a series expansion in accordance with clause 5 of this Deed.

9.1.25 In case of transferring the control of the Company, unless the transfer of control of the Company was approved at the General Meeting of Holders of Debentures (Series B), in advance, by a regular resolution.

"Transfer of Control" for the purpose of this clause – any transactions, as a result of which, none of the Messrs. Shlomo Nehama, Ran Fridrich and Hemi Raphael, directly or indirectly, shall be a holder of controlling interest in the Company.

For the matter of this clause, "Control" – as the term is defined in the Securities Law.

For the purpose of this clause, "**Transaction**" – a transaction in which framework the holdings of Messrs. Shlomo Nehama, Ran Fridrich and Hemi Raphael (hereinafter: "**the Current Holders of Controlling Interests**") in the Company, directly or indirectly (via companies in their ownership and their control), shall be transferred, including a transaction as stated, after which one (or both) of the following shall not occur:

a. The Current Holders of Controlling Interests, jointly or separately, directly or via corporations in their ownership and their control, shall hold more than 30% of the rights in the share capital and voting rights in the Company;

b. Inasmuch as the Current Holders of Controlling Interests (jointly or separately) shall be the holders of controlling interests in the Company along with others (hereinafter: "**the New Control Group**"), the Current Holders of Controlling Interests (jointly or separately), directly or via corporations in their ownership and their control, shall hold more than half of the rights in the share capital and voting rights in the Company which are held by the New Control Group.

But, for the avoidance of doubt, apart from a transaction as stated which is the result of a change in legislation and/or regulatory requirement and/or inheritance, when for the matter of changes in legislation and regulation – provided that the Company acts to the best of its efforts to avoid a result as stated. If the conditions set forth above in this clause are fulfilled in the aggregate, the Company shall submit an Immediate Report of this.

9.1.26 If the Company shall stop being a reporting corporation, as this term is defined in the Securities Law, or a corporation traded in a stock exchange outside of Israel, as set forth in the Second or Third Addition to the Securities Law.

9.1.27 If the Company shall invest in projects which are not located in Europe, Israel, North America or other countries, provided that those countries are in an investment rating.

9.1.28 If a "going concern notice" is registered in the Company's consolidated financial statements, and the basis for including the notice was not amended in the Company's consolidated financial results for the following quarter.

For the avoidance of doubt, it is clarified that the right to declare the Debentures immediately repayable as mentioned above and/or declaring the Debentures immediately repayable and/or for realizing pledges cannot derogate from or injure any other or additional remedy that the Debenture Holders (Series B) have or that the Trustee has according to the terms of the Debentures and the provisions of this Deed or according to the law, and failure to declare the debt immediately repayable upon the occurrence of any of the cases set forth in clause 9.1 of the Deed, shall not constitute any waiver whatsoever of the rights of the Holders of Debentures or the Trustee as stated.

In this clause:

"**Material Asset**" means: an asset or several assets whose aggregate book value exceeds 45% of the total consolidated assets of the Company according to its last consolidated financial statements or its last consolidated financial results that were published.

"**Financial Statement**" means: the consolidated financial statements or consolidated financial results of the Company that were published before the time of the event.

"**Material Debt**" means: a debt of 40 million NIS. It is clarified that a debt for which fixed charges were placed for securing it or a non- recourse debt, namely a debt with no right of recourse to the Company shall not be considered as a Debt.

"**Merger**" means a merger as the term is defined in the Companies Law, including in accordance with the provision of the Ninth Part of the Companies Law, apart from a merger between companies in the control of the Company (namely, for the purpose of this definition, companies in which the Company holds, directly or indirectly, more than 50%) when in this case there shall be no requirement for a declaration by the Company or the surviving company as stated above, or a prior approval of the Holders of Debentures as stated above.

"**Most of the Company Assets**" means an asset or a number or assets owned by the Company or owned by the consolidated companies, with an aggregate book value of more than 50% of the consolidated Company assets, according to its last consolidated financial statements or its last consolidated financial results published.

9.2. Upon the occurrence of the events set forth in clause 9.1 of the Deed and in accordance with the provisions included therein and its sub-clauses:

9.2.1 The Trustee and any of the Debenture Holders (Series B) may declare the sum that is due to the Debenture Holders according to the terms of the Debentures immediately payable, or to realize collaterals (insofar as any have been given); it shall be clarified that a decision as stated by a Holder of the Debenture is subject to adopting a resolution in the Meeting of Holders of Debentures, as set forth in clause 9.2.4 hereinafter.

9.2.2 Upon the occurrence of any of the events in clause 9.1 above the Trustee, before he uses his authority to declare immediate repayment or to realize the Collaterals, insofar as they were given), shall be obligated to convene a Meeting of the Debenture Holders, on the agenda of which shall be a resolution regarding the declaration of immediate repayment of all unpaid balance of the Debentures (Series B) and/or realizing collaterals inasmuch as they have been given, due to the occurrence of any of the events set forth in clause 9.1 of the Deed, and receive its instructions.

The time of convening a Meeting as stated shall be at the end of 21 days from the day on which it was summoned (or a shorter period of time in accordance with the provisions of clause 9.2.6 hereinafter).

9.2.3 If a reasonable period was determined in clause 9.1 above or in a resolution of a Holders' meeting, as the case may be, with respect to a certain clause, in which the Company is entitled to perform an action or to adopt a decision which as a result the cause for declaring immediate repayment or realization of the Collaterals, insofar as created, is dropped, the Trustees or the Debenture Holders are entitled to declare the Debentures immediately payable and/or to realize collaterals according to these clauses only if the period that was determined as mentioned has passed and the cause was not dropped; however, the Trustee is entitled to shorten the period that was determined as mentioned if it thought that it will materially harm the rights of the Debenture Holders.

9.2.4 The resolution of the Debenture Holders to declare the Debenture immediately payable and/or to realize the Collaterals, insofar as created, shall be adopted in a Meeting of the Debenture Holders in which Holders of at least fifty percent (50%) of the balance of the nominal value of the Debentures (Series B) were present, by a majority of the Debenture Holders of the balance of the nominal value of the Debentures that is represented or by such a majority in a deferred Debenture Holders Meeting in which the Holders of at least twenty percent (20%) of the aforementioned balance were present.

9.2.5 In case, until the time of convening the Meeting, any of the events set forth in clause 9.1 of the Deed has not been revoked or removed, and a resolution in the Debenture Holders' Meeting was adopted as stated in clause 9.2.4 of the Deed, the Trustee shall be obligated, within a reasonable period of time and as soon as possible, to declare immediately repayable all unpaid balance of the Debentures (Series B) and/or to realize collaterals, inasmuch as any have been given.

9.2.6 Despite the stated in this clause 9.2, the Trustee or the Holders shall not declare the Debentures immediately repayable and shall not realize collaterals (inasmuch as any have been given), unless it is after they have given the Company a written notice, 15 days in advance before declaring the Debentures (Series B) for immediate repayment or realizing collaterals (hereinafter: "**the Notice Period**"), regarding their intention to do so; the Trustee is entitled, at its discretion, to shorten the 21 day period stated in clause 9.2.2 of the Deed and/or to not give any notice as stated in this clause, in case the Trustee is of the opinion that deferring the convening of the Meeting jeopardizes the rights of the Debenture Holders or if there is reasonable concern that giving the notice shall damage the possibility of declaring the Debentures for immediate repayment and/or realizing collaterals (inasmuch as any have been given).

9.2.7 The sending of a notice to the Company of the declaration of immediate repayment of the Debentures and/or realizing collaterals, inasmuch as any have been given, can be done also by way of publishing a notice of the decision of the Meeting or the decision of the Trustee in accordance with the provisions of clause 27 hereafter and it shall constitute a declaration of the Debentures immediately payable.

9.2.8 In the event that the Debentures were declared immediately payable according to the provisions of clause 9, the Company undertakes:

9.2.8.1 To pay the Debenture Holders and the Trustee any sums due to them and/or that shall be due to them according to the terms of the Deed of Trust, whether the date of the obligation has arrived or not ('acceleration'), and this is within 7 days after the notice date as mentioned in clause 9.2.6 above; and

9.2.8.2 To deliver to the Trustee, as per its reasonable request, any affidavit or declarations and/or to sign any document and/or to perform and/or to cause the performance of the actions necessary and/or required in accordance with any law for giving effect to the exercise of authorities, the powers and the permissions of the Trustee and/or his attorneys that are required in order to enforce upon the Company its undertaking as mentioned in the Deed of Trust and for realizing the collaterals, inasmuch as any have been given.

9.2.9 For the purposes of this clause 9 – a written notice to the Company signed by the Trustee that confirms that the action required by it in the framework of its powers, is a reasonable action, shall constitute prima facie evidence of this.

9.2.10 The Trustee shall notify the Debenture Holders regarding the occurrence of an event which constitutes a cause for immediate repayment, immediately after actually becoming informed of it. A notice as stated shall be published in accordance with the provisions of clause 27 hereinafter.

9.2.11 The stated in this clause does not harm or condition the rights of the Trustee or the Holders of Debentures (Series B) in accordance with the provisions of Article 35I1 of the Securities Law or in accordance with the provisions of the law.

9.2.12 Despite the stated in this clause 9.2, in case the Company requests the Trustee in writing to appoint an urgent representing body, it is mandatory to act in accordance with the provisions set forth in clause 18 of the Deed of Trust.

9.3. After declaring the Debentures immediately payable in accordance with the provisions of clause 9.1 of the Deed, the Trustee and/or the Debenture Holders shall be entitled to immediately take all steps that they shall see fit. Inter alia, the Trustee and/or the Debenture Holders shall be entitled to enforce and to realize the Collaterals, insofar as created, (in whole or in part) that were given to secure the Company's undertakings to the Debenture Holders and to the Trustee according to this Deed. The Trustee shall be entitled to act in any manner that it shall see fit and effective, including in accordance with the relevant law in the relevant territory for each Collateral and within such actions it shall be entitled to appoint by itself and/or by the court, a trustee, receiver or manager on assets that were provided as Collateral, in whole or part of them and insofar as such assets were provided.

10. Claims and Proceedings by the Trustee

10.1. In addition to any provision in this Deed and as a right and independent authority, the Trustee is entitled, at its discretion, and will be obligated to do so by a resolution adopted in a Meeting of Debenture Holders by a regular majority, and without giving an additional notice to the Company, to take all of those proceedings, including legal proceedings and motions to receive instructions as it shall see fit and subject to the provisions of any law, for enforcing the Company's undertakings according to this Deed of Trust, realizing Collaterals, insofar as created, and/or rights of Debenture Holders and protecting their rights according to this Deed of Trust. The Trustee shall be entitled to initiate legal proceedings and/or others even if the Debentures were not declared immediately payable and all for realizing Collaterals, insofar as created, and/or for protecting rights of Debenture Holders and the Trustee and subject to any law. The Trustee is entitled, at its sole discretion and without the need for giving notice, to approach the competent court and submit a motion to receive instructions in any matter pursuant to and/or connected to this Deed of Trust also before the Debentures shall be declared immediately payable, including for giving any order regarding the trust matters. It shall be clarified, that the right to declare immediate repayment and/or realizing the collaterals, inasmuch as any have been given, shall only arise in accordance with the provisions of clause 9 of the Deed and not this clause 10.

10.2. The Trustee shall be obligated to act as stated in clause 10.1 above if required to do so by a regular resolution adopted by the Debenture Holders' Meeting, unless it has seen that under the circumstances it shall not be just and/or reasonable to do so, and it has approached the appropriate court in a request to receive instructions on the matter at the first reasonable opportunity.

10.3. The Trustee is entitled, prior to taking any legal proceedings whatsoever, to convene a Debenture Holders' Meeting so that it decides, in a regular resolution, which proceedings to take in order to realize their rights in accordance with this Deed. The Company waives any claim towards the Trustee and/or Debenture Holders, regarding damage which might be caused and/or which was caused to it due to summoning the Holders' Meeting. In addition, the Trustee shall be entitled to re-convene Debenture Holders' Meetings for the purpose of receiving instructions pertaining to conducting the proceedings as stated. The Trustee's action shall be performed in such cases without delay and at the first reasonable opportunity. For the avoidance of doubt it shall be clarified that the Trustee is not entitled to delay the performance of declaring for immediate repayment and/or realizing collaterals, inasmuch as any have been given, which the Debenture Holders' Meeting has decided in accordance with clause 9 of the Deed, unless the event for which the resolution was adopted to declare immediate repayment was revoked or removed. It is clarified, that despite the stated in the Deed clause above, the Trustee shall file a request for the liquidation of the Company only after a regular resolution was adopted on the matter in a Debenture Holders' Meeting.

10.4. Subject to the provisions of this Deed of Trust, the Trustee is entitled but not required to convene at any time a general Meeting of the Debenture Holders in order to discuss and/or to receive its instructions in any matter regarding this Deed. For the avoidance of doubt it shall be clarified, that the Trustee is not entitled to delay the performance of declaring for immediate repayment which the Debenture Holders' Meeting has decided in accordance with clause 9.1 of the Deed, other than if the event for which the resolution was made to declare immediate repayment was revoked or removed.

10.5. At any time the Trustee shall be required, in accordance with the terms of this Deed, to perform any action whatsoever, including initiating proceedings or filing claims at the request of the Debenture Holders as stated in this clause, the Trustee is entitled to avoid taking any action as stated until instructions are received from the Debenture Holders Meeting and/or instructions from the court which the Trustee has approached, at its discretion, in a request for instructions in case it believed that instructions as stated are required. For the avoidance of doubt it shall be clarified, that the Trustee is not entitled to delay declaring the Debentures immediately payable or realizing collaterals which have been given (if any have been given) which the Debenture Holders Meeting decided according to clause 9 of the Deed, unless the event for which the resolution for immediate repayment was made has been revoked or removed.

11. Order of Priority of Creditors; Dividing the Intakes

Any intake which shall be received by the Trustee, except for its fees and the payment of any debt towards it, in any manner, including but not only as a result of declaring the Debentures immediately payable and/or as a result of proceedings that it shall institute, if it shall institute proceedings, inter alia, against the Company, shall be held by it in trust and shall serve for the purposes according to the order of priority of creditors as follows:

First – for the payment of any debt for the fees of the Trustee and its reasonable expenses; **second** – for the payment of any other debt according to undertakings to indemnify (as this term is defined in clause 26 hereafter); **third** – for paying the Debenture Holders who paid payments according to clause 26 hereafter; **fourth** – for paying Debenture Holders late payment interest for delays in paying the interest and/or the Principal that are due to them according to the terms of the Debentures and subject to the provisions of linkage of the Debentures, pari passu and in a proportionate manner to the sum of the interest and/or the Principal that is delayed that is due to each of them without preference or right of priority regarding any of them; **fifth** – for paying sums of the Principal and interest to the Debenture Holders that are due to them according to the Debentures held by them pari passu and subject to the linkage terms of the Debentures, the payment date of which has not yet arrived and in a proportionate manner to the sums due to them, without any preference with respect to priority in time of issuing the Debentures by the Company or in any other manner; and **sixth** – the surplus, if such shall exist, the Trustee shall pay the Company or to its substitutes, as the case may be.

Withholding tax shall be deducted from the payments to the Debenture Holders, insofar as there is a duty to deduct it according to any law.

12. Authority to Demand Finance

The Debenture Holders Meeting is entitled to determine in a resolution in a special majority that the Company shall transfer to the Trustee a sum (or part of it) that is designed for a certain payment on account of the Principal and/or certain payment of interest for the Debentures for the finance required for matters that were determined in the Meeting as mentioned (the "**Finance Sum**"), and provided that such resolution was adopted before the record date determining the entitlement of the Debenture Holders to receive the Principal or interest as mentioned.

If a resolution of the Meeting was adopted as mentioned above, the following provisions shall apply, unless the Company shall transfer to the Trustee, before the record date as mentioned above, a sum equal to the Finance Sum and this not out of the specific payment as mentioned above:

12.1. The Company shall transfer to the Trustee the Finance Sum at the time determined in this Deed for paying the Principal or the interest as mentioned above.

12.2. The amount of the certain payment as mentioned above (Principal or interest) shall be reduced by deducting the Finance Sum, and in the event of an interest payment, the rate of the specific payment shall also be reduced respectively.

12.3. Insofar as the Company has a duty according to law or according to the Deed of Trust to pay the costs and fees for which the Finance Sum was deposited, the Finance Sum (in addition to linkage and interest that apply to the Debentures according to this Deed of Trust, from the record date for the specific payment as mentioned above and until its actual payment) shall be paid at the next date scheduled in this Deed of Trust for payment on account of the Principal and/or the interest (or at another time as shall be determined in a resolution of the Meeting as mentioned above) and it shall be added to the next payment as mentioned as an integral part of it.

12.4. The transfer of the Finance Sum to the Trustee cannot constitute an admission of the Company regarding its liability in financing the costs and fees for which the Finance Sum was deposited.

12.5. The Company shall publish an Immediate Report before the record date regarding the changes in the terms of this Deed of Trust regarding payments on account of the Principal and/or interest that arise from the aforesaid.

The aforesaid does not release the Company from its liability to pay costs and fees as mentioned where it is liable to pay them according to this Deed and/or according to the law.

13. Authority to Delay the Division of Funds

13.1. Notwithstanding the provisions in clause 11 above, and until the earliest of the dates set forth hereafter, if the sum which shall be received as a result of instituting such proceedings mentioned above and which shall be available at any time for distribution to the Debenture Holders as mentioned in that clause, shall be less than 1 million NIS at the record date for distribution the Trustee shall not be required to distribute it and it shall be entitled to invest this sum, in whole or in part, in accordance with the provisions of clause 16 hereafter.

13.2. When these investments mentioned above reach, if they shall reach, with their profits, together with other funds that shall reach the Trustee for the purpose of paying them to the Debenture Holders, a sum that will be sufficient in order to pay at least 1 million ILS, the Trustee shall be required to use the mentioned sums according to the order of priorities in clause 11 above and to distribute this sum at the earliest time of the payment of the Principal or the interest. In case, until the earlier of: the closest time for paying the interest and/or principal, or a reasonable time after receiving the aforementioned funds, the Trustee shall not have a sufficient amount to pay at least 1 million ILS, the Trustee shall distribute the funds in his possession to the Debenture Holders, and in any case no later than once every three months. Despite the foregoing, Debenture Holders could, in a regular resolution, bind the Trustee to pay them the amounts accumulated by it, even if they have not reached a total of 1 million ILS. Notwithstanding the aforesaid, the fees to the Trustee and its expenses shall be paid out of these funds immediately upon their arrival to the Trustee and even if they are lower than the sum set forth in clause 13.1 of the Deed.

14. Notice of Distribution and Deposit with the Trustee

14.1. The Trustee shall notify the Debenture Holders of the date and place on which any payment shall be made out of the payments mentioned in clauses 11 and 12 of the Deed, and this is by advance notice of 14 days that shall be given in the manner set forth in clause 27 hereafter.

14.2. After the record date for entitlement for payment that was determined in the Trustee's notice as mentioned, the Debenture Holders shall be entitled to interest for them according to the interest rate set forth in the Debentures, only on the unpaid balance of the Principal sum (if such shall exist) after deducting the sum that was paid or that was offered to them for payment as mentioned in this notice.

14.3. The funds distributed as stated in this clause 14 shall be considered as payment on account of the repayment.

15. Avoidance from Payment for a Reason that is not Dependent on the Company; Deposit with the Trustee

15.1. Any sum that is due to a Debenture Holder and that was not actually paid on the record date for its payment, for a reason that is not dependent on the Company, while the Company was willing to pay it, shall cease to bear interest and linkage differentials from the time that was determined, for its payment and the Debenture Holder shall be entitled, only to those amounts to which he was entitled at the time set for repayment or payment on account of the principal, interest and linkage differentials, should there be any.

15.2. The Company shall deposit with the Trustee, no later than 15 Business Days after the time that was scheduled for that payment, the payment sum which was not paid on time as stated in clause 15.1 of the Deed and shall notify the Debenture Holders in an immediate report regarding a deposit as mentioned, and the aforementioned deposit shall be considered as paying that payment, and in the event of payment of everything due for that Debenture, also as the redemption of the Debenture.

15.3. The Trustee shall deposit in bank accounts in its name and to its order in trust for the Debenture Holders, the funds that shall be transferred to it as mentioned in sub- clause 15.2 of the Deed, and shall invest them in investments in accordance with the provisions of clause 16 of the Deed. If the Trustee did so, it shall not owe to those entitled to those sums, other than the consideration received from realizing the investments, after deducting its fees and expenses, reasonable expenses related to that investment and to managing the trust accounts, reasonable commissions and mandatory payments applying to the trust account. Out of the funds as stated, the Trustee shall transfer amounts to the Debenture Holders entitled thereto, as soon as possible after the Trustee is provided with reasonable proof and approvals regarding their right to such amounts, and with the deduction of its reasonable expenses, commissions, mandatory payments and its fees.

15.4. Deleted.

15.5. The Trustee shall hold the funds that shall be deposited as mentioned in clause 15.3 above and shall invest them in the aforementioned manner, until the end of two years after the final payment of the Debentures or by the date of payment of the funds to the Debenture Holders, whichever is earlier. After this time, the Trustee shall transfer to the Company the sums out of these funds, which have remained with him (including profits that have accrued from their investment) after deducting its fees, expenses and other costs that were expended in accordance with the provisions of this Deed (such as fees of service providers etc.).

Upon the transfer of the funds from the Trustee to the Company, to the Trustee's satisfaction, the Trustee shall be exempt from payment of such sums to the entitled Debenture Holders.

15.6. The Company shall confirm to the Trustee in writing the fact that these funds have been received in trust for these Debenture Holders, and it shall indemnify the Trustee for any claim and/or cost and/or damage of any type and kind that shall be incurred by it as a result and for transferring the sums as mentioned, unless the Trustee has acted negligently (apart from negligence which is exempt by law as shall be from time to time), in bad faith or deceivingly.

15.7. The Company shall hold these funds in a trust account for the Debenture Holders that are entitled to these sums for an additional year after they are transferred to the Company from the Trustee. Funds that have not been demanded by the Debenture Holders from the Company at the end of two years after the final payment date of the Debentures shall serve the Company for any purpose. The aforesaid shall not derogate from the Company's duty towards the Debenture Holders to pay the funds to which they are entitled as mentioned.

15A. Receipt from the Debenture Holders and the Trustee

15A(1) A receipt from the Trustee regarding the depositing of the principal funds, interest and linkage differentials with it in favor of the Debenture Holders shall release the Company completely with regards to the very making of the payment of the amounts stated in the receipt.

15A(2) A receipt from a Debenture Holder regarding the principal funds, interest and linkage differentials paid to him by the Trustee for the Debenture shall release the Trustee and the Company completely with regards to the very making of the payment of the amounts stated in the receipt.

15A(3) Funds distributed as stated in clause 15 above shall be considered as payment on account of the repayment of the Debentures.

15B. Presenting Debentures to the Trustee and Registration pertaining to Partial Payment

15B(1) The Trustee shall be entitled to request a Debenture Holder to present to the Trustee, upon paying any interest whatsoever or a partial payment of the amount of the principal, interest and linkage differentials, should there be any, in accordance with the provisions of clauses 13-15A above, the Debenture certificates for which the payments are made, and the Debenture Holder shall be required to present the Debenture certificate as stated, provided that it does not bind the Debenture Holders to any payment and/or expense and/or impose on the Debenture Holders any responsibility and/or liability.

15B(2) The Trustee shall be entitled to register a comment on the Debenture certificates regarding the amounts paid as stated above, as well as their payment date.

15B(3) The Trustee shall be entitled, in any special case, at its discretion, to waive the presentation of the Debenture certificates after the Debenture Holder has given it a letter of indemnification and/or sufficient guarantee to its satisfaction for damages which might be caused due to failure to register the comment as stated, all as it shall see fit.

15B(4) Despite the foregoing, the Trustee shall be entitled, at its discretion, to hold records in another manner regarding partial payments as stated.

16. Reserved

17. Investment of Funds

All funds which the Trustee is entitled to invest in accordance with this Deed, shall be invested by it, in a banking corporation in Israel which was rated by a rating company at a rating that is no less than AA- of Standard & Poor's Maalot Ltd. or an equivalent rating, in its name or payable to it, at its discretion, in Israeli government debentures or daily banking deposits as it shall see fit, all subject to the terms of this Deed of Trust and the provisions of any law, and provided that any investment in securities shall be in securities rated by a rating company at a rating that is no less than AA by Standard & Poor's Maalot Ltd. or an equivalent rating. It shall be clarified, that apart from Israeli government debentures or banking deposits as set forth in this clause, the Trustee shall not perform an investment in other securities. If the Trustee has done so, it shall not owe to the persons eligible for those amounts anything other than the consideration received from realizing the investment, with the deduction of its fees and expenses, commissions and expenses related to the stated investment and the management of the trust accounts, commissions and with the deduction of the mandatory payments applying to the trust account, and with regards to the remaining funds the Trustee shall act in accordance with the provisions of this Deed, as the case may be.

18. Urgent Representing Body for the Debenture Holders

18.1. Appointment; term of office:

18.1.1 The Trustee shall be entitled, or as per the Company's written request it shall be obligated, to appoint and convene an urgent representing body amongst the Debenture Holders, as shall be set forth hereinafter (hereinafter: "**the Urgent Representing Body**"), in case a cause exists for declaring the Debentures for immediate repayment due to the Company's failure to meet financial standards, as set forth in clause 9.1.15 of the Deed.

18.1.2 The Trustee shall appoint to the Urgent Representing the three (3) Debenture Holders, who, to the best of the Trustee's knowledge, hold the highest nominal value out of all Debenture Holders, and who shall declare that with regards to them, all conditions set forth hereinafter are fulfilled (hereinafter: "**the Urgent Representing Body Members**"). In case any of those could not hold office as an Urgent Representing Body Member as stated, the Trustee shall appoint in his place, the Debenture Holder who holds the next highest nominal value, regarding whom all conditions set forth hereinafter are fulfilled. The conditions are as follows:

18.1.2.1 The Debenture Holder is not in any material conflict of interests due to the existence of any additional material matter that contradicts a matter that arises from serving on the Urgent Representing Body and from holding the Debentures. For the avoidance of doubt it is clarified, that a Holder who is an Affiliated Holder shall be considered to have a material conflict of interests as stated and shall not serve on the Urgent Representing Body.

18.1.2.2 During that calendar year, the Debenture Holder does not hold office in similar representing bodies of other debentures, which aggregate book value exceeds the rate out of the asset portfolio managed by him, which was set as the maximal rate enabling to hold office in an Urgent Representing Body in accordance with the instructions of the Antitrust Commissioner pertaining to the establishment of an Urgent Representing Body.

18.1.3 If, during the office of the Urgent Representing Body, one of the circumstances listed in clauses 18.1.2.1 to 18.1.2.2 above has ceased occurring, his office shall expire, and the Trustee shall appoint another member in his place out of the Debenture Holders as stated in sub-clause 18.1.2 above.

18.1.4 Prior to appointment the Urgent Representing Body Members, the Trustee shall receive from the candidates to hold office as Members of the Urgent Representing Body, a declaration regarding the existence or absence of material conflicts of interest as stated in clause 18.1.2.1 above and with regards to holding office in additional representing bodies as stated in clause 18.1.2.2 above. In addition, the Trustee shall be entitled to request a declaration as stated by Members of the Urgent Representing Body at any time during the office of the Urgent Representing Body. A Holder who shall fail to provide a declaration as stated shall be considered as having a material conflict of interests or a hindrance from holding office, pursuant to the instructions of the Antitrust Commissioner as stated above, as the case may be. With regards to a declaration regarding a conflict of interests, the Trustee shall inspect the existence of the conflicting matters, and if necessary shall decide whether the conflict of interests disqualifies that Holder from holding office in the Urgent Representing Body. It is clarified, that the Trustee shall rely on the declarations as stated and shall not be required to hold an additional inspection or independent investigation. The Trustee's decision on these matters shall be final.

18.1.5 The Urgent Representing Body's term shall end when the Company publishes the decisions of the Urgent Representing Body pertaining to giving an extension to the Company for the purpose of its meeting the terms of the Deed of Trust as set forth in clause 18.5 hereinafter.

18.2. Authority

18.2.1. The Urgent Representing Body shall have the authority to grant a one-time extension to the Company regarding the dates for meeting the financial standards set forth in the Deed of Trust in a way that the cause for immediate repayment in clause 9.1.15 of the Deed is removed for the duration of the extension term, inasmuch as it was given, for the earlier of a period of up to 90 days or up to the time of publishing the closest financial statements or the closest financial results. It shall be clarified, that the period of time until appointing the Urgent Representing Body shall be taken into account in the framework of the aforementioned extensions, and it shall not constitute a cause for granting the Company any additional extension beyond the stated above. It shall be further clarified, that the actions of the Urgent Representing Body and the cooperation between its Members, shall be limited to discussing the option of granting an extension as stated, and no other information shall be passed between the Members of the Representing Body, which does not pertain to granting an extension as stated.

18.2.2. If an Urgent Representing Body has not been appointed in accordance with the provisions of this addendum, or if the Representing Body has decided not to grant the Company an extension as stated in clause 18.2.1 above, the Trustee shall act in accordance with the provisions of clause 9 of the Deed of Trust.

18.3. The Company's undertakings with regards to the Representing Body

18.3.1. The Company undertakes to provide the Trustee with all of the information in its possession or which it is able to obtain pertaining to the identity of the Debenture Holders and the scope of their holdings. In addition, the Trustee shall act to receive the stated information in accordance with the authorities granted to it by law.

18.3.2. In addition, the Company undertakes to act in full cooperation with the Urgent Representing Body and the Trustee inasmuch as it is required for the purpose of performing the examinations required by them and forming the decision of the Urgent Representing Body, and to provide the Urgent Representing Body with all data and documents which it shall require with regards to the Company, subject to the limitations of the law and signing a confidentiality undertaking as set forth in clause 19.2. Without derogation from the generality of the foregoing, and subject to signing a letter of confidentiality as stated, the Company shall provide the Urgent Representing Body with the relevant information for the purpose of forming its decision, which shall not include any misleading detail and shall not be lacking. The transfer of information to the Debenture Holders and the Urgent Representing Body in accordance with the provisions of this clause, at the reasonable discretion of the Trustee under the circumstances, shall not be considered as breaching the duty of confidentiality.

18.3.3. The Company shall bear the costs of the Urgent Representing Body, including costs of hiring consultants and experts by the Urgent Representing Body or on its behalf, and the provisions of clause 22 of the Deed of Trust shall apply to this matter, *mutatis mutandis*.

18.4. Liability

18.4.1. The Urgent Representing Body shall act and decide on matters given to it, at its absolute discretion and shall not be responsible, whether itself or any of its Members, their officers, employees or consultants, and the Company and the Debenture Holders hereby exempt them with regards to any arguments, demands and claims against them for using or avoiding to use powers, authorities or discretion granted to them in accordance with the Deed of Trust and with regards thereto, or any other action which they have performed in accordance therewith, unless they have acted that way maliciously and/or in bad faith.

18.4.2. The indemnification provisions set forth in clause 26 of this Deed shall apply to the actions of the Members of the Urgent Representing Body, as if they were the Trustee.

18.5. The Company shall publish an Immediate Report regarding the appointment of the Urgent Representing Body, the identity of its members and its authorities and shall publish an additional Immediate Report regarding the decisions of the Urgent Representing Body as stated.

19. Confidentiality

19.1. Subject to the provisions of any law and the stated in this Deed of Trust, the Trustee undertakes, by signing this Deed, to keep confidential any information that was given to it from the Company and/or a company affiliated with the Trustee and/or anyone on their behalf ("**the Information**"), not to disclose it to another and not to make any use of it, unless its disclosure or the use of it is required for fulfilling its duties according to the Law, according to the Deed of Trust, or according to a court order or according to the instructions of a legally authorized authority, provided that disclosing information as stated shall be limited to the minimal extent and scope required in order to meet the requirements of the law and that the Trustee pre-coordinates with the Company, inasmuch as it is possible and permitted, the content and timing of the disclosure, in order to give the Company reasonable leave to approach the courts in order to prevent the transfer of information as stated.

19.2. Transferring information to the Debenture Holders, including by publishing it publicly, for the purpose of adopting a resolution regarding their rights according to the Debenture or for providing a report of the Company's state does not constitute a breach of the confidentiality undertaking as mentioned above, and in any case only the necessary information for adopting such resolution will be provided, to the extent provided. The transfer of information a stated to the Trustee's authorized representatives and/or professional consultants and/or agents shall be done subject to their signing of a confidentiality undertaking and lack of conflict of interests in the form attached as **Appendix 19.2** to this Deed.

19.3. This confidentiality undertaking shall not apply to any part of the information, that is in the public domain (except for information that became public domain due to a breach of this confidentiality undertaking) or that was received by the Trustee not from the Company – starting from the date its receipt.

19.4. All the conversations and discussions in the parts of the Meetings that are conducted without the Company or in the Meetings conducted without the Company, insofar as the absence of the Company is required by the Trustee, are confidential, and the Company and/or anyone on its behalf including any Office Holder in it shall not require the disclosure of this information.

20. Other Agreements

Subject to the provisions of the Law and the restrictions imposed on the Trustee in the Law the fulfillment of the Trustee's duties according to this Deed of Trust, or its status as Trustee, shall not prevent it from entering into different contracts with the Company or from performing transactions with it in the ordinary course of its business.

21. Reporting by the Trustee

21.1. The Trustee shall make each year, at the time determined for this in the Law and in absence of a scheduled time until the end of the second quarter in each calendar year, an annual report of the trust matters (the "**Annual Report**") and it shall submit it to the Securities Authority and to the Stock Exchange.

21.2. The Annual Report shall include details that shall be determined from time to time in the Law. Submitting the Annual Report to the Securities Authority and to the Stock Exchange, is as furnishing the Annual Report to the Company and to the Debenture Holders.

21.3. The Trustee must submit a report regarding the actions that it performed according to the provisions of chapter E.1 of the Law, according to a reasonable demand of the Debenture Holders that hold at least ten percent (10%) of the balance of the nominal value of the Debentures of that series, within a reasonable time of the demand, all subject to the confidentiality obligation of the Trustee towards the Company as set forth in Section 35J(d) of the Law.

21.4. The Trustee shall update the Company before a report according to Section 35H1 of the Law.

22. Fees and Covering the Trustee's Expenses

22.1. The Trustee shall be entitled to payments of its fees and expenses in connection with fulfilling its duties, in accordance with the provisions in **Appendix 22** which is attached to this Deed of Trust. If a Trustee has been appointed in place of the Trustee whose term of service has ended according to Section 35B(a1) or Section 35N(d) of the Securities Law, the Holders of certificates of undertaking (Series B) shall pay the difference by which the Trustee's fees who was appointed as mentioned exceed the fee that was paid to the Trustee in place of whom it was appointed if such difference is unreasonable and the provisions of the relevant law at the date of replacement shall apply.

22.2. The Debenture Holders (Series B) shall participate in financing the Trustee's fees and the refund of its expenses in accordance with the provisions of the indemnification clause in clause 26 of the Deed of Trust.

22.3. At the request of those who hold more than 5% (five percent) of the remaining nominal value of the Debentures, the Trustee shall provide the Holders with data and details regarding his expenses pertaining to the trust which is the subject of this Deed of Trust.

23. Deleted.

24. Liability

24.1. The liability of the Trustee shall be according to law.

24.2. For the avoidance of doubt it is hereby clarified that:

24.2.1. The Trustee has no duty to examine, and in actuality the Trustee has not examined, the financial state of the Company and this is not included among its duties.

24.2.2. The Trustee did not make any financial, accounting or legal due diligence examination of the Company's business state or of the companies held by the Company or by a person that holds the Company's shares and this is not among its duties.

24.2.3. The Trustee has not given its opinion expressly or impliedly regarding the Company's ability to meet its undertakings towards the Debenture Holders, nor by the fact that it entered into this Deed of Trust, nor by its consent to serve as Trustee of the Debenture Holders.

24.2.4. The Trustee's signature on this Deed of Trust is not an opinion of it regarding the nature of the offered Debentures or that it is worthwhile investing in them.

24.3. The Trustee shall not be required to notify any party of the signature of this Deed. The Trustee shall not get involved in any manner in the management of the Company's business or its affairs and this is not included in its duties.

24.4. Subject to the provisions of any law, the Trustee is not required to act in a manner that is not expressly set forth in this Deed of Trust, so that any information, including with respect to the Company and/or with respect to the Company's ability to meet its undertakings to the Debenture Holders will be brought to its knowledge and this is not one of its duties.

24.5. The Trustee is entitled to rely on the presumption as mentioned in clause 29 hereafter, and to rely on the correctness of the identity of a non registered Debenture Holder of the Debentures as this shall be given to the Trustee by a person whose name is registered as authorized by power of attorney, that a Nominee Company issued, insofar as the identity of the Debenture Holder was not registered in the power of attorney.

24.6. The Trustee is entitled to rely within the framework of its trusteeship on any written document including, written instruction, notice, request, consent or approval, which appears to be signed or issued by any person or body, which the Trustee believes in good faith that it was signed or issued by him.

24.7. It is clarified that the termination of the Trustee's office does not detract from rights, claims or arguments which the Company and/or the Holders of Debentures (Series B) shall have towards the Trustee, inasmuch as there shall be any, which cause precedes the termination date of the Trustee's office, and it does not release the Trustee of any liability by law.

25. <u>The Authority of the Trustee to Employ Agents</u>

Subject to giving the Company advance notice, and provided that the Trustee does not believe it shall injure the rights of the Debenture Holders, the Trustee shall be entitled to appoint agent(s) that will act in its place, whether attorneys or others, in order to do or participate in the performance of special actions that must be performed with respect to the trust and to pay reasonable fees to any agent as stated, and without derogating from the generality of the aforesaid instituting legal proceedings or representing in the Company's merger or split proceedings.

The Company shall be entitled to oppose an appointment as stated in case the agent is a competitor, whether directly or indirectly, with the Company's business (including companies consolidated in its financial statements) and/or in case there is concern that the agent might be, directly or indirectly, in a state of conflict of interests between his appointment and his position as agent and his personal interests, his other positions or his affinity to the Company and to corporations in its control, provided that a notice regarding the Company's objection as stated, which includes detailed reasons, has been given to the Trustee no later than seven (7) Business Days from the day on which the Trustee has given the Company a notice regarding its intention to appoint an agent as stated. It is clarified, that the appointment of an agent as stated shall not detract from the Trustee's responsibility for its actions and its agents' actions. In addition, the Trustee shall be entitled to pay, at the Company's expense, the reasonable fee of any such agent, and the Company shall repay the Trustee upon its request any such expense, provided that prior to appointing an agent as stated, the Trustee shall notify the Company in writing regarding the appointment, in addition to details about the agent's fees and the purpose of his appointment, and under the circumstances the cost of the agents' fees does not exceed reasonable and acceptable limits. It is clarified, that publishing the results of a resolution by the Debenture Holders regarding the appointment of agents shall constitute giving notice as stated, provided that prior to an appointment as stated, the Trustee has given the Company all information and details as set forth above. For the avoidance of doubt, the Company shall not repay to the Trustee the agent's fees or expenses if he has been present in Debenture Holders' Meetings on behalf of the Trustee, or of an agent who has fulfilled the regular actions which the Trustee is required to perform pursuant to this Deed of Trust, whereas the performance of these actions is included in the fee which the Trustee receives from the Company in accordance with the provisions of clause 21 above. For the avoidance of doubt, in case of declaring the Debentures immediately repayable, the actions which the Trustee shall be required to take in this regard shall not be considered as regular actions which the Trustee must perform pursuant to this Deed of Trust for the purpose of this clause.

26. Indemnification

26.1. The Company and the Debenture Holders (at the relevant record date as mentioned in clause 26.5 of the Deed, each for its undertaking as mentioned in clause 26.3 of the Deed) hereby undertake to indemnify the Trustee, each Office Holder in it, its employees, agents and experts that the Trustee shall appoint in accordance with the provisions of the Deed of Trust or according to a resolution adopted by a regular resolution of the Debenture Holders ("**Persons Entitled to Indemnification**"), provided there is no double indemnification or compensation, as follows:

26.1.1. For any reasonable expense, damage, payment or financial obligation, including according to a judgment or arbitration judgment (in respect to which a stay of execution was not granted) or according to a settlement which has ended (and the Company's consent to the settlement has been given) the causes of which are connected to an act or omission that the Persons Entitled to Indemnification performed or which they must perform pursuant to the provisions of this Deed, and/or according to the law and/or an instruction by an authorized authority and/or according to the demand of Debenture Holders and/or according to the Company's demand; and

26.1.2. For wages due to the Persons Entitled to Indemnification and reasonable costs that they expended and/or that they are about to expend in respect to performing an act and/or with respect to using the authorities and powers according to this Deed or by law, including with respect to all kinds of legal proceedings, opinions of lawyers and other experts, negotiations, discussions, expenses, travel costs and other costs, and provided that they shall be reasonable, claims and demands regarding any matter and/or thing that were made and/or not made in any manner with respect to the aforesaid.

And all provided that one of the cases set forth in the sub-clauses (a) to (f) hereinafter does not occur:

(a) The Persons Entitled to Indemnification shall not demand indemnification in advance in a matter that cannot be delayed;

(b) A peremptory judicial decision has not determined that the Persons Entitled to Indemnification have acted in bad faith;

(c) A peremptory judicial decision has not determined that the Persons Entitled to Indemnification acted not in the framework of the position, not in accordance with the provisions of the Deed and/or the provisions of the law;

(d) A peremptory judicial decision has not determined that the Persons Entitled to Indemnification have been negligent (apart from negligence which is exempt by law as shall be from time to time);

(e) A peremptory judicial decision has not determined that the Persons Entitled to Indemnification have acted maliciously;

(f) The Persons Entitled to Indemnification have not notified the Company in writing, immediately upon finding out about the charge, and have not enabled the Company to manage the proceedings (apart from cases where these proceedings are managed by the insurance company of the Trustee or if the Company is in conflict of interests)

If is clarified that even in case it shall be claimed against the Persons Entitled to Indemnification that they are not entitled to indemnification due to the stated in sub-clauses (b)-(d) above, the Trustee alone (and not the other Persons Entitled to Indemnification, including its agents) shall be entitled, upon its first demand for the payment of the sum that is due to it in connection with the "Indemnification Undertaking". In the event that it shall be determined in a peremptory judicial decision that the Trustee does not have the right to be indemnified, the Trustee shall return the sums of the Indemnification Undertaking that were paid to it.

The undertaking to indemnify in accordance with this clause 26.1 shall be referred to as "**the Indemnification Undertaking**".

26.2. Without derogating from the validity of the "Indemnification Undertaking" in clause 26.1 of the Deed and subject to the provisions of the Securities Law, as long as the Trustee shall be required according to the terms of the Deed of Trust and/or according to Law and/or instruction of an authorized authority and/or any law and/or according to the demand of Debenture Holders and/or the Company's demand, to perform any action, including but not limited to, instituting proceedings or submitting claims according to the demand of Debenture Holders, as mentioned in this Deed, the Trustee shall be entitled to refrain from taking any such action, until it receives a money deposit to its satisfaction from the Company, and in case the Company fails to provide any financial deposit for any reason whatsoever, from the Debenture Holders for covering the Indemnification Undertaking (the "**Financing Deposit**"). The Trustee shall approach the Debenture Holders that held at the record date (as mentioned in clause 26.5 of the Deed) to request that they deposit with it the sum of the Financing Deposit, each according to their Relative Share (as this term is defined hereafter). In the event that the Debenture Holders will not deposit the entire Financing Deposit the Trustee will not have the obligation to take any action or relevant proceedings. The aforesaid cannot exempt the Trustee from taking any urgent action required to prevent adverse material harm to the rights of the Debenture Holders.

26.3. The Indemnification Undertaking:

26.3.1 **Shall apply to the Company due to the following cases**: **(1).** Actions that were preformed and/or required to be performed according to the terms of the Deed of Trust including for protection the rights of the Debenture Holders; **and (2).** Actions that were performed and/or required to be performed according to the Company's demand.

26.3.2 **Shall apply to the Debenture Holders that held at the record date (as mentioned in clause 26.5 hereafter) in the following cases**: **(1).** an event that is not within the scope of clause 26.3.1; **and (2).** the non-payment by the Company of the indemnification sum that applies to it according to clause 26.3.1 of the Deed (without derogating from the provisions of clause 26.6 of the Deed).

26.4. In any event that: **(a).** the Company does not pay the sums required for covering the Indemnification Undertaking and/or shall not deposit the sum of the Finance Deposit as the case may be; **and/or (b).** the indemnification duty applies to the Debenture Holders by virtue of the provisions of section 25.3.2 above and/or the Debenture Holders were called to deposit the sum of the Finance Deposit according to section 25.2 above, the provisions hereinafter shall apply and the monies shall be collected in the following manner:

26.4.1 First – out of the money (interest and/or Principal) which the Company must pay to the Debenture Holders after the date of the required action, and the provisions of clause 11 of the Deed shall apply;

26.4.2 Second – insofar as according to the Trustee's opinion the sums deposited in the Finance Deposit shall not be enough to cover the Indemnification Undertaking, the Debenture Holders that shall hold Debentures at the record date (as mentioned in clause 26.5 of the Deed) shall deposit the missing sum, each one in accordance with their Relative Share (as such term is defined) with the Trustee. The sum that each Debenture Holder shall deposit shall bear annual interest at a rate equal to the interest determined for the Debentures and it shall be paid with preference as mentioned in clause 26.7 of the Deed.

The "**Relative Share**" means: the relative share of the Debentures which the Debenture Holder held at the relevant record date as mentioned in clause 26.5 hereafter of the total nominal value of the Debentures in Circulation at that time. It is clarified that the calculation of the relative share shall remain fixed even if after that time a change shall occur in the nominal value of the Debentures held by the Debenture Holder.

26.5. The record date for determining the Debenture Holder's obligation in the Indemnification Undertaking and/or in the payment of the Finance Deposit is as follows:

26.5.1 In any event that the Indemnification Undertaking and/or payment of the Finance Deposit are required due to a resolution or urgent action required for preventing adverse material harm to the rights of the Debenture Holders and this is without an advance resolution of the Debenture Holders Meeting – the record date of the obligation shall be the end of the Trading Day of the date the action was taken or the resolution was made, and if this day is not a Trading Day, the Trading Day prior to it.

26.5.2 In any event that the Indemnification Undertaking and/or payment of the Finance Deposit is required according to a resolution of the Meeting of the Debenture Holders – the record date for the obligation shall be the record date for participating in the Meeting (as this date was determined in the summons notice) and it shall also apply to a Debenture Holder that was not present or that did not participate in the Meeting.

26.5.3 In any other case or in the case of disputes regarding the record date – the record date shall be as determined by the Trustee at its absolute discretion.

26.6. The payment by the Debenture Holders instead of the Company of any sum that is imposed on the Company according to this clause 26 cannot release the Company from its obligation to pay such payment and the Trustee shall act to the best of its ability to collect the amount which the Company should have paid.

26.7. The refund to the Debenture Holders who made payments according to this clause shall be made according to the order of preference set forth in clause 11 above.

27. Notices

27.1. Any notice on behalf of the Company and/or the Trustee to the Debenture Holders (including Debenture Holders registered in the Registry managed by the Company) shall be given as follows:

27.1.1 In cases in which the provisions of the law require this or according to a decision of the Trustee by reporting to the Magna system of the Securities Authority;

27.1.2 In the cases set forth hereafter alone, also by way of publishing a notice that shall be published in two daily newspapers that are widely distributed, that are published in Israel in the Hebrew language: **(a)** An arrangement or settlement according to Section 350 of the Companies Law, 5759- 1999; **(b)** Merger.

27.1.3 Any notice that shall be published or sent as mentioned above, shall be considered as if it was delivered to the Debenture Holder on the date of its publication as mentioned (in the Magna system or in the press, respectively).

27.1.4 The Trustee is entitled to instruct the Company, and the Company shall be obligated to immediately report on the Magna on behalf of the Trustee, any report to the Debenture Holders in its wording as it shall be given in writing by the Trustee to the Company. The Company shall be entitled to add its reference and/or response to the stated report, in a separate report. Any notice published as stated shall be considered to have been delivered to the Debenture Holder on the day of its publication on the Magna as stated.

27.1.5 In the event that the Company shall cease to report in accordance with the law, in cases in which there are provisions of the law that require this, or according to the decision of the Trustee, by sending a notice by registered mail to each registered Debenture Holder according to his last address registered in the Debenture Holders registry (in the event of joint Holders – to the joint Debenture Holder whose name appears first in the registry). Any notice that shall be sent as mentioned shall be considered as if it was delivered to the Debenture Holders 3 business days after it was delivered in the mail.

27.1.6 Copies of the notices and invitations given by the Company to Debenture Holders shall also be sent by it to the Trustee. It shall be clarified, that notices and invitations as stated do not include the Company's ongoing reports to the public. Copies of the notices and invitations given by the Trustee to the Debenture Holders shall also be sent by him to the Company. The publication of notices as stated on the Magna shall be instead of delivering them to the Trustee or the Company, as stated above in this clause, as the case may be.

27.2. Any notice or demand on behalf of the Trustee or Debenture Holder to the Company may be given by a letter that shall be sent by registered mail to their address, or by transmitting it by fax or in writing by a messenger or by email and any notice or demand such as this shall be considered as if it was received by the Company or other addressee:

27.2.1 In the event of sending by registered mail – 3 Business Days after it was delivered in the mail.

27.2.2 In the event of transmitting it by facsimile (with additional telephone confirmation that it was received) – at the time of the telephone confirmation.

27.2.3 In the event of transmitting it by email – at the time of receiving confirmation by email that it was read or at the time that it was confirmed by telephone that it was received (if confirmation was performed), whichever is earlier of the two.

27.2.4 In the event that it was sent by a messenger – on the first Business Day after its delivery by messenger to the addressee or in the event that the addressee refrained from accepting it, on the first Business Day after the messenger's offer to the addressee to accept it.

27.3. Any notice or demand to the Trustee shall be given in one of the ways set forth in clause 27.2 above.

28. Waiver; Settlement; Changes in the Terms of the Deed of Trust, Debentures

28.1. Subject to the provisions of the Law and the regulations that were promulgated and/or that shall be promulgated pursuant thereto, the Trustee shall be entitled from time to time and at any time, to waive any technical breach or the default of the terms of the Debentures or this Deed by the Company if it was convinced that this is for the benefit of the Debenture Holders or where the change does not harm the Debenture Holders. The provisions of this clause shall not apply with regards to the following subjects: the terms of Debenture repayment, including dates and payments according to the Debentures, reducing the interest rate listed in the Debenture terms; limitations on expanding a series as stated in clause 5.2 of the Deed;, causes for declaring Debentures immediately payable in accordance with clause 9.1 of the Deed; provisions regarding negative pledge in accordance with clause 7 of the Deed; limitations on distribution; the Company's undertaking to meet financial standards in accordance with clause 6.2 of the Deed; with respect to increasing the interest in the event a decrease in the rating of the Debentures or failure to meet financial standards as set forth in the Debenture; changes with regards to the linkage bases should there be any; waive regarding the making of payments; or with regards to reports which the Company must give the Trustee.

28.2. Subject to the provisions of the law, and with the pre-approval in a special resolution of the Meeting of Holders of Debentures (Series B), the Trustee shall be entitled, whether before or after the Debenture principal is available for repayment, to settle with the Company with regards to any right or claim of the Debenture Holders or any of them, and to agree with the Company on any arrangement of their rights, including waiving any right or claim by it and/or the Debenture Holders or any of them, towards the Company.

28.3. Subject to the provisions of the law and the regulations promulgated or which shall be promulgated pursuant thereto, the Company and the Trustee are entitled, whether before or after the Debenture principal is available for repayment, to change the Deed of Trust and/or the terms of the Debentures in one of the following cases:

28.3.1 Apart from the subject set forth in clause 28.1 above, and apart from a change in the identity of the Trustee or its, or for appointing a Trustee in place of the Trustee whose term has ended, if the Trustee was convinced that the change does not harm the Debenture holders; and

28.3.2 The suggested change was approved by a special resolution of the Meeting of Holders of Debentures (Series B).

28.4. The Company shall deliver to the Debenture Holders a written notice regarding any change or waiver as stated in this clause above, as soon as possible after performing it.

28.5. In any case of exercising the Trustee's right in accordance with this clause, the Trustee shall be entitled to request the Debenture Holders to deliver to it or to the Company, the Debenture certificates for the purpose of registering a comment therein regarding any settlement, waiver, change or amendment as stated, and as per the Trustee's request, the Company shall register a comment as stated in the certificates delivered to it. In any case of exercising the Trustee's right in accordance with this clause, it shall notify the Debenture Holders in this regard without delay and as soon as possible.

28.6. Without derogation to the foregoing, the Debenture terms could also be changed in the framework of an arrangement or settlement, which was approved by the court, in accordance with Section 350 of the Companies Law.

29. <u>Proxies</u>

29.1. The Company hereby appoints the Trustee for the Debentures (Series B) as its proxy, to execute and perform in its name and in its place those actions which it shall be required to perform in accordance with the terms set forth in this Deed, and to act in its name with regards to those actions which the Company is required to perform in accordance with this Deed and which it has not performed, or to perform part of the authorities granted to it, and to appoint any other person as the Trustee shall see fit, to perform its roles in accordance with this Deed, subject to the Company failing to perform the actions it is required to perform in accordance with the terms of this Deed within a reasonable period of time as determined by the Trustee, from the day of the Trustee's written request, and provided that the Trustee has acted reasonably.

29.2. An appointment in accordance with this clause 29 does not obligate the Trustee to perform any action, and the Company hereby exempts the Trustee and its agents in advance, in case they shall fail to perform any action whatsoever, and the Company waives in advance any claim towards the Trustee and its agents for any damage which was caused or which might be caused to the Company, directly or indirectly, due to this, based on an action which was not performed by the Trustee and its agents as stated above.

30. Registry of Debenture Holders

30.1. The Company shall hold and manage a registry of Debenture Holders with regards to any relevant series separately, that shall be open for viewing by any person in accordance with the provisions of the Law.

30.2. The Company shall not be obligated to register in the Debenture Holders' registry, any notice regarding trust, expressed, implied or assumed, or any lien or pledge of any sort and type whatsoever or any right in equity, claim or offset or any other right pertaining to the Debentures. The Company shall only acknowledge the ownership of the person in whose name the Debentures were registered. The legal successors, estate managers or executors of the will of the registered Holder, and any person who shall be entitled to Debentures due to the bankruptcy of any registered Holder (and if the Holder is a corporation – due to its liquidation), shall be entitled to be registered as Holders thereof after giving proof which the Company finds sufficient to show their right to be registered as their Holders.

31. Meetings of the Debenture Holders

Convening a Meeting of the Debenture Holders, the manner of conducting it and different terms regarding it, shall be in accordance with the second addendum.

32. Applicability of the Law

32.1. On any matter not mentioned in this Deed, as well as in any case of contradiction between the provisions of the law and its regulations (which cannot be conditioned) and this Deed, the parties shall act in accordance with the provisions of the law and its regulations.

32.2. The Deed of Trust and its appendixes, including the Debentures certificate, are subject to the provisions of the Israeli law. The parties shall act in accordance with the provisions of the Israeli law in any matter that was not mentioned in this Deed, and in any event of a conflict between the provisions of the law which cannot be conditioned and this Deed.

33. Exclusive Authority

The only court that shall be competent to hear matters connected to the Deed of Trust and its appendixes shall be the competent court in Tel Aviv – Jaffa.

34. General

Without derogating from the other provisions of this Deed of Trust, and of the Debentures, any waiver, extension, discount, silence, avoidance from action ("**waiver**") by the Trustee concerning the default or partial performance or incorrect performance of any undertaking towards the Trustee or towards the Debenture Holders according to this Deed and the Debenture, shall not be considered as a waiver by the Trustee of any right, but rather as a consent limited to this certain waiver and it shall apply only with respect to the specific time in which it was given and it shall not apply to other times or to other waivers.

Without derogating from the other provisions of this Deed of Trust and the Debenture, any reduction of undertakings towards the Trustee, that were set forth in this Deed or that were made according to it, requires receiving the Trustee's consent in advance and in writing and no other consent shall be valid, whether verbal or by conduct regarding such reduction.

The Trustee's rights according to this agreement are independent from each other and they are in addition to any right that currently exists and/or that the Trustee shall have according to law and/or other agreement.

35. Addresses

The parties' addresses shall be as set forth in the preamble of this Deed, or any other address in respect to which a notice shall be given according to clause 27 above, to the other party. The addresses of the Debenture Holders shall be as mentioned in the registry or as shall be delivered by them by notice according to clause 27 above.

36. Authorization to Magna

In accordance with the provisions of the Securities Regulations (Signature and Electronic Reporting), 5763- 2003, the Trustee hereby authorizes the party authorized for this on behalf of the Company, to electronically report to the Securities Authority of this Deed of Trust, the engagement and the signature thereon inasmuch as it is required by law.

[signature on a separate page]

And in witness whereof the parties have signed:

/s/ Shlomo Nehama, /s/ Ran Fridrich	*/s/*
Ellomay Capital Ltd.	Hermetic Trusts (1975) Ltd.

I the undersigned Odeya Brick-Zarsky, Adv. confirm that this Deed of Trust was signed by Ellomay Capital Ltd. via Messrs. Shlomo Nehama and Ran Fridrich and their signature binds Ellomay Capital Ltd. with respect to this Deed of Trust.

/s/ Odeya Brick-Zarsky
Odeya Brick-Zarsky, Adv.

Ellomay Capital Ltd.

First Addendum

Debentures (Series B)

The issue of a series of registered debentures (series B), bearing annual interest of ___ not linked (Principal and interest) that shall be repaid in 6 annual non-equal installments on June 30th in each of the years 2019 to 2024 (inclusive) as follows: on each of the four principal payments in 2019 to 2022 (inclusive) a rate of 15% of the principal shall be paid, and on each of the principal payments in 2023 to 2024 (inclusive) a rate of 20% of the principal shall be paid. The interest on the debentures (series B) shall be paid twice a year, on June 30 and on December 31 of each of the years 2017 to 2024 (inclusive) from the date of issuance of the debentures (series B) and until their final repayment on June 30, 2024.

Debentures (Series B) Registered in the Name

Number ____

Nominal value in NIS _____

1. This Debenture indicates that Ellomay Capital Ltd. (the "**Company**") shall pay at the payment date as defined in the terms on the other side of the page, to whomever shall be a Debenture Holder on the record date, payments of Principal and interest, all subject to the terms on the other side of the page and the Deed of Trust.

2. This Debenture is issued as part of the series of the debentures under terms that are identical to this debenture (the "**Debenture Series**"), that are issued in accordance with the Deed of Trust ("**Deed of Trust**) dated March __, 2017, which was signed between the Company and Hermetic Trusts (1975) Ltd. ("**Hermetic**"). It is clarified that the provisions of the Deed of Trust shall constitute an integral part of the provisions of this Debenture, and they shall bind the Company and the Debenture Holders included in this series. All the Debenture Holders of this series shall have equal priority among themselves (pari–passu) without anyone having right of priority over the other.

3. This Debenture is issued subject to the terms set forth on the other side of the page and in the Deed of Trust, which constitute an inseparable part of the Debentures.

4. The terms set forth in this certificate shall change without the need for issuing a new certificate at any time when the Deed of Trust and/or its versions shall be lawfully modified.

Signed by the Company on _____

_____

Ellomay Capital Ltd.

By its authorized signatories:

Director: _____ Director: _____

Terms on the Other Side of the Page

1. General

In this Debenture the terms in clause 1.5 of the Deed of Trust shall have the meaning given to them there, unless another intention is implied from the context of the matter.

2. Securing the Debentures

The Debentures do not include any collateral or pledges and include an undertaking for negative pledge as set forth in clause 7 of the Deed of Trust, and an undertaking to meet the financial standards and restrictions regarding the distribution of dividends as set forth in appendix 6.2 of this Deed.

3. The Date of Payment of the Debentures Principal

The Principal of the Debentures (Series B) shall be payable in six (6) annual non-equal installments which shall be paid on June 30th of each of the years 2019-2024 (inclusive) as follows: on each of the four principal payments in 2019 to 2022 (inclusive) a rate of 15% of the principal shall be paid, and on each of the principal payments in 2023 to 2024 (inclusive) a rate of 20% of the principal shall be paid.

4. The Interest

4.1. The unpaid balance of the Principal of the Debentures (Series B) shall bear interest at a fixed annual rate of ___ without linkage to any index or currency. The interest for the unpaid balance of the Principal of the Debentures (Series B) shall be paid in semi annual payments on the 30th of June and on the 31st of December of each of the years 2017 to 2024 (inclusive) when the first payment of interest for the Debentures (Series B) shall be paid on the 30th of June 2017, for the period that begins on the first Trading Day after the day of the tender regarding the Debentures (Series B) and ending on the last day before paying the interest, namely June 29, 2017, when it is calculated on the basis of 365 days per year according to the number of days in this period, and the last interest payment shall be made on June 30, 2024.

4.2. Withholding tax that must be deducted shall be deducted from any payment.

4.3. **Adjustment mechanism of the interest rate**:

4.3.1. Changes to the interest rate as a result of a decrease in the rating of the Debentures (Series B)

Without derogating from the provisions of clause 9.1.9 of the Deed of Trust, the interest rate of the Debentures (Series B) shall be adjusted for a change in the rating of the Debentures (Series B) in accordance with the mechanism described hereafter:

a. Insofar as the rating of the Debentures (Series B) by the rating company set forth in the Deed of Trust or any other rating company which shall take its place (hereinafter the "**Rating Company**") (in the event of replacing the Rating Company, the Company shall transfer to the Trustee a comparison between the rating scale of the replaced Rating Company and the rating scale of the new Rating Company) shall be updated during any interest period, so that the rating that shall be determined for the Debentures (Series B) shall be lower by one level or more (hereinafter the "**Reduced Rating**") from the rating that was mentioned in the prospectus (or an equivalent rating that shall take its place and which shall be determined by another rating company, insofar as it shall take the place of the Rating Company mentioned in the Deed of Trust) (hereinafter the "**Base Rating**"), the annual interest rate which the unpaid balance of the Debentures (Series B) shall bear shall increase by an additional interest as set forth hereinafter, for the period that shall begin from the date of publishing the new rating by the Rating Company and until the earlier of the full payment of the unpaid balance of the Debentures (Series B) or updating the rating upwards in accordance with the stated in sub-clause (e) hereinafter, as follows: (a) in the event the rating that shall be determined shall be lower by one level from the Base Rating – the annual interest rate which the unpaid balance of the Debentures shall bear shall increase by a rate of 0.25% over the annual interest rate as it shall be at that time; (b) in the event the rating that shall be determined shall be lower by two levels from the Base Rating – the annual interest rate which the unpaid balance of the Debentures shall bear shall increase by an additional 0.25%, so that it is increased by a total rate of 0.5% beyond the annual interest rate as it shall be at that time; (c) in the event that the rating that shall be determined shall be lower by three levels from the Base Rating - the annual interest rate that the unpaid balance of the Debentures shall bear shall increase by an additional 0.25%, so that it will increase by a total rate of 0.75% beyond the annual interest rate as it shall be at that time; (d) in the event the rating that shall be determined shall be lower by four levels from the Base Rating - the annual interest rate that the unpaid balance of the Debentures shall bear shall increase by 0.25% so that it will increase by a total rate of 1% beyond the annual interest rate as it shall be at that time.

For the avoidance of doubt it is clarified that in any case (apart from due to the addition of interest in arrears as set forth in clause 8 hereinafter), the additional interest rate as a result of decreasing the rating of the Debentures, shall not exceed 1%. In addition, the additional interest in case of failure to meet the financial standards as set forth in clause 4.3.2 hereinafter along with the additional interest rate in case of a decrease in rating as set forth in this clause 4.3.1, shall not exceed an annual rate of 1.75% cumulatively above the interest rate set in the tender, as the Company shall publish in an immediate report regarding the results of the issuance ("**the Base Interest**").

b. No later than the end of one Business Day after receiving the notice of the Rating Company regarding lowering the rating of the Debentures (series B) to a Reduced Rating as defined in sub-clause (a) above in a way which shall affect the interest rate which the Debentures (Series B) shall bear as stated above in this clause, the Company shall publish an Immediate Report, in which the Company shall mention: (a) the fact that the rating was decreased, the Reduced Rating, and the date of commencement of the Reduced Rating of the Debentures (Series B) (hereinafter the "**Reduced Rating Commencement Date**"); (b) the accurate interest rate that the balance of the Debentures (Series B) shall bear for the period that commences and the beginning of the current interest period until the Reduced Rating Commencement Date (the interest rate shall be calculated according to 365 days per year) (hereinafter in this clause: the "**Original Interest**" and the "**Original Interest Term**", respectively); (c) the interest rate that the balance of the Debentures (Series B) shall bear beginning on the Reduced Rating Commencement Date until the next interest payment date, that is: the original interest with additional interest rate per year (the interest rate shall be calculated according to 365 days per year) (hereinafter in this clause: the "**Updated Interest**"); (d) the weighted interest rate which the Company shall pay to the Holders of the Debentures (Series B) at the next date of payment of interest, that arises from the aforesaid in sub-clauses (b) and (c) above; (e) the annual interest rate that is reflected from the weighted interest rate; (f) the annual interest rate and the semi-annual interest rate.

c. If the Reduced Rating Commencement Date of the Debentures (Series B) shall occur during the days beginning four days before the record date for paying any interest and ending at the next interest payment date after the record date (hereinafter in this clause the "**Deferral Period**") the Company shall pay the Holders of the Debentures (Series B) at the date of the next interest payment, the Original Interest prior to the change only (subject to previous changes which occurred, if any had occurred, in the interest rate in light of the stated in this clause 4.3.1 and clause 4.3.2 hereinafter), when the interest rate that stems from the additional interest in an amount equal to the additional interest rate per year during the Deferral Period shall be paid at the next interest payment date. The Company shall notify in an Immediate Report the exact interest rate to be paid at the next interest payment date.

d. In the event the rating of the Debentures (Series B) was updated by the Rating Company, in a manner that shall affect the interest rate which the Debentures (Series B) shall bear as mentioned above in this clause, the Company shall notify this to the Trustee in writing within one Business Day after publishing the Immediate Report as mentioned.

e. It is clarified that in the event that after the rating is decreased in a manner that affected the interest rate which the Debentures (Series B) shall bear as mentioned in this clause, the Rating Company shall update the rating of the Debentures (Series B) upwards, to a rating that equals or is higher than the Base Rating or to a rating at which the additional interest rate is lower, as set forth above (hereinafter the "**Higher Rating**"), then the interest rate that shall be paid by the Company to the Holders of the Debentures (Series B) shall be reduced, at the time of the relevant payment of interest, and this is for the period in which the Debentures (Series B) were rated by the Higher Rating only, so that the interest rate that the unpaid balance of the Principal of the Debentures (Series B) shall bear shall be an interest rate that was determined in the tender, as the Company shall publish in an Immediate Report regarding the results of the offering, without any addition or at a lower addition in accordance with the steps set forth in sub-clause (a) above, but subject to previous changes which occurred, if any had occurred, in the interest rate in light of the stated in clause 4.3.2 hereinafter (and in any event the interest rate which the Debentures shall bear shall not be less than the Base Interest rate). In such case the Company shall act in accordance with the provisions in sub-clauses (b) to (d) above, mutatis mutandis that result from the Higher Rating instead of the Reduced Rating. It shall be clarified that inasmuch as the additional interest to Debenture Holders (in accordance with this clause 4.3.1 and clause 4.3.2 hereinafter) was, upon updating the rating, increased by a rate exceeding 1.75% beyond the Base Interest rate, the additional interest rate shall decrease only if the additional interest rate as a result of updating the rating, along with the additional interest to which the Holders are entitled as a result of failure to meet the financial standards in accordance with clause 4.3.2 hereinafter, shall be lower than 1.75%.

f. Insofar as the Debentures (Series B) shall cease being rated for a reason dependent on the Company for a period that exceeds 60 days, before the final payment, provided that the interest rate as mentioned in sub-clause (a) above was not increased, the cessation of rating shall be considered as a reduction of rating of the Debentures (Series B), to a rating lower by four levels from the Base Rating, as set forth in sub-clause (a) above. Insofar as the Debentures (Series B) were not re-rated after 60 days have passed as mentioned above, the Company shall regard the date of the cessation of rating as the Reduced Rating Commencement Date with respect to the payment of interest and the provisions of sub clauses (b) – (e) shall apply accordingly. For the avoidance of doubt it is clarified that if the Debentures shall cease to be rated, before final repayment, for a reason that is not dependent on the Company, this will not affect the interest rate as mentioned in clause (a) above and the provisions of this clause shall not apply.

g. It is hereby clarified that insofar as the Debentures are rated or they shall be rated simultaneously by more than one Rating Company, changing of rating (or cessation of rating) that shall be performed by only one Rating Company when the second Rating Company has not changed the rating, shall not lead to any change in the interest rate which the Debentures (Series B) shall bear, and a change in the interest rate shall be only after the rating is changed (or ceases, as the case may be) by all the Rating Companies that shall rate the Debentures, insofar as the Debentures are rated or shall be rated simultaneously by more than one Rating Company and both Rating Companies have changed the rating, the rating that shall be considered for this purpose shall be whichever rating is lower of the Rating Companies.

h. Adjusting the interest rate for the Debentures as set forth in this clause above shall not apply in the event of a decrease of the rating of the Company below the Base Rating, that arises as a direct result of changing the rating scale of the different Rating Companies, as part of the adjustment of the local ratings to international ratings, if and insofar as relevant. In such case, the Base Rating shall be adjusted to the new rating which is equivalent to it, as shall be determined.

i. For the avoidance of doubt it is hereby clarified that a change in the rating outlook of the Debentures (Series B) (or of the Company) shall not lead to a change in the interest rate which the Debentures (Series B) shall bear.

j. Furthermore, notwithstanding the aforesaid, lowering the rating for the Debentures (Series B) or of the Company performed in the framework of a rating update for all companies in Israel and/or for companies that operate in the energy and infrastructure field, as a result of changing the methodology of the Rating Company, shall not lead to a change in the interest rate that the Debentures (Series B) shall bear.

4.3.2. Changing the interest rate due to failure to meet certain financial standards

Without derogating from the provisions of clause 9.1.15 of the Deed of Trust, the interest rate which the Debentures shall bear, shall be adjusted due to failure to meet the financial standards set forth in clauses 3(a)[a.2], 3(b)[b.2], 4(a)[a.2] and 4(b)[b.2] of Appendix 6.2 of the Deed of Trust, at the times set forth in these clauses, as specified hereinafter:

a. In case the Company fails to meet any of the financial standards set forth in clauses 3(a)[a.2], 3(b)[b.2], 4(a)[a.2] and 4(b)[b.2] of Appendix 6.2 of the Deed of Trust (hereinafter in this clause: "**the Standards**"), the annual interest rate which the unpaid balance of the Debenture principal shall bear, shall increase by an annual rate of 0.5% beyond the annual interest rate as it shall be at that time, for breaching each of the Standards (hereinafter in this clause: "**the Additional Interest**") until a maximal Additional Interest at a rate of 1%, for the period of time beginning upon publishing the financial statements or the financial results, as the case may be, according to which the Company has failed to meet any of the Standards, and until the full repayment of the unpaid balance of the Debentures principal or until the Company meets any of the Standards which have led to the Additional Interest (as stated in sub-clause (d) hereinafter) or until declaring the Debentures immediately repayable, the earlier of these dates. It is clarified, that increasing the interest rate as stated above shall be done only once for breaching each of the Standards, inasmuch as it shall occur, and that the interest rate shall not increase once more in case the deviation from that Standard continues, inasmuch as it shall continue.

b. No later than one business day from the day of publishing the financial statements or the financial results, as the case may be, according to which the Company has failed to meet any of the Standards, the Company shall publish an immediate report, in which it shall state: (a) the fact that it has failed to meet the Standards, while specifying the calculation of the Standards which the Company has failed to meet, and the date on which the failure to meet the Standards has begun; (b) the exact interest rate which the balance of the principal of the Debentures (Series B) shall bear for the period of time beginning on the current Interest Term and until publishing the financial statements or the financial results, as the case may be (the interest rate shall be calculated according to 365 days a year) (hereinafter in this clause: "**the Original Interest**" and the "**Original Interest Term**" respectively); (c) the interest rate which the balance of the principal of the Debentures (Series B) shall bear as of the day of publishing the financial statements or the financial results, as the case may be, and until the actual nearest interest payment day, namely: the Original Interest in addition to the Additional Interest annual rate (the interest rate shall be calculated according to 365 days a year) (hereinafter in this clause: "**the Updated Interest**"); (d) the weighted interest rate which the Company shall pay the Holders of Debentures (Series B) upon the nearest interest payment day, pursuant to the stated in sub-clauses (b) and (c) above; (e) the annual interest rate reflected from the weighted interest rate; (f) the annual interest rate and the semi-annual interest rate.

c. If the day of publishing the financial statements or the financial results, as the case may be, according to which the Company is required to pay Additional Interest in accordance with this clause 4.3.2, shall occur during the days beginning four days prior to the record date for paying any interest whatsoever and ending upon the interest payment day closest to the aforementioned record date (hereinafter in this clause: "**the Deferral Period**"), the Company shall pay the Holders of Debentures (Series B), upon the nearest interest payment day, the Original Interest, prior to the change, alone (subject to previous changes which have occurred, if any have occurred, to the interest rate in light of the stated in clause 4.3.1 above and this clause 4.3.2), when the interest rate pursuant to the Additional Interest at a rate equaling the Additional Interest rate per year during the Deferral Period, shall be paid upon the next interest payment day. The Company shall notify, in an immediate report, the accurate interest rate for payment upon the next interest payment day.

d. It shall be clarified, that in case of deviation in one or more Standards, in a way which has affected the interest rate which the Debentures (Series B) shall bear, following which a Standard shall be corrected in a way that the deviation ceases to exist (thus, the Debenture Holders shall cease to be entitled to Additional Interest for the deviation from that Standard), there shall be a decrease in the interest rate which shall be paid by the Company to the Debenture Holder, applying as of the day of publishing the financial statements or the financial results, which show that the deviation was corrected, so that in case the stated Standard was corrected, the interest rate which the unpaid balance of the principal of the Debentures (Series B) shall bear, shall be, inasmuch as the interest rate was not previously increased in accordance with the provisions of clause 4.3.1 above or due to a deviation from another financial Standard, equal to the Base Interest rate. In this case, the Company shall act in accordance with the stated in sub-clauses (a) to (c) above, *mutatis mutandis*. It shall be clarified, that inasmuch as the Additional Interest to Debenture Holders (in accordance with clauses 4.3.1 above and this clause 4.3.2) has been, prior to the time of correcting the Standards, in whole or in part, 1.75% above the Base Interest, then the Additional Interest as a result of correcting the Standard shall decrease, only if after the correction of the Standard, the Holders shall not be eligible at all to Additional Interest as a result of breaching the Standards, or if and inasmuch as they shall be entitled to a lower Additional Interest as a result of breaching the Standards, then the interest rate shall decrease only if the Additional Interest as a result of breaching the Standards, along with the Additional Interest rate to which the Holders would have been eligible as a result of a decrease in the Company's rating, calculated in accordance with clause 4.3.1 above, shall be lower than 1.75%.

e. In any case, the Additional Interest shall not increase, as a result of failure to meet one or more of the Standards, by more than 1%, and the Additional Interest in case of failure to meet the Standards as stated in this clause, along with the Additional Interest rate in case of a decrease in rating, shall not exceed 1.75% per year cumulatively beyond the Base Interest, as stated in clause 4.3.3 hereinafter.

4.3.3. The changes to the interest rate as a result of a decrease in rating, as stated in clause 4.3.1 above, and/or as a result of the Company's failure to meet the Standards as stated in clause 4.3.2 above, are cumulative and independent of one another, provided that in any case, the rate which shall be added pursuant to clauses 4.3.1 and 4.3.2 to the Base Interest, shall not exceed 1.75% per year.

5. The Linkage Terms of the Principal and the Interest

The interest and the Principal of the Debentures (Series B) are not linked to the index or to any currency.

6. Deferral of Appointed Times

If the date of payment of any payment of Principal and/or interest falls on a day which is not a Trading Day, the date stipulated shall be postponed to the next Trading Day after it without any additional payment and the "Record Date" for the purpose of determining entitlement to redemption and to interest shall not change as a result.

7. Payments of the Principal and Interest of the Debentures

7.1. Any payment on account of the Principal and/or interest of the Debentures (Series B) shall be paid to people whose names shall be registered as holders in the Debenture Holders (Series B) registry of the Company at the end of June 24 and December 25 of each of the years 2017 to 2024 (until June 24, 2024), that falls immediately prior to the date of payment of that payment (hereinafter the "**Record Date**"), except for the last payment of the Principal and the interest that shall be paid to people whose names shall be registered in the registry on the date of payment and that shall be made against the delivery of the Debenture (Series B) certificates to the Company, on the date of payment, at the Company's registered office or anywhere else where the Company shall notify. The Company's notification as mentioned shall be published no later than five (5) Business Days before the last date of payment.

It is clarified that whomever is not registered in the Debenture (Series B) registry of the Company at any of the times mentioned in this clause, shall not be entitled to the payment of interest for the interest period that began before that time.

7.2. Payment to those entitled shall be made in checks or by bank transfer to the bank account of the people whose names shall be registered in the registry of Debenture Holders (as mentioned in clause 7.1 above) and who shall be mentioned in the details given in writing to the Company on time, in accordance with the provisions of clause 7.3 hereafter. If the Company shall not be able, for any reason which is not dependent on it, to pay any sum to those entitled, it shall deposit this sum with the Trustee as mentioned in clause 15 of the Deed of Trust. In the event the clearing shall be made through the Stock Exchange clearing house – through the clearing house.

7.3. A Debenture Holder who shall wish to notify the Company the details of the bank account to credit with payments according to the Debentures as mentioned above, or change the payment instructions, as the case may be, can do so in a registered letter to the Company. The Company shall fulfill the instruction if it shall reach its registered office at least 30 days before the record date for paying any payment according to the Debentures.

7.4. In the event that the notice shall be received by the Company late, the Company shall act according to it only with respect to payments scheduled after the payment date that is in proximity to the date the notice was received.

7.5. If the Debenture Holder entitled to such payment did not deliver details to the Company regarding his bank account, any payment on account of the Principal and interest shall be made by check which shall be sent by registered mail to his last address written in the registry of Debenture Holders or by bank transfer crediting the bank account of the Debenture Holder, according to the Company's choice. Sending a check to a person entitled by registered mail as aforementioned shall be considered for all intents and purposes as payment of the sum stipulated in it at the date of sending it by mail provided that it was paid upon lawfully presenting it for payment.

7.6. Any mandatory payment insofar as required according to law shall be deducted from any payment for the Debentures (Series B).

8. Interest in Arrears

For any payment on account of the Principal and/or interest, which shall be paid in arrears exceeding seven (7) Business Days from the effective day for its payment according to the terms of the Debentures (Series B) for a reason dependent on the Company, the Company shall pay the Debenture Holders interest in arrears (calculated pro rata for the period after the date scheduled for payment until the actual date of payment). "**Interest in Arrears**" shall mean additional annual interest at a rate of 3% which shall be added to the interest rate which the Debentures (Series B) shall bear at that time. The Company shall notify of the rate of the interest in arrears and of the date of payment as mentioned in an Immediate Report and this two (2) Trading Days before the actual payment date.

9. Avoidance from Payment for a Reason that does not Depend on the Company

With respect to avoiding payment for any reason that is not dependent on the Company the provisions of clause 15 of the Deed of Trust shall apply and which are included in this addendum by reference.

10. Registry of Debenture Holders

With respect to the registry of Debenture Holders, the provisions of clause 29 of the Deed of Trust shall apply and that are included in this addendum by reference.

11. Splitting Debenture Certificates and Transferring Them

11.1. The Debentures can be transferred regarding any nominal value sum provided that it will be in whole New Shekels. Any transfer of Debentures (by a registered Holder) shall be done according to a transfer document which is made out in the version acceptable for transferring shares, properly signed by the registered owner or his legal representatives, and by the recipient of the transfer or his legal representatives, that shall be delivered to the Company at its registered office with the Debenture certificates transferred according to it, and any other reasonable proof that shall be required by the Company for proving the right of the transferor to transfer them.

11.2. Subject to the aforesaid, the procedural provisions included in the Company's articles of association with respect to the manner of transferring shares shall apply, mutatis mutandis respectively, with respect to the manner of transferring Debentures and their assignment.

11.3. If any obligatory payment shall apply to the transfer document of the Debentures, reasonable proof shall be given to the Company of their payment by the person requesting transfer.

11.4. In the event of a transfer of only part of the sum of the Principal of the Debentures set forth in this certificate, the certificate shall be split first to a number of Debenture certificates as required from this, in a manner that the total sums of the Principal set forth in them shall be equal to the Principal sum set forth in this Debenture certificate.

11.5. After fulfilling all of these terms the transfer shall be registered in the registry and all of the terms set forth in the Deed of Trust and in this Debenture shall apply to the transferee.

11.6. All costs and fees involved in the transfer shall apply to the transfer applicant.

11.7. Each Debenture certificate may be split to a number of Debenture certificates that their total Principal sum is equal to the Principal sum of the certificate the split of which is requested, and provided that such certificates shall not be issued unless this is by a reasonable quantity at the discretion of the Company's board of directors. The split shall be made against the delivery of that Debenture certificate to the Company at its registered office for the purpose of performing the split together with a split request lawfully signed by the applicant. Any costs involved in the split, including taxes and levies, if such shall exist, shall apply to the split applicant.

12. Replacing the Debenture Certificate

In the event a Debenture certificate shall become worn out, shall be lost or shall be destroyed, the Company shall be entitled to issue a new Debenture certificate in its place, and this is under the same conditions with respect to proof, indemnification and covering the reasonable costs incurred by the Company for clarifying regarding the ownership right of the Debentures, as the Company shall see fit, provided that in the event of the certificate becoming worn out, the worn out Debenture certificates shall be returned to the Company before a new certificate is issued. Levies and other expenses involved in issuing the new certificate, insofar as existing, shall apply to the person requesting such certificate.

13. Early Redemption

With respect to early redemption of the Debentures, the provisions of clause 8 of the Deed of Trust shall apply and which are included in this addendum by reference.

14. Purchasing Debentures by the Company or an Affiliated Holder

With respect to the purchase of Debentures by the Company or by an Affiliated Holder, see the provisions of clause 4 of the Deed of Trust which are included in this addendum by reference.

15. Waiver; Settlement and Changes in the Debenture Terms

With respect to a waiver, settlement and changes in the terms of the Debentures, the provisions of clause 28 of the Deed of Trust shall apply which are included in this addendum by reference.

16. Debenture Holders Meetings

With respect to the general meetings of the Debenture Holders, they shall be convened and conducted in accordance with the provisions of clause 30 of the Deed of Trust which are included in this addendum by reference.

17. Receipts as Proof

For this matter see clause 15A of the Deed.

18. Replacing the Debenture Certificate

For this matter see clause 12 of the Deed.

19. Immediate Repayment

With respect to immediate repayment of the Debentures, the provisions of clause 9 of the Deed of Trust shall apply and which are included in this addendum by reference.

20. Notices

With respect to notices, the provisions of clause 27 of the Deed of Trust shall apply and which are included in this addendum by reference.

Appendix 3

The Trustee's Duties

Routine Duties

1. Checking according to the Company's reports that were published in Magna (the "**Public Reports of the Company**") and according to the confirmations and documents that shall be given to the Trustee by the Company according to the provisions of this Deed:

   1.1. That the payments of Principal and interest by the Company have been paid in a timely fashion.

   1.2. That the uses which the Company has made of the proceeds received for issuing the Debentures meet the targets that have been determined for this in the Deed of Trust and/or in the chapter that deals with the designation of the proceeds in the prospectus of the offering, insofar as determined.

   1.3. That the Company has met the milestones that have been determined in the Deed of Trust for its activities, insofar as determined.

   1.4. If any of the causes for declaring the debentures immediately repayable have occurred based on the Public Reports of the Company.

2. Summoning Meetings of Debenture Holders according to the provisions of the second addendum of the Deed of Trust.

3. Participating (including by electronic means) in meetings of the shareholders of the Company.

4. Preparing an annual report of the trust matters as mentioned in clause 21.1 of this Deed, and making it available for the Debenture Holders to review and preparing the reports required in the Law.

5. Notice to the Debenture Holders of a material breach of this Deed by the Company in proximity to the date in which it is made aware of the breach and notice of the steps it has taken to prevent it or for the performance of the Company's undertakings, as the case may be.

6. Examining from time to time and at least once per year, the validity of the Collaterals, (insofar as there shall be any) as stated in clause 12 hereinafter. It is clarified that the Trustee is entitled, if it thought that this is necessary for the examination as mentioned, to check the Company's assets that are pledged in favor of the Debenture Holders.

7. Checking according to the Public Reports of the Company and according to the confirmation and documents that shall be given to the Trustee by the Company according to the provisions of the Deed of Trust:

   7.1. That the Company fulfills its undertakings towards the Debenture Holders.

   7.2. That the Company fulfills all of its undertakings set forth in the Deed of Trust.

   7.3. That the Company meets the financial standards determined, if determined in the Deed of Trust.

   7.4. If a change has occurred in the registration of charges registered according to the provisions of the Deed of Trust, insofar as were registered.

   7.5. If there has been a change in the Company rating or the rating of the Debentures, inasmuch as they have been rated.

8. To pay the Debenture Holders monies of the Finance Deposit as it is defined in clause 25 of the Deed, which were deposited by the Trustee for this purpose in accordance with the stated in the Deed of Trust, inasmuch as such as cushion was deposited.

9. To enable replacing collaterals, inasmuch as the Deed of Trust expressly permits to do so, in accordance with the mechanism set forth in the Deed of Trust, inasmuch as such as mechanism was set forth, or by law.

10. To release collaterals, inasmuch as the Deed of Trust expressly permits to do so, in accordance with the mechanism set forth in the Deed of Trust, inasmuch as such as mechanism was set forth.

11. Performing any action required by law, including in accordance with Amendments 50 and 51 of the Securities Law.

Special Duties

12. Taking all actions required for the purpose of ensuring the Company's undertakings towards the Debenture Holders, which are not set forth in clauses 1-11 above, including taking all actions required for the purpose of ensuring, prior to payment monies to the Company on account of the Debentures, the validity of collaterals given by the Company, inasmuch as it has given any, or given by a third party, inasmuch as it has given any, in favor of the Debenture Holders; the Trustee is responsible towards the Debenture Holders that the collaterals as stated shall be described in the prospectus according to which the Debentures were offered, a complete and accurate description.

13. Unusual inspections due to unusual events in accordance with the Company's public reports (as they are defined in clause 1 above):

    13.1. That the Company is upholding its undertakings towards the Debenture Holders, including the existence of causes for declaring immediate repayment.

    13.2. That the Company is upholding all of its undertakings set forth in the Deed of Trust.

    13.3. That the Company is upholding the financial standards which have been set forth, if any have been set forth, in the Deed of Trust.

    13.4. If there has been a change in the registration of pledges registered in accordance with the provisions of the Deed of Trust.

14. To implement the resolutions of the Meeting of Debenture Holders that impose a duty on the Trustee and to take all the proceedings and actions required for protecting the rights of the Debenture Holders subject to providing the Trustee the financing required for implementing them, insofar as required.

15. To take urgent actions for preventing adverse material harm to the rights of the Debenture Holders where it is not possible to wait for a Meeting to be convened.

16. To initiate negotiations with the Company, whether as per the request of the Company or the Debenture Holders, with respect to requests or offers pertaining to the provisions of the Deed of Trust.

17. In the event the Trustee thought that there is a reasonable fear that the Company shall not be able to repay the Debentures on time, to perform unusual checks pertaining to the inspection of the stated circumstances and to act to protect the Debenture Holders as the Trustee shall see fit; and it is entitled, inter alia-

    17.1. To examine if the circumstances mentioned are due to actions or transactions performed by the Company, including distribution as defined in the Companies Law, that were made in breach of the law; however the Trustee shall not make such examination as mentioned if an expert was appointed for the holders of certificates of undertaking, as such term is used in Section 350[18] of the aforementioned law, whose duty is to conduct such examination.

17.2. To manage, in the name of the Holders of certificates of undertaking, negotiations with the issuer for changing the terms of the certificates of undertaking.

17.3. With respect to this issue, the convening of a meeting of Holders of certificates of undertaking by the Trustee for receiving instructions how to act, shall not be regarded as a breach of its duty, provided that the convening of such meeting does not adversely harm the rights of the Holders.

17.4. If a Meeting of Holders of certificates of undertaking was convened as mentioned in sub-clause (d1), and a resolution was lawfully adopted at the Meeting, the Trustee shall act in accordance with the resolution; if it did so, its action according to this same resolution shall be regarded as having met the provisions of this clause concerning the resolution.

17.5. Deleted.

18. To distribute money to the Debenture Holders in accordance with the provisions of the Deed of Trust, which the Debenture Holders are entitled to receive and which have reached the Trustee.

19. To supervise the process of realizing the rights of the Debenture Holders in the event a functionary has been appointed to the Company or for its assets.

Appendix 5.2

Conditions for Expanding the Series of Debentures

The conditions for expanding the series of Debentures (Series B) are as follows:

1. The expansion shall not harm the rating of the Debentures of Series B that are in circulation (that is, Debentures (Series B) that are in circulation before the expansion of the series), in a way that for purposes of expanding the series of the Debentures (Series B) an advance approval of the rating company for rating the additional Debentures (Series B) will be received, in which the additional Debentures (Series B) were taken into account, by a rating that does not fall from the original rating of the Debentures (Series B) that existed at the time of initial issuance of the series or from the rating of the Debentures (Series B) prior to the issuance of the additional Debentures (whichever is lower) and also the approval of the rating company that issuing the additional Debentures (Series B) does not harm the rating of the existing Debentures (Series B). Such approval shall be transferred to the Trustee before holding the tender for classified investors, and it shall be published by the Company in an Immediate Report. The Trustee shall rely on the rating company's notice and it shall not be required to an additional examination.

2. At the time of expanding the series of Debentures (Series B) the Company is not in breach of the cause for immediate repayment set forth in clause 9.1.15 of the Deed of Trust and the expanding of the series will not harm the Company's meeting the financial standards as mentioned in this clause.

3. Upon expanding the series of Debentures (Series B), the Company is not in breach of any of the causes for immediate repayment set forth in clause 9 of the Deed of Trust, and it is not in material breach of its undertakings to the Holders of Debentures (Series B) in accordance with this deed.

The Company shall deliver to the Trustee, prior to holding the tender for classified investors, a written approval signed by a senior financial officer in the Company regarding the existence of these terms. The Trustee shall rely upon an approval as stated and shall not be required to perform an additional inspection on its behalf.

It is clarified that the Company's undertaking as mentioned in this appendix shall apply only with respect to additional issues of the Debentures (Series B) by way of expanding the series, and not with respect to issuing other series of debentures in circulation existing at that time by way of expanding the series or with respect to issuing other new securities, whether these are rated or not.

Appendix 6.2

Financial Standards and Undertakings

Financial Standards

As long as Debentures (Series B) exist in circulation (in other words as long as they were not paid in full in any manner, including by way of self-purchase and/or early redemption), the Company undertakes (for the duration of the Examination Period, as defined hereafter) as follows:

[1] Definitions

In this appendix the following terms shall have the meaning set beside them:

"**Net Cap**" means – the equity of the Company according to its last consolidated financial statements or last consolidated quarterly financial results published before the day of calculation, with the addition of the Net Financial Debt.

"**Balance Sheet Equity**" means – the consolidated equity according to the international finance reporting standards (IFRS), and including minority rights, capital note and shareholders' loans which are inferior to the rights of Holders of Debentures (Series B). For the purpose of this clause, a shareholders' loan shall be considered as inferior to the Debentures only if according to its terms – (a) the repayment of a loan shall be conditioned on the fact that immediately upon the actual repayment of the loan, the Company shall meet the financial standards; and (b) in case of declaring immediate repayment of the Debentures (Series B) or in case of liquidation, it shall be repaid only after the complete repayment of the Debentures (Series B).

"**Net Financial Debt**" - short term and long term debt from banks with the addition of debt towards holders of debentures that the Company issued and other interest-bearing financial obligations after deducting cash and cash equivalents and short terms investments and after deducting financing of projects, including hedging transactions for such finance, at the level of the Company's subsidiaries.

[2] Minimal Balance Sheet Equity

The Balance Sheet Equity of the Company, as defined above, according to the consolidated financial statements or the consolidated financial results last published, shall not be less than 55 Million U.S. Dollars.

[3] The Ratio of Net Financial Debt to Net Cap:

a. Until 30/06/2018 (that is, up to and including the financial results as of 30/06/2018):

a.1. For the matter of the cause for immediate repayment in clause 9.1.15 of the Deed: The ratio between the Net Financial Debt (as defined above) and the total equity and debt (Net Cap) (as defined above), on the basis of the financial statements or the financial results, on a consolidated basis, shall not exceed 65% (the "**Ratio of Net Financial Debt to Net CAP**").

a.2. For the matter of adjusting the interest, as set forth in clause 4.3.2 of the terms on the other side of the page of the Debenture: the Ratio of Net Financial Debt to Net Cap shall not exceed 60%.

b. Commencing 01/07/2018 (that is, as of the financial results for 30/09/2018) and until the day of full repayment of the Debentures (Series B):

b.1. For the matter of the cause for immediate repayment in clause 9.1.15 of the Deed: the Ratio of Financial Debt to Net Cap shall not exceed 60%.

b.2. For the matter of adjusting the interest, as set forth in clause 4.3.2 of the terms on the other side of the page of the Debenture: the Ratio of Net Financial Debt to Net Cap shall not exceed 55%.

[4] Equity to Balance Sheet

a. Until 30/06/2018 (that is, up to and including the financial results as of 30/06/2018):

a.1. For the matter of the cause for immediate repayment in clause 9.1.2 of the Deed: the ratio of the equity to the balance sheet (based on the data of the financial reports or the financial results, on a consolidated basis) shall not be less than 20%.

a.2. For the matter of adjusting the interest, as set forth in clause 4.3.2 of the terms on the other side of the page of the Debenture: the Ratio of equity to balance sheet (based on the data of the financial reports or the financial results, on a consolidated basis), shall not be less than 25%.

b. Commencing 01/07/2018 (that is, as of the financial results for 30/09/2018) and until the day of full repayment of the Debentures (Series B):

b.1. For the matter of the cause for immediate repayment in clause 9.1.2 of the Deed: the ratio of the equity to the balance sheet (based on the data of the financial reports or the financial results, on a consolidated basis) shall not be less than 25%.

b.2. For the matter of adjusting the interest, as set forth in clause 4.3.2 of the terms on the other side of the page of the Debenture: the Ratio of equity to balance sheet (based on the data of the financial reports or the financial results, on a consolidated basis), shall not be less than 30%.

[5] General

As long as the Debentures (Series B) have not yet been fully paid, the Company undertakes to inform the Trustee by a written notice signed by a senior financial officer in the Company with a calculation, within 10 Business Days after publishing any financial statement or financial results of the Company, regarding its meeting the terms of clauses [2] to [4] above. The Trustee shall rely on the Company's confirmation and it shall not be required to perform another examination.

If it turns out that according to the financial statements or the financial results for examination, the Company did not meet any of its undertakings mentioned in sub-clauses [2] – [4] above, and its failure to fulfill its undertakings as mentioned continued during the Examination Period (as defined hereafter), then the provisions of clause 9.1.14 of the Deed of Trust shall apply. It is clarified that for the purposes of clause 9 of the Deed of Trust, the date of the relevant breach shall be considered the date of publishing the relevant financial statements for the end of the Examination Period.

In this deed, the "**Examination Period**" means two consecutive quarters, based on the relevant financial results for the end of each of these quarters.

The Company's meeting any of the financial standards set forth in clauses 2-4 above, shall be calculated according to the accounting standard that applies to the Company in accordance with its consolidated financial statements as of 31/12/2015. The Company shall publish in the framework of publishing its annual financial statements or financial results, as the case may be, the figures on which it based the calculation of the Ratio of Net Financial Debt to Net Cap.

In case of changing the accounting standards applying to the Company, which affects the method of calculating any of the financial standards as stated, the Company shall check its meeting the financial standard as stated in accordance with an internal proforma balance sheet in accordance with the accounting standards according to which the Company's consolidated financial statements as of 31/12/2015 were prepared. The Company shall publish this proforma report, or data thereof, as the case may be, to Holders of Debentures (Series B) in the framework of the annual financial reports or its financial results, as the case may be.

Undertakings

As long as Debentures (Series B) shall exist in circulation (in other words as long as they were not fully paid, including by way of a self-purchase and/or early redemption), the Company undertakes as follows:

[1] Rating

The Company undertakes to act so that insofar as this is under its control, the Debentures (Series B) shall be followed by at least one rating company, as long as debentures in circulation exist of the same series (and without derogating from the generality of the aforesaid, in this framework, inter alia, the Company undertakes to pay all of the payments and to deliver the required reports required to the rating company, in accordance with the provisions of the agreement with it). In this respect it is clarified that transferring the Debentures to a "watch list" or any other similar action which is performed by the rating company shall not be considered as the cessation of the rating.

Without derogating from the Company's undertakings as mentioned above, in the event that the company shall replace the rating company of the debentures (Series B) at its own initiative by another (single) rating company, the company shall publish an Immediate Report that sets forth the reasons for replacing the rating company, and this is within one Trading Day after the event. It is clarified that the aforesaid does not derogate from the Company's right to replace the rating company at any time, at its sole discretion and as it shall see fit. If the Debentures of the relevant series shall stop being rated (in other words – they shall not be rated by any rating company) the Company shall immediately transfer to the Trustee a written notice regarding the reasons for stopping the rating and no later than one Business Day after the rating has stopped.

[2] Distributing Dividends

The Company shall be entitled to perform a distribution (as this term is defined in the Companies Law) including the distribution of dividends, to its shareholders at any time, provided that in any event of such distribution: (a) the equity of the Company according to its consolidated financial statements or its consolidated financial results, after such distribution, shall not be less than 75 Million U.S. Dollars, (b) the Company meets the financial standards set forth above before performing the distribution and the distribution shall not harm the Company's compliance with the financial standards, (c) the Company shall not distribute more than 75% of the profit appropriate for distribution and (d) the Company shall not distribute a dividend on the basis of revaluation profits (for the avoidance of doubt, negative goodwill shall not be considered as revaluation profit).

It is hereby clarified, that any amount not actually distributed in a certain calendar year, out of the maximal amount for distribution which the Company was entitled to distribution in accordance with the stated in this sub-clause above, shall accumulate to the Company's credit, which shall be entitled to distribute it at later times and until the full repayment of the Debentures, all subject to the provisions of Section 302 of the Companies Law.

After a decision is made regarding the distribution as mentioned, the Company shall transfer to the Trustee confirmation signed by a senior financial officer in the Company, regarding the Company meeting the limitations in this paragraph. The Trustee shall rely on the Company's confirmation and shall not be required to perform an additional examination on its behalf. Beyond the aforesaid in this clause, the Company has no restrictions with respect with performing distributions and distributions shall be made (insofar as made) at the Company's sole discretion and for any reason that it shall see fit.

Except as set forth in this clause, the Company declares that as of the date of signing this Deed of Trust, it is not aware of any restrictions that could affect its ability to perform a distribution in the future, except for legal general restrictions that apply to performing distributions in the Companies Law and except for restrictions that apply to the Company by the Deed of Trust regarding the Debentures (Series A) of the Company.

It shall be clarified, that for the purpose of inspecting the Company's meeting the terms set forth in this clause [2], the provisions stated above regarding the change in accounting standards shall apply.

Appendix 19.2

Confidentiality Undertaking

To

Ellomay Capital Ltd.

Dear Sir/Madam,

Subject: Undertaking of Confidentiality

1. In the framework or with regards to my position as _____ to the Holders of Debentures (Series B) of Ellomay Capital Ltd. (hereinafter: "**the Company**") (hereinafter: "**the Work**"), I might receive or be exposed to information which is not public knowledge, including, without limitation, information or professional, technical, financial, technological, commercial or other knowledge pertaining directly and/or indirectly to the Company, the Company's subsidiaries or affiliates (as these terms are defined in the Securities Law, 5728-1968 (hereinafter: "**the Securities Law**")), to corporations in the Company's group and/or to holders of controlling interests in the Company (hereinafter jointly: "**the Group**"), procedures and/or methods of work and/or activity of the Group as well as commercial and business information of any other type which is not public knowledge (hereinafter jointly: "**Confidential Information**"). Despite the foregoing, the term Confidential Information shall not include information as stated above, which I could prove, that: (1) it is public knowledge (including information publicly published by you or by holders of controlling interests within you) or which shall become public knowledge not due to breaching the provisions of this confidentiality undertaking; or (2) which was known to us prior to its disclosure by the Company and we can provide reasonable proof thereof; or (3) that it was given to us by a third party, provided that upon receiving the information as stated we were not aware, having asked its provider, that the disclosure of that information by that third party constitutes a breach of the fiduciary duty by that third party towards the Company.

2. I am aware that I am prohibited from disclosing the Confidential Information to any person, and that I shall not be entitled to use the Confidential Information for any purpose, unless it is for the Work. Despite the foregoing, I shall be entitled (a) to deliver conclusions and evaluations based on the Confidential Information to Holders of Debentures (Series B) of the Company (including presenting it in the Meetings of Debenture Holders for the purpose of adopting a resolution pertaining to their rights), provided that the reliance upon information as stated shall be limited to the minimal extent and scope required in order to meet the requirements of the law, and that I have given a notice to the Company in this regard a reasonable time in advance, in order to give the Company sufficient leave to approach the court in order to prevent the delivery of conclusions and evaluations as stated; (b) to deliver conclusions and evaluations based on the Confidential Information to the representing body of the Debenture Holders, which shall be duly appointed by the Debenture Holders, provided that all members of the representing body (inasmuch as there shall be any) have signed an undertaking of confidentiality towards the Company, in the form of this confidentiality undertaking, as well as a declaration regarding the absence of a conflict of interests or non-competition with the Company, and to enable the representing body of Debenture Holders as stated, to view the Confidential Information in our office, subject to signing a letter of confidentiality in the stated wording by all members of the representing body, subject to the provisions of clause 6.13 of the Deed of Trust. It shall be clarified, that if all members of the representing body of Debenture Holders shall sign the undertaking of confidentiality as stated, the delivery of Confidential Information to their proxies, their employees, including members of the board of directors and including members of investment committees and credit committees, is permitted without them signing additional letters of confidentiality, subject to the undertaking of the representing body of the Debenture Holders that all such factors and anyone acting on their behalf, including subcontractors acting on their behalf, shall also uphold the undertakings set forth in this document; (c) to disclose Confidential Information, inasmuch as I shall be required to do so by law or at the request of a competent authority by law and/or in accordance with a judicial order, provided that the disclosure is limited to the minimal extent and scope required in order to meet the requirements of the law and I shall pre-coordinate with you, inasmuch as it is possible and permitted, the content and timing of the disclosure in order to give you sufficient leave to defend against such as request.

3. In addition to permitted delivery of Confidential Information as stated in clause 2, and without derogation to the stated therein, disclosing Confidential Information shall be done only to my employees and/or authorized representatives on my behalf, including my professional consultants alone. I am aware, that disclosure or use on a need-to-know basis by an authorized receiver (hereinafter: "**Authorized Receiver**") not in accordance with the provisions of this letter is treated as disclosure or use as stated by myself, and I shall take all means required to keep the Confidential Information confidential. My undertaking herein shall not apply to an Authorized Receiver who shall sign an undertaking of confidentiality similar by all material aspects to the undertaking set forth in this letter.

4. I am aware that disclosing the Confidential Information to any person or body might be contrary to the Israeli securities laws. I am aware, that due to my exposure to the Confidential Information, various limitations might apply to me if I shall receive inside information, as this term is defined in the Israeli Securities Law, and I am taking and I shall take all reasonable means to ensure that there shall be no prohibited use of inside information pertaining to the Confidential Information.

5. All documents which shall be given to me by you or which shall arrive in my possession as a result and/or pertaining to my engagement with you, and which are related, directly or indirectly, to the Group and/or its activity (including any copy or processing thereof) (hereinafter jointly: "**the Documents**") shall belong to you at all times and shall be considered as your property for all matters and purposes, and shall be returned to you by me at your request immediately upon the termination of the Work, apart from the information which I shall keep in accordance with the provisions of any law, including the instructions of a competent authority, or in accordance with internal procedures, inasmuch as it is required for the purpose of documenting work processes. For the purpose of the stated in my undertaking herein, the term Documents shall be interpreted to include any means of holding information whatsoever, including, but without derogation from the generality of the foregoing, physical, mechanical, magnetic, electronic, optic and/or electro-optic means.

6. My undertaking in accordance with this letter shall remain effective even after the termination of the Work for any reason whatsoever, and until the Confidential Information becomes public (not due to breaching the undertaking in accordance with this letter, inasmuch as there shall be any). My undertakings in accordance with this letter of confidentiality are irrevocable and cannot be cancelled and they are in addition and not instead of any duty imposed on me by law and/or pursuant to any other agreement. My signature on this undertaking does not grant me any right to perform the Work, and the terms of employment shall be arranged in separate documents between us.

7. I shall keep the information in complete secrecy, at least at the same level of care by which I keep my own confidential information, and for this purpose I shall take a reasonable level of care at least.

8. It is clarified, that subject to the provisions of the Securities Law, the stated in this undertaking does not bind the Company to disclose any information whatsoever, and any disclosure and delivery to us shall be at the Company's absolute discretion.

9. My undertakings in this document are towards each and every of the corporations in the Group, the Confidential Information of which shall be given to me.

10. If any instance or authority whatsoever shall determine that any of the undertakings in this document are not valid – the undertaking shall be minimized up to the rate permittee by law at that time, and a determination as stated shall not harm the other undertakings and rights in accordance with this document.

Respectfully,

_____	_____	_____
Full name	ID number	signature

Appendix 22

The Trustee's Fee and Covering its Expenses

1. The Company shall pay fee to the Trustee for its services in accordance with the Deed of Trust, as set forth hereafter:

   1.1. Annual payment for each trust year in the sum of 18,000 NIS.

   1.2. Annual payment for each trust year in the sum of 20,000 NIS if the Trustee shall serve as Trustee only regarding a single series of Debentures of the Company.

   The sums according to clauses 1.1 and/or 1.2 shall be referred to as the "Annual Fee".

   The Annual Fee shall be paid to the Trustee at the beginning of each trust year. The Annual Fee shall be paid to the Trustee for the period until the end of the trust period according to the terms of the Deed of Trust, even if a receiver and/or receiver manager was appointed for the Company and/or if the trust according to the Deed of Trust shall be managed under the supervision of the court.

2. In the event that we shall participate in the discussions with the Securities Authority we shall be paid fee (at the tariff stipulated in clause 5 hereafter), in accordance with the hours of the discussions in which we shall take part, including a refund of travel costs. This payment is not conditioned upon the issue of the Debentures or signing the Deed of Trust.

3. In the event the term of the Trustee has expired as mentioned in the Deed of Trust, the Trustee shall not be entitled to the payment of its fee starting on the date that its office has expired. If the Trustee's office has expired during the trust year the fee paid to it for the months that it did not serve as Trustee of the Company shall be returned. The provisions in this clause shall not apply regarding the first trust year.

4. The Trustee is entitled to a refund for the reasonable expenses that it shall expend in the framework of fulfilling its duties, and/or pursuant to the powers granted to it according to the Deed of Trust, including for publications in the press, provided that for the costs of expert opinion as set forth in the Deed of Trust, the Trustee shall give an advance notice of his intention to receive an expert opinion.

5. The Trustee is entitled to additional payment, for actions, including those which it must perform in order to fulfill its lawful obligations pursuant to the Securities Law, (including amendments 50 and 51 of the Securities Law), and the regulations that shall be promulgated following these amendments and also those arising from a breach of this Deed of Trust by the Company and/or for an action of declaring Debentures immediately repayable and/or for special actions which shall be required to be performed, if required, for fulfilling its duties according to the Deed of Trust, all in addition and without harming the payments due to it as mentioned in this appendix.

6. The Trustee shall be entitled to additional payment as mentioned, in the sum of 600 NIS for each working hour that it shall require to perform as mentioned above, linked to the known index, at the date of publishing the prospectus, but in any event no less than the sum set forth above. For each annual meeting of shareholders or Debenture Holders (and this is in addition to the payment according to clause 5 above) in which the Trustee shall take part, an additional fee in the sum of 600 NIS per meeting, linked to the index known at the date of publishing the prospectus shall be paid, but in any case no less than the sum set forth above. The sum mentioned shall be paid immediately upon the issuing of the Trustee's demand.

7. This agreement is based on the consent that the debentures are without collaterals and without financial standards which the Trustee must examine. However in the event that the Debenture Holders (series B) shall be granted any collaterals or in the event that they shall be determined with financial standards or any other undertaking that the Trustee must examine, then the Trustee's fee shall be agreed in accordance with the scope of work that shall be required to dedicate to the trust.

8. VAT if applicable, shall be added to the payments due to the Trustee, according to the provisions of this appendix and it shall be paid by the Company. The sums above do not include a refund of expenses and lawful VAT and they shall be linked to the base index of each series however in each case a lower sum than the sum set forth in this proposal shall not be paid. The payment terms are 15 days net after the end of the calendar month of the invoice.

9. The Debenture Holders shall participate in financing the Trustee's fee and refund of expense in accordance with the provisions of the indemnification clause in clause 25 of the Deed of Trust.

Second Addendum

Subject to the provisions of the Securities Law, convening a Meeting of Debenture Holders, the manner of conducting it and various terms regarding it, shall be as follows:

Summoning a Meeting

1. The Trustee shall summon a Debenture Holders Meeting for each series separately ("**Annual Meeting**") each year and no later fourteen (14) days after the second annual report regarding trust matters (as mentioned in clause 21 of the Deed of Trust) was submitted, which shall be convened no later than sixty (60) days after the report was submitted. The agenda of the Annual Meeting shall include the appointment of the Trustee for the period that shall be determined (unless the prior Meeting determined a longer appointment time), a discussion of the annual report regarding trust matters as well as any other subject included in the agenda as stated in Section 25L2 of the Securities Law.

2. The Trustee shall convene a Meeting of the Debenture Holders if it saw a need for this, or according to a written request of Debenture Holders that hold, alone or together, at least five percent (5%) of the balance of the nominal value of the Debentures in circulation of that series.

3. In the event those requesting to summon a Meeting are Debenture Holders, the Trustee shall be entitled to demand indemnification from them, including in advance, for the reasonable costs involved in this.

4. The Trustee who was required to summon a Debenture Holders Meeting in accordance with the provisions of clause 2, shall summon it within 21 days after a demand to summon it was submitted to the Trustee, to a date that shall be determined in the summons, provided that the convening date shall not be earlier than seven days and not later than 21 days from the summons date; however, the Trustee is entitled to bring the meeting forward, to at least one day after the summons date, if it thought that this was required in order to protect the Debenture Holders rights and subject to the provisions of clause 21 hereafter; if it did so, the Trustee shall explain the reasons for bringing the convening date forward in the report regarding the summoning of the Meeting.

5. The Trustee may, at its reasonable discretion, change the scheduled meeting time of a Meeting convened by him as well as per the Company's request, in case the Meeting was summoned by the Company.

6. In the event the Trustee convened a Meeting of the Debenture Holders not according to the request of the Debenture Holders the Trustee is entitled to determine that the Meeting shall take place by electronic means.

7. If the Trustee did not summon the Debenture Holders Meeting, according to the demand of the Debenture Holder, within such time as mentioned in clause 1.4 above, the Debenture Holder may convene the Meeting, provided that the scheduled Meeting shall be within 14 days, after the end of the period for summoning the Meeting by the Trustee and the Trustee shall bear the expenses that the Debenture Holder expended with respect to convening the meeting.

8. If the Debenture Holders Meeting was not convened as mentioned in clauses 1 or 2 above, the court may at the request of the Debenture Holder, order that it be convened.

9. If the court ordered as mentioned in clause 8, the Trustee shall bear reasonable costs that the applicant expended in a court proceeding, as shall be determined by the court.

10. The Company is entitled to convene, at any time, a Meeting of Debenture Holders in coordination with the Trustee. If the Company summons a Meeting as stated, it must immediately send the Trustee a written notice regarding the place, day and time on which the Meeting shall take place, as well as the subjects to be brought up for discussion therein, and the Trustee or a representative on its behalf shall be entitled to participate in a Meeting as stated without having the right to vote. A Meeting as stated shall be summoned for a time set in the invitation, provided that the time for convening shall be no earlier than seven days and no later than 21 days from the day of summoning.

11. Where there is no practical possibility to convene a Debenture Holders Meeting or to conduct it in the manner determined for this in the Deed of Trust or in the Law, the court may, at the request of the Company, of a Debenture Holder that is entitled to vote in the Meeting or the Trustee, to order that a Meeting be convened and conducted in the manner as the court shall determine, and it may give supplementary instructions for this insofar as it shall see fit.

Flaws in Convening the Meeting

12. The court may, at the request of a Debenture Holder, order the cancellation of a resolution that was adopted in a Debenture Holders Meeting that was convened or conducted without fulfilling the requirements in the Law or according to this Deed.

13. If the flaw in convening the Meeting concerns a notice regarding the place of convening the Meeting or its scheduled time, a Debenture Holder that attended the Meeting despite the flaw, shall not be entitled to demand the cancellation of the resolution.

Notice of Convening a Meeting

14. A notice of a Meeting of the Debenture Holders shall be published according to the provisions of chapter G1 of the Law ("**Electronic Reporting**") and it shall be delivered to the Company by the Trustee before the reporting and in accordance with the provisions in the regulations.

15. The summons notice shall include the agenda, the proposed resolutions and arrangements regarding a written vote according to the provisions of clauses 28 and 30 hereafter.

The Meeting's Agenda

16. The Trustee shall determine the agenda in the Debenture Holders Meeting and it shall include issues for which the Debenture Holders Meeting is required according to clauses 1 and/or 2 above, and a subject for which it was requested as mentioned in clause 18 of the Debenture Holder's request.

17. Inasmuch as a Meeting shall be summoned in accordance with clause 10 above, the Company shall determine the Meeting's agenda.

18. A Debenture Holder, one or more, that has five percent (5%) at least of the balance of the nominal value of the series of Debentures may request the Trustee to include an issue on the agenda of the Debenture Holders Meeting that shall be convened in the future, provided that the issue is suitable to be discussed in the Meeting as mentioned.

19. In the Debenture Holders Meeting resolutions shall be adopted in issues as set forth in the agenda only.

Place of Convening the Meeting

20. The Debenture Holders Meeting shall take place in Israel at the Company's offices or another place which the Trustee shall notify of. The Trustee may change the address of the Meeting. The Company shall bear the costs of convening the Meeting at an address which is not its office.

The Record Date for Ownership of the Debentures

21. Debenture Holders that are entitled to participate and to vote in the Debenture Holders' Meetings are Holders of Debentures at the time that shall be determined in the decision to summon a Debenture Holders Meeting, provided that this date shall not exceed three days before the date of convening the Debenture Holders Meeting and it shall not be less than one day before the convening date.

The Chairman of the Meeting

22. In each Debenture Holders Meeting the Trustee or whomever it appointed shall serve as chairman of that Meeting.

23. The Trustee shall prepare a protocol of the Meeting of the Debenture Holders and shall keep it at its registered office for a period of seven (7) years after the Meeting date. The protocol of the Meeting may be by way of recording. A protocol, insofar as made in writing, shall be signed by the chairman of the Meeting or by a chairman of the Meeting that was held after it. Each protocol that was signed by the chairman of the Meeting constitutes prima facie evidence to whatever is stated in it. The protocol registry shall be kept with the Trustee as mentioned, and it shall be open for viewing by the Debenture Holders during work hours and with advance coordination and a copy of it shall be sent to any Debenture Holder that shall request this.

24. The declaration of the chairman of the Meeting that a resolution in the Debenture Holders Meeting was adopted or rejected, whether unanimously or by a certain majority, shall be prima facie evidence to whatever is stated in it.

Legal Quorum; Deferred or Adjourned Meeting

25. A Meeting of the Debenture Holders shall be opened by the chairman of the Meeting after he has determined that the legal quorum required for any of the issues on the agenda of the Meeting exists, as follows:

    25.1. The legal quorum required for opening a Meeting of the Debenture Holders shall be the presence of at least two Debenture Holders, who are present themselves or by their proxies, that hold at least twenty five percent (25%) of the voting rights in circulation, within half an hour of the time that was scheduled for opening the Meeting, unless stipulated otherwise in the Law.

    25.2. If a legal quorum was not present in the Debenture Holders Meeting at the end of half an hour after the time scheduled for the beginning of the Meeting, the meeting shall be deferred to another time which shall not be earlier than two Business Days after the record date that was determined for convening the original meeting or one Business Day, if the Trustee was of the opinion that this is required for protecting the rights of the Debenture Holders; if the Meeting was deferred, the Trustee shall explain the reasons for this in the Meeting summons report.

25.3. If a legal quorum was not present in the deferred Debenture Holders Meeting as mentioned in clause 25.2 above, half an hour after the time that was scheduled for it, the Meeting shall be convened with any number of participants, unless stipulated otherwise in the Law.

25.4. Notwithstanding the provisions in clause 25.3 above, in the event a Debenture Holders Meeting was summoned according to the demand of Debenture Holders that hold five percent (5%) at least of the balance of the nominal value of the Debentures in circulation, the deferred Meeting shall be convened only if holders of certificates of undertaking were present in it at least in the number required for summoning a Meeting as mentioned (in other words: five percent (5%) at least of the balance of the nominal value of the Debentures in circulation).

26. According to the decision of the Trustee or resolution by ordinary majority of those voting in a Meeting in which a legal quorum was present, the continuation of the Meeting adjourned (the "**Original Meeting**") from time to time, the discussion or adopting a resolution in an issue that was set forth in the agenda, to another time and to a place that shall be determined as the Trustee or the aforementioned Meeting shall decide (the "**Continued Meeting**"). In the Continued Meeting and in the deferred meeting only matters that were on the agenda and in respect to which no resolution was adopted shall be discussed.

If a Debenture Holders Meeting was deferred without changing its agenda, summons shall be given regarding the new time for the Continued Meeting, as early as possible, and no later than 12 hours before the Continued Meeting; the summons as mentioned shall be given according to clauses 14 and 15 above.

Participations and Voting

27. The Trustee, at its reasonable discretion and subject to the provisions of any law, shall be entitled to split the Meeting into class meetings and to determine who shall be entitled to participate in each type of meeting.

28. A Debenture Holder is entitled to vote in Debenture Holders Meetings by himself or by proxy as well as by a voting deed in which he shall state the manner of his voting, and in accordance with the provisions of clause 30 hereinafter.

29. A resolution in the Debenture Holders Meeting shall be made by a count of votes.

30. A voting deed shall be sent by the Trustee to all of the Debenture Holders; a Debenture Holder may note the manner of his vote in the voting deed and send it to the Trustee.

A voting deed in which the Debenture Holder noted the manner of his vote, and which reached the Trustee by the last date determined for this, shall be considered as presence in the Meeting with respect to the existence of a legal quorum as mentioned in clause 25 above.

The voting deed that was received by the Trustee regarding a certain matter in respect to which a vote was not held in the Debenture Holders Meeting, shall be considered as having abstained in the vote in that Meeting regarding a resolution to convene a deferred Debenture Holders Meeting according to the provision of clause 26 above, and it shall be counted in the deferred Meeting that shall be convened according to the provisions of clauses 26 or 25.3 and 25.4 above.

31. Each 1 NIS nominal value of the Debentures that are represented by vote shall confer one vote in the voting. In case of joint Debenture Holders, only the vote of the person registered first in the registry shall be counted.

32. A Debenture Holder may vote for part of the Debentures held by him including voting for some of them in favor for the proposed resolution and for another part of them against the resolution, all as he shall see fit.

33. The holdings of an Affiliated Holder shall not be taken into account for determining the legal quorum in the Debenture Holders Meetings, and his votes shall not be taken into account in the vote of the Meeting as mentioned.

Resolutions

34. Resolutions in the Debenture Holders Meetings shall be adopted by a vote of an ordinary majority, unless another majority was determined in the Law or in the Deed of Trust.

35. The votes of those who have abstained in the vote shall not be counted in the number of votes participating in the vote.

36. A proposed resolution regarding an issue that was not determined in respect to it that it shall be decided by a certain majority as following hereafter, shall be decided in an ordinary resolution.

37. The issues hereafter shall be decided in a Debenture Holders Meeting by a majority which is not ordinary and/or by a legal quorum that is different than the one set forth in clause 1.22, **and these are the issues**:

37.1. Change, including an addition and/or amendment in the provisions of the Deed of Trust as mentioned in clause 27 of the Deed of Trust.

37.2. Any other issue in respect to which it was determined in the Deed of Trust that it is subject to a resolution by a majority that is not an ordinary majority.

37.3. A resolution regarding the replacement of a, shall be adopted by a majority of fifty percent (50%) at least of the unpaid balance of the Debentures in circulation.

Voting and Actions by Agent/Proxy

38. An appointment instrument appointing an agent shall be in writing and it shall be signed by the appointer or by his proxy that has authorization to do so lawfully in writing. If the appointer is a corporation, the appointment instrument shall be made in writing and will be signed by a stamp of the corporation, with a signature of the authorized signatories of the corporation.

39. An appointment instrument of the agent shall be made in any form which shall be acceptable by the Trustee.

40. An agent does not need to be a Debenture Holder himself.

41. An appointment instrument and power of attorney and any other certificate according to which an appointment instrument was signed or a certified copy of such power of attorney, shall be given to the Trustee by the time of convening the Meeting unless it was otherwise stipulated in the notice summoning the Meeting.

42. The Trustee shall participate in the Meeting via its employees, officers, functionaries or another person that shall be appointed by it, however it shall not have a voting right.

43. The Company and any other person except for the Trustee shall be prevented from participating in the Debenture Holders Meeting or in any part of it, according to the decision of the Trustee or according to an ordinary resolution of the Debenture Holders. Despite the stated in this clause, the Company could participate in the opening of a Meeting for the purpose of expressing its opinion regarding any subject on the Meeting's agenda and/or presenting a certain subject (as the case may be).

Approaching Debenture Holders

44. The Trustee, and the Debenture Holder, one or more, that has five percent (5%) at least of the balance of the nominal value of the Debentures in circulation, are entitled to address the Debenture Holders in writing, via the Trustee, in order to convince them regarding the manner of their vote in any of the issues being raised for discussion in that Meeting (the "**Position Paper**").

45. If a Debenture Holders Meeting was summoned in accordance with clause 2 above, a Holder is entitled to approach the Trustee in a request to publish, in accordance with the provisions of Chapter G.1 of the Law, Position Papers on his behalf to the other Debenture Holders.

46. The Trustee or the Company are entitled to send Position Papers to Debenture Holders, as a response for a Position Paper sent as stated in clauses 44 and 45 above, or in response to any other inquiry towards the Debenture Holders.

Examining Conflicts of Interests

47. If a Meeting of the Debenture Holders was convened, the Trustee shall examine the existence of a conflict of interests of the Debenture Holders, whether an interest arising from their holding the Debentures and another interest of theirs, as the Trustee shall determine (in this clause – "**Another Interest**"), in accordance with the provisions of any law as they shall be at that time; the Trustee shall be entitled to request a Debenture Holder participating in the Meeting to notify it before the vote, regarding Another Interest of his and if he has a conflict of interests as mentioned.

48. In the count of the votes in the vote that took place in the Debenture Holders Meeting, the Trustee shall not take into account the votes of the Debenture Holders that did not meet its requirements as mentioned in clause 47 above or of the Debenture Holders in respect to which it found that a conflict of interests exists as mentioned in clause 47 above (in this clause – "**Debenture Holders with a Conflict of Interests**").

49. Notwithstanding the provisions in clause 48 above, if the total sum of holdings participating in the vote are not Debenture Holders with a Conflict of Interests, became less than five percent (5%) of the balance of the nominal value of the Debentures of that same series, the Trustee shall take into account in counting the votes in the voting also the votes of the Debenture Holders with a Conflict of Interest.

Convening a Meeting of Debenture Holders for Consulting

50. The provisions of clauses 2, 7, 16, 18 and 19 above cannot derogate from the Trustee's authority to convene a Debenture Holders Meeting, if it saw it necessary to consult with them; in the summons to the Meeting as mentioned the issues on its agenda shall not be detailed, and the date of the Meeting shall be one day at least after the summons date.

In such meeting a vote shall not take place, no resolutions shall be adopted in it and the provisions of clauses 2, 4, 7, 8, 9, 15, 16, 18, 19, 21, 25, 26, 28, 30 and 45 shall not apply to it and as set forth in the law.

Exhibit 8

ELLOMAY CAPITAL LTD.

List of Subsidiaries as of December 31, 2016

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.àr.l.	100%	Luxemburg
Ellomay PV One S.r.l.	100%[1]	Italy
Ellomay PV Two S.r.l.	100%[1]	Italy
Ellomay PV Five S.r.l.	100%[1]	Italy
Ellomay PV Six S.r.l.	100%[1]	Italy
Ellomay PV Seven S.r.l. (formerly Energy Resources Galatina S.r.l.)	100%[1]	Italy
Pedale S.r.l.	100%[1]	Italy
Luma Solar S.r.l.	100%[1]	Italy
Murgia Solar S.r.l.	100%[1]	Italy
Soleco S.r.l	100%[1]	Italy
Technoenergy S.r.l	100%[1]	Italy
Ellomay Spain S.L.	100%[1]	Spain
Rodríguez I Parque Solar, S.L	100%[1]	Spain
Rodríguez II Parque Solar, S.L.	100%[1]	Spain
Seguisolar S.L.	100%[1]	Spain
Ellomay Water Plants Holdings (2014) Ltd.	100%	Israel
Ellomay Manara (2014) Ltd.	100%[2]	Israel
Ellomay Pumped Storage (2014) Ltd.	75%[2]	Israel
Chasgal Elyon Ltd.	75%[3]	Israel
Agira Sheuva Electra, L.P.	75%[3]	Israel
Groen Gas Goor B.V.	51%[1]	The Netherlands
Groen Goor, Independent Power Plant B.V.	51%[4]	The Netherlands

_____

1. Held by Ellomay Luxemburg Holdings S.àr.l.
2. Held by Ellomay Water Plants Holdings (2014) Ltd.
3. Held by Ellomay Manara (2014) Ltd.
4. Wholly-owned by Groen Gas Goor B.V.

Exhibit 12.1

Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.

I, Ran Fridrich, certify that:

1. I have reviewed this annual report on Form 20-F of Ellomay Capital Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 31, 2017

/s/ Ran Fridrich
Ran Fridrich
Chief Executive Officer

Exhibit 12.2

Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.

I, Kalia Weintraub, certify that:

1. I have reviewed this annual report on Form 20-F of Ellomay Capital Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 31, 2017

/s/ Kalia Weintraub
Kalia Weintraub
Chief Financial Officer

Exhibit 13

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, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officers of the Company hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

A) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

B) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ran Fridrich
Ran Fridrich
Chief Executive Officer

/s/ Kalia Weintraub
Kalia Weintraub
Chief Financial Officer

Date: March 31, 2017

Exhibit 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Ellomay Capital Ltd.:

We consent to the incorporation by reference in the registration statements (Nos. 333-187533, 333-102288 and 333-92491) on Form S-8 and (Nos. 333- 199696 and 333-144171) on Form F-3 of Ellomay Capital Ltd. of our report dated March 31, 2017, with respect to the consolidated statements of financial position of Ellomay Capital Ltd. as of December 31, 2016 and 2015 and the related statements of profit or loss and other comprehensive income (loss),changes in equity and cash flows for each of the years in the three-year period ended December 31, 2016, which report appears in the December 31, 2016 Annual Report on Form 20-F of Ellomay Capital Ltd.

/s/ Somekh Chaikin
Somekh Chaikin

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

Tel-Aviv, Israel

March 31, 2017

Exhibit 15.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms 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 Forms F-3 (File Nos. 333-199696 and 333-144171) of the Company of our report dated April 29, 2015 with respect to the 2014 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, 2016.

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

Spanish Certified Public Accountants

Madrid, Spain
March 29, 2017

Exhibit 15.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms 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 Forms F-3 (File Nos. 333-199696 and 333-144171) of the Company of our report dated April 29, 2015 with respect to the 2014 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, 2016.

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

Spanish Certified Public Accountants

Madrid, Spain
March 29, 2017

Exhibit 15.4

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms 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 Forms F-3 (File Nos. 333-199696 and 333-144171) of the Company of our report dated April 29, 2015 with respect to the 2014 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, 2016.

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

Spanish Certified Public Accountants

Madrid, Spain
March 29, 2017

Exhibit 15.5

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Dorad Energy Ltd.

We consent to the incorporation by reference in the registration statements (Nos. 333-187533, 333-102288 and 333-92491) on Form S-8 and (Nos. 333- 199696 and 333-144171) on Form F-3 of Ellomay Capital Ltd. of our report dated March 2 ,2017, with respect to the statements of financial position of Dorad Energy Ltd. as of December 31, 2016 and 2015 and the related statements of profit or loss, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2016, which report appears in the December 31, 2016 annual report on Form 20-F of Ellomay Capital Ltd.

/s/ Somekh Chaikin
Somekh Chaikin

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

Tel-Aviv, Israel

March 30, 2017