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Ellomay Capital Ltd.

Initial Rating | August 2019

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

The binding version is the one in the original language.

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Ellomay Capital Ltd.

Issuer Rating	Baa1.il	Outlook: Stable
Series Rating	Baa1.il	Outlook: Stable

Midroog assigns a Baa1.il issuer rating, with a stable outlook, for Ellomay Capital Ltd. (hereinafter: the "Company" or "Ellomay Capital"), and a Baa1.il rating, with a stable outlook, for the Debentures (Series A and B) issued by the Company.

Outstanding Debentures Rated by Midroog:

Debenture Series	Security Number	Rating	Rating Outlook	Maturity
Series A	1130947	Baa1.il	Stable	December 31, 2023
Series B	1140326	Baa1.il	Stable	June 30, 2024

Company Profile

Ellomay Capital Ltd. develops, constructs, operates and maintains plants generating electricity with renewable energy and conventional technologies, in Israel and Europe. Since 2009, the Company has focused its business in the energy and infrastructure sector. The Company was incorporated in 1987, issued to the public on the New York Stock Exchange (NYSE American), and also trades on the Tel Aviv Stock Exchange (TASE) since 2013. The main activity of the Company is electricity generation from renewable energy sources - the Company has PV technology[1] electricity generation facilities, and this segment constitutes the major part of its current revenues. The Company holds under this activity PV facilities with a capacity of c. 22.6 megawatt in Italy, c. 7.9 megawatt in Spain and 9.0 megawatt in Israel; in addition, the Company has 2 biogas plants in the Netherlands totaling c. 6.8 million cubes of gas (equivalent to c. 9.0 megawatt); in addition, the Company holds c. 9.4% of Dorad Energy Ltd. (hereinafter: "**Dorad**"), one of the largest private power plants in Israel with an electricity generation capacity of c. 850 megawatt. In addition, the Company is working to expand its renewable energy operations. In the second quarter of 2019, the Company completed financial closing of the Talasol project (hereinafter: "**Talasol**"), a PV technology power plant with a capacity of c. 300 megawatt in Talavan, Spain, which as of the date of the report, the Company holds 51% thereof[2]. In addition, the Company is in the process of financial closing of a Pumped Storage facility located at the Manara Cliff, with a capacity of c. 156 megawatt, in which the Company holds c. 75% of the project's shares.

Project Name	Country of Activity	Status	Indirect Holding Rate	Installed Capacity (MW)	Project Type	Commercial Operation Date	Electricity Agreement term
12 PV facilities	Italy	Operating	100%	22.6	PV	2011	2031
4 PV facilities	Spain	Operating	100%	7.9	PV	2010	2041
2 biogas facilities	Netherlands	Operating	100%	9.0	Biogas	2017	2031
Talmei Yosef	Israel	Operating	100%	9.0	PV	[3]2013	2033
Dorad	Israel	Operating	9.375%	850	IPP	2014	2034
Talasol	Spain	Construction	51%	300	PV	[4]2020	[5]-

[1] Photovoltaic.

[2] On May 1, 2019, the Company reported financial closing of the Talasol project and the sale of 49% of the shares of the project company (Talasol Solar SLU) to GSE 4 UK Limited and to FICC, Fond – ICC, at a price reflecting a project value of € 33 million.

[3] Acquired by Ellomay Capital in 2017.

Manara	Israel	Planning	75%	156	Pumped Storage	[6]2024	2044

The controlling shareholders of the company are Shlomo Nehama - the Chairman of the Board of Directors of the Company (34.99%[7]), Hemi Raphael and Ran Fridrich, who also serves as the CEO of the Company (22.7% through Kanir L.P.). As of the report date, the aforesaid controlling group holds c. 57.7% of the shares of the Company[8].

Summary of Rating Rationale

The rating took into account, inter alia, the following considerations: (1) The Company operates primarily in the renewable energy generation sector in Israel and in the world, which is assessed by Midroog as medium risk. Most of the risk is due to high exposure to supportive regulation in the production segment; (2) The purchasing strategy and project financing structure (usually non - recourse debt), which provides fixed rates in long - term agreements that support the certainty of cash flow of the Company on the one hand, and, on the other hand, causes slow coverage ratios resulting from long project debt, of which between 20% - 40% is usually financed by equity; (3) Entry barriers into the renewable energy generation industry are low, relative to electricity generation by fossil power plants, which is characterized by high entry barriers resulting from, among other things, significant capital investment, along with technological and engineering complexity; (4) The regulatory environment in the industry is regulated and anchored by law, including setting of tariffs, which significantly mitigates demand risks and / or variable rate dependency and creates certainty in connection with the projected cash flow, in the long term; (5) The growth trend which characterizes the renewable energy sector in Israel and globally, which is supported by government decisions to set renewable energy advancement goals; (6) The market share and size of the Company is small relative to companies in the industry, but is expected to grow significantly in the short to medium term upon the commercial operation of the Talasol project in Spain, together with further growth potential, through a pumped storage project in Manara in Israel, and other projects in Italy and Spain; (7) Exposure to the financial markets, interest rates and credit risks of the countries in which the Company operates (Italy, Spain, the Netherlands and Israel), together with exposure to exchange rates, which is partially moderated by hedging transactions; (8) As of the date of the report, most of the operating cash flow of the Company is generated by the PV projects it holds in Italy, Spain and Israel. In the short to medium term, the operations of the Company in the PV sector are expected to grow substantially, upon completion of the Talasol project in Spain. However the completion thereof is expected to substantially increase the concentration of operations and cash flows from Spain; (9) The current and future operations of the Company in biogas technologies, following the establishment of a pumped storage facility, which is more complex to operate and to construct in relation to other technologies in the industry (PV, wind); (10) The capability of the Company to generate revenue is reasonable, given the stability and profitability of most of the projects it holds, whereby in 2018, the volume of the EBITDA (adjusted)[9] amounted to c. € 8.3 million, whereas the volume of Funds From Operations (FFO)[10] amounted to c. NIS 6.3 million in this year; (11) The leverage level

[4] In accordance with the forecast of the Company. The Midroog baseline scenario is based on the commercial operation of the project in the last quarter of 2020.

[5] An agreement to sell 80% of the electricity which will be generated in the project for 10 years, from the starting date of commercial operations.

[6] In accordance with the forecast of the Company.

[7] Directly through S. Nehama Investments (2008) Ltd.

[8] In addition, Hemi Raphael holds 3.96% and Ran Fridrich holds 1.02% of the shares of the Company

[9] Not including the repayment of the Dorad loan, including adjustment of cash flows for the Talmei Yosef financial asset.

[10] Including repayment of the Dorad loan, divided over the years, and adjustment of the cash flows for the Talmei Yosef financial asset.

of the Company is expected to increase substantially in the short to medium term, due to the construction of the Talasol project and to influence the risk profile thereof; (12) The Company has a substantial investment plan, which includes, among other things, the construction of the Talasol project in Spain, in the short term, and the Manara project in Israel in the medium term. In accordance with the forecast of the Company, the Capex expenses in the consolidated report are expected to grow significantly to c. € 200 million in 2019 - 2020; (13) The financial policy in connection with holding of liquid balances supports the rating, wherein as of December 31, 2018[11], the liquid balances were c. € 36.9 million, and in the short to medium term the Company is expected to hold a minimum cash level of at least € 15 – 20 million; (14) The Company has good financial flexibility, which is reflected in good access to banks and the capital markets as well as the holding of non - leveraged and mortgaged assets, part of which are recorded in the balance sheet of the Company at the construction / acquisition value; (15) Structural subordination of the Company and its cash flows with respect to the senior and subordinated debt thereof at the project level.

In accordance with Midroog's base case, the Company will focus on the development of the Talasol project in Spain, which is expected to start commercial operations in the last quarter of 2020, and concurrent therewith, will advance the establishment and construction of the Manara project in Israel, which is in the pre - financial closing phase, and it is expected to lower its holding rates in such project. In addition, we have taken into account that the income – producing projects of the Company will continue to fulfill high performance rates throughout the debt repayment years at the project level, without material incidents. In accordance with these assumptions, the volume of the adjusted EBITDA is expected to be in the range of € 10.0 - 17.0 million per year in 2019 – 2020, whereas the volume of Funds From Operations (FFO) is expected to be in the range of € 6.0 - 14.0 million per year during this period, in light of the commercial operation of the Talasol project, which is expected towards the end of 2020. At the same time, the coverage ratios of the Company will worsen and will be high relative to the rating level in the short to medium term, due to the investment in the Talasol project. The leverage level is expected to rise substantially, wherein the debt to FFO ratio is expected to weaken greatly in 2019 and 2020, and thereafter be in the range of 9.0 – 11.0, which is appropriate for the current rating level. The Interest Coverage Ratio (ICR) is expected to range from 2.1 - 3.7 during this period. In addition, we also assumed that the leverage level of the Company, as reflected in the gross debt to total capital (CAP) ratio, will rise above 75% from 2019 and thereafter is expected to gradually decline to c. 65% by the end of 2022. In addition, in accordance with the statements of the management of the Company, it has been taken into account that the Company is not expected to distribute dividends to shareholders in the next four years.

Rating Outlook

Factors Which May Lead to a Rating Upgrade:

- Significant improvement in the leverage level and coverage ratios relative to the Midroog base case
- Improved diversification of cash flows from quality base assets

Factors Which May Lead to a Rating Downgrade:

- A change in the industry risk profile, including a deterioration in the supportive regulatory environment
- Significant deterioration in leverage ratios, financial strength, and debt coverage ratios, relative to the Midroog baseline scenario

[11] Not including the securities portfolio of the Company which as of December 31, 2018 was c. € 2.1 million.

Ellomay Capital Ltd. – Main Financial Data, € thousands

	31.03.2019	31.03.2018	31.12.2018	31.12.2017	31.12.2016
Cash and cash equivalents[12]	46,353	25,969	36,882	23,962	22,486
Equity	76,580	75,623	76,957	77,500	84,371
Gross financial debt	142,183	99,643	117,435	102,825	51,845
Total balance sheet	237,223	196,681	211,160	198,088	148,464
Gross financial debt / CAP	63.8%	55.6%	59.3%	55.7%	38.5%
Adjusted EBITDA[13]	1,298	151	8,272	7,119	5,317
FFO[14]	656	1,002	6,336	5,621	5,057

Main Rating Rationale

The Activity Risk Profile is Characterized as Medium Level, Benefiting from Supportive Regulation, which Includes Renewable Energy Production Targets and Tariff Regulation

The Company operates in the renewable energy generation industry, in Europe and in Israel, through the projects held thereby, which were for the most part financed by project financing (senior debt, non - recourse). The operations of the Company are mainly based on supportive regulation, as part of which there is an undertaking by the Israel Electrical Corporation / local transmission companies and / or other external party to acquire the majority or all of the electricity produced in the relevant projects (off – taker) at a fixed rate, which is linked to the CPI, for a long period, as part of PPA agreements. In accordance therewith, the renewable energy generation industry is characterized by Midroog with medium risk, which is mainly due to high exposure to supportive regulation in the production segment. It is also evident that the regulators (in Israel and in part of the markets in the world) are promoting transition to a new regulation, which encourages higher competition in this segment, while reducing the infant competitor protections. Factors which mitigate this risk are the existence of supportive regulation, accompanied by short to medium term renewable energy plans and production goals, which create a flow and transparency certainty appropriate for the rating level.

The following is a review of the regulations and targets for renewable energy electricity generation until 2020, in the countries of operations of the Company[15]:

Country	Moody's Ratings	Installed Capacity of the Company, in MW	Renewable Energy Production as of the Latest Update	Renewable Energy Production Target for 2020
Israel	A1 / positive	9 MW	2.5% in 2017	8%
The Netherlands	Aaa	9 MW	13% in 2017	37%
Spain	Baa1	7.9 MW[16]	37% in 2016	38%
Italy	Baa3	22 MW	34% in 2016	26%

[12] Not including the securities portfolio of the Company.
[13] Not including repayment of the Dorad loan, and including adjustments of cash flows for the Talmei Yosef financial asset.
[14] Including repayment of the Dorad loan, divided over the years, and adjustments of cash flows for the Talmei Yosef financial asset.
[15] Renewables 2018, global status report.
[16] In addition, the establishment of the 300 megawatt Talasol project.

The Growth Trend in the Renewable Energy Industry in Israel and in the World, Supported by Targets for the Promotion of Renewable Energy

In recent years, the renewable energy sector has experienced accelerated growth, characterized by a consistent and significant increase in installed power capacity and investments, particularly in photovoltaic and wind technology projects, alongside a decline in construction, operation and maintenance costs over the past decade, due in part, among other things, to advances in technology. At the end of 2017, the total installed capacity of renewable energy in the world was c. 2,195 gigawatts, c. 26.5% of total global electricity generation[17]. As part of a global trend for greenhouse gas reduction, many countries, including Israel, encourage renewable energy electricity generation through regulatory and tariff support, wherein, as of 2017, in 179 countries, renewable energy electricity generation targets have been determined. In according with the forecasts, by 2050, renewable energies are expected to supply c. 87% of the electrical energy in Europe and c. 55% of the electrical energy in the United States. Furthermore, by 2050, solar and wind energy are expected to supply c. 50% of the world's electrical energy, wherein only c. 29% of total energy production is expected to be generated by fossil fuel combustion and pollutants (in comparison to c. 63% today). This policy is expected to continue to support renewable energy electricity generation in the coming years.

The renewable energy sector in Israel is also characterized by growth, which is expected to continue in the coming years. In accordance with the 2018 Report of the Electricity Authority, the total renewable energy potential at 2018 was c. 4.1% of the total annual market consumption (the actual total production was c. 2.9%) and the Electricity Authority estimates that by 2020 this parameter will increase to 10% (with an actual total production of 8%). At the same time, in September 2015, the government approved a decision with regard to reducing greenhouse gases and optimizing market energy consumption, while setting a new target for renewable energy electricity generation, with the aim of reaching, by 2025 and 2030, production of at least 13% and 17% of the total electricity market consumption with renewable energies[18].

A Supportive Regulatory Framework in the Areas of Operation, Which Are Based on Long - Term Energy PPA's with Quality End Customers as well as the SPOT Price Component

The main activity of the Company is renewable energy and conventional electricity generation in various countries, each with a different regulatory framework in relation to the industry. Energy production facilities constitute a vital and significant infrastructure of the electricity sector, usually anchored by a PPA agreement with the local system administrator, which includes, among other things, a fixed rate paid in exchange for the supply of electricity, and in our estimation, contributes greatly to the cash flow stability of the Company. Most of the revenue of the Company is derived from the PV facilities held thereby. Income from these facilities is primarily based on payments from government agencies, and a decrease in the financial strength of these entities may have a direct or indirect impact on income from these operations. In Israel, the renewable energy electricity sector is defined and fixed throughout the license period, whereas the fossil power plants are exposed to changes in the production component rate. In Italy, the electricity generation industry has undergone several regulatory changes[19] over the past decade, which cause a lower certainty in connection with the cash flow for electricity produced in the PV facilities which the Company holds in this country. In Spain, the revenues from the

[17] New Energy Outlook 2018 - Annual long-term economic analysis of the world's power sector out to 2050 (Bloomberg NEF, 2018).

[18] Government Resolution 542, September 20, 2015, "Reducing Greenhouse Gas Emissions and Streamlining Energy Consumption in the Market"

[19] In accordance with the financial statements of the Company, the latest regulatory change in Italy was applied on January 1, 2015.

various facilities are determined for each facility when it is connected to the electricity grid, and consist of three components: operation, investment and SPOT prices. In accordance with the data of the Company, in 2013 and 2014 there were changes in the support mechanisms of the country and there may also be changes in the future. In the Netherlands, the income of the Company consists of a number of components for both the process generation of gas and electricity generation, payment by the supplier for “waste” removal, which is deducted from the price paid to the supplier for digestate disposal, and green certificates for gas and electricity production, which it realizes upon the sale thereof. The biogas industry has existed in the Netherlands since 2006 and has received much support from the government, however, as of the writing date of this report; there is insufficient information on regulatory changes in the industry.

A Portfolio with Diverse Resources of Energy and Geographical Diversification; however, a Significant Increase in Exposure to Activity in Spain is Expected in the Short Term

The Company operates as an initiator, developer and owner of renewable energy electricity generation facilities. The business model is based on investing in the promotion and construction of projects, and a return of the investment from the proceeds from the sale of electricity to the electricity grid and / or the exercise of the assets thereof, by selling the rights thereof in the facilities. The projects are funded through a combination of equity and debt components, by bank financing (project level) and / or public (solo) financing. The Company has appropriate experience in financing projects in Israel and around the world, in cooperation and in coordination with local and international banking corporations and financing institutions. The Company is currently focusing on the development, financing, construction and operation phases of the projects. In the Israeli market, the Company acquired c. 9.4% of the Dorad power plant as well as the PV facility located at Talmei Yosef. On the other hand, in the Manara project, the Company is operating throughout the value chain of the promotional stages of the development and licensing of the project. In the international market, up to 2017, the strategy of the Company was to acquire only income – producing projects, however, in 2017 it acquired the rights to the Talasol project and started the process of promoting and developing the project. This project is expected to significantly increase the balance sheet leverage of the Company and account for more than 50% of the future EBITDA. The project risk exposure has relatively been reduced through the sale of 49% of the rights therein during 2019 with significant profit. In addition, the Company is currently promoting the pumped storage project at Manara and is expected to achieve financial closing in the short to medium term. The progress of the Company in the promotion of the Manara project without the introduction of partners could materially increase the leverage of the Company beyond Midroog's baseline scenario and impair the rating thereof.

A Small Market Share Together with Diverse Customers with High Financial Strength and High Exposure to a Single Project

The market share held by the Company is limited in relation to the renewable energy companies in Israel, wherein it holds the Talmei Yosef project with a capacity of 9 megawatt[20]. In addition, the Company has PV projects totaling c. 22.6 megawatt in Italy, 7.9 megawatt in Spain, and biogas projects with a capacity of c. 9 megawatt in the Netherlands. It is important to note that the Talasol project is expected to begin commercial operation in 2020, and significantly increase the megawatt scope of projects that are commercially operational; however, this will also create substantial exposure to the cash flows deriving from this project and the proper operation thereof. As of 2018, the customers of the Company are the Israel Electric Corporation Ltd.

[20] In addition, a small holding rate of c. 9.4% in the Dorad project (c. 79 megawatt).

(hereinafter: the "**Electric Corporation**" and / or "**IEC**") as well as local electricity authorities in Italy, Spain and the Netherlands, which acquire the electricity from the PV facilities held by the Company. During 2020, the Talasol project is expected to start commercial operations, wherein in accordance with the Company, it has signed an electricity price hedging transaction with a leading international energy company which operates in more than 40 countries. As part of the hedging transaction, the energy company will acquire c. 80% of the total electricity generation in the project, at a pre - agreed price for a period of 10 years, wherein the electricity to be produced in the project is expected to be sold at market price at the time of sale. The hedging agreement stipulates that if the market price falls below the price set in the electricity sale agreement, the hedge provider will pay Talasol the difference between the market price and the set price. In the event the electricity rate will be above the set price, Talasol will pay the hedge provider the difference between the market price and the set price. The electricity sales agreement is expected to hedge the risks derived from the volatility of electricity prices in the market, by allowing Talasol to ensure a fixed level of income for the electricity generation covered by the agreement. In accordance with the forecast of the Company, as of 2021, revenues from Talasol are expected to account for more than 50% of the total income of the Company. We estimate that the hedge transaction somewhat moderates the high exposure to such material revenue from a single asset.

Proven Operational History in PV Facilities Together with Challenges in Operating Biogas Operations in the Netherlands

Since 2009, the Company has been focusing the activities thereof in the energy and infrastructure sector. The Company holds 17 PV facilities in Italy, Spain and Israel, with a total capacity of c. 39.5 megawatt which are connected to the national electricity grid in each country, generating revenue from electricity sales. Most of the facilities have more than seven years of operating experience without any material malfunctions. In the biogas plants in the Netherlands, the level of performance was low in the first year and a half. In 2018, the Company recruited a project manager and a procurement manager, and also prepared an investment plan for the production facilities. As of February 2019, when the Company acquired the share of the partners in the projects, the Company manages the projects independently and in accordance with the forecasts received, performance in this activity is expected to improve significantly.

Operational Challenges in Projects with Relatively Complex Technology Level

The Company expanded its operations in the renewable energy sector, when it gradually acquired two biogas plants in the Netherlands. Operating a facility with this technology is more complex than other technologies operated by the Company, and it requires, among other things, contact with several raw material suppliers, sufficient quality of the raw material in order to maintain an optimal production process, compliance with strict environmental regulations and legislation, maintaining employee safety and the parts of the facility which come into contact with hazardous materials that are created in the process etc. The raw materials used to generate electricity in this technology are not as available in relation to the raw materials used by other green energy technologies such as sun, wind and water.

An additional project which the Company is in the process of financial closing thereof is the pumped storage facility at the Manara Cliff, with a capacity of 156 megawatts, in which the Company holds 75% of this project. Pumped storage-based electricity generation technology (hydroelectric) has been proven and has existed in the world for more than 80 years. As of the report date, there are more than 350 pumped storage based power plants worldwide, with a total capacity of more than 160,000 megawatt[21]. At the same time, the development of a project of this type can take a long time and involves many risks.

A Consistent Revenue Growth Trend, Together with Erosion of Operating Profitability and Increased Cashflow Exposure in the Talasol Project

The Company has been in a growth process in recent years due to a change in its operational strategy, acceleration of acquisitions and project development. In 2017, the Company acquired 50% of the biogas facilities in the Netherlands, the Talmei Yosef PV facility and the Talasol project, which is currently under construction. This growth is reflected, among other things, in changes in income between the recent years and the expected changes in the forthcoming years. In 2018, the Company’s revenues were c. € 18.1 million in comparison to c. € 11.9 million in 2014, as a result of income from projects in the Netherlands and Talmei Yosef. At the same time, in 2019, the Company's revenues, based on the Midroog base scenario, are expected to be c. € 20 million (partly as a result of the full operation of the second biogas plant in the Netherlands), and with the start of the Talasol commercial operation at the end of 2020, accounting revenues are expected to grow to c. € 29 million[22] and c. € 43 million in 2021 - 2022, respectively. The operating profit line of the Company has been eroded in recent years, among other things, as a result of significant project development costs for Talasol and Manara. The operating profit is expected to reach c. € 1 million in 2019, in comparison to a negative operating profit of c. € 0.5 million in 2018, among other things, as a result of improvement in the profitability of the biogas operations in the Netherlands. Upon the start of operation of Talasol, the operating profit is expected to grow materially, whereby in accordance with the Midroog base scenario, it is expected to reach € 5.0 million in 2020 and is expected to grow significantly reaching c. € 15 million in 2021 - 2022. At the same time, the full operation of the Talasol project is expected to centralize the cash flows of the Company, and this project, in the Midroog base scenario, is expected to concentrate more than 50% of the total consolidated EBITDA, starting in 2021.

Balance Sheet Leverage on the Rise in Recent Years Due to Acquisitions and the Initiation of Material Projects

The Company operates through the holding of project companies in which the customary debt structure is characterized by material leverage, which ranges between 60% and 80%. The balance sheet leverage level of the Company has been in a consistent upward trend in recent years, as reflected in the gross debt to total capital resources (CAP) ratio from 38.5% in 2016 to c. 63.8% as of March 31, 2019 and an expected leverage of c. 76%, in the Midroog base scenario at the end of 2019, a leverage rate which does not match the current rating level of the Company. This upward trend in leverage is mainly the result of the acquisition of projects (Talasol and Talmei Yosef) and the development of new projects (mainly Talasol), which include significant expenses in the development thereof and an increase in the consolidated debt. In accordance with the Midroog baseline scenario, the balance sheet leverage level is expected to decline to c. 65% by the end of 2022, a leverage level which is more compatible with the current rating level.

[21] DOE Global Energy Storage Database

[22] Not including adjustments of income from Talmei Yosef as a fixed asset.

Projected Negative Free Cash Flow in the Short Term in Light of Significant Investments in the Construction of the Talasol Project

In recent years, the Cash Flow from Operations (CFO) has ranged from € 2.0 - 7.0 million. The cash flow is expected to improve in 2020 and grow substantially in 2021, following the commercial operation of Talasol. In recent years, the level of Capital Expenditure (Capex) of the Company has not been material relative to the assets of the Company. Alongside that, in 2019 – 2020 the total capital investments of the Company are expected to be c. € 200 million[23] in the consolidated report (the Company's share is expected to be c. € 100 million) and thereafter to decline substantially and include mainly shareholders investments in the Manara project. We regard the construction period of the Talasol project during these years as a significant risk factor in the rating of the Company. Delays or an increase in the construction budget of this material project of the Company could adversely affect its rating. In addition, under the assumption of progress in developing the Manara project, we anticipate material investments in the construction of the project, which will be reflected at the consolidated report level with shareholders capital inflows. The Free Cash Flow (FCF) will be materially affected in 2019 – 2020 by the construction of Talasol and it is expected to be negative, and following the commercial operation thereof it is expected to range between € 13 - 16 million in 2021 - 2022. The FCF has been positively affected in recent years by the low dividend distribution. In 2017 - 2018, no dividends were distributed at all and in accordance with the statements of the management of the Company, no distribution of dividends to the shareholders of the Company is expected in the next four years.

Sufficient Liquid Balance Policy and Good Financial Flexibility

Throughout its years of operation, the Company has held high liquidity balances relative to the comprehensive balance sheet thereof. This figure reflects the policy thereof in connection with maintaining sufficient liquid balances. The policy of the Company is to maintain minimum liquidity balances of € 15 - 20 million in the consolidated report and the actual liquidity level is usually materially higher than this policy. Midroog's assessment is that the financial flexibility of the Company is good, and the Company has good access to the capital and debt markets, as reflected in the raising of capital of c. NIS 31.3 million and the raising of the Debentures (Series C) in the amount of c. NIS 89.1 million, which were carried out in July 2019. In addition, the Company holds debt - free projects in the balance sheet, which provides it with the flexibility for the loading of additional debt. In Spain, for example, in 2019 the Company raised more than €17 million of debt for its PV projects, which were recorded in the books of the Company at a cost of c. € 16.8 million as of December 31, 2018. In addition, the Company sold the proportionate share of the Talasol project (49%) in 2019 for c. € 16 million, with a capital gain of c. € 6 million, within two years of acquiring the project. At the same time, the Company holds c. 75% of the Manara project, and in accordance with the Midroog baseline scenario, it is expected to substantially reduce the its share in the project in the short term, in order to generate liquid balances to finance its investments and reduce exposure to the construction of Manara. In addition, the Company shows a low leverage level at the level of the Company solo and the Company is expected to continue to present a Sources to Uses ratio of more than 1.8, throughout the forecast period. However, the Company has an exposure to foreign currency at the solo level, due to the raising and repayment of Debentures in the local market in NIS, against material Euro dividend receipts, whereby in the past year the exchange rate of the Euro against the NIS has weakened by c. 9%, following the strengthening of the NIS and the general weakening trend

[23] This amount is expected to be financed by a bank loan in the amount of c. € 130 million.

of the Euro in recent years. This exposure is expected to increase due to the impact of the material cash flows from the Talasol project, starting in 2021.

Slow Coverage Ratios Relative to Current Rating, which are Expected to Continue Weakening in the Short Term

The coverage ratios of the Company have deteriorated in recent years and are slow relative to the rating level and derive, among other things, from the acquisition of projects and consolidation of the project debt (due to the accelerated growth of the Company through the development and financing of new projects, in particular the Talasol project, which is characterized by high debt), against assets with long – term cash flows and in line with project financing duration. This is reflected, among other things, in the Debt to FFO ratio which in 2015 – 2016 was 8.0 – 10.0, weakening in 2017 – 2018 to c. 18.0, and it is expected to weaken substantially in 2019 – 2020, whereas from 2021 this ratio is expected to improve to the range of 9.0 – 11.0. It should be noted, that the coverage ratio therefore has slowed down materially due to the initiation and finance of new projects; however, with the expected start of commercial operation of Talasol, the coverage ratios are expected to return to the range thereof prior to the investments in 2017 – 2019.

Additional Rating Considerations

Structural Subordination of the Company and its Cash Flows in relation to the Senior and Subordinated Debt Thereof at the Project Level

The Company has a structural and cash flows subordination due to its holding of companies for the most part with senior and subordinated debts. The underlying assets of these companies, including the cash flows derived therefrom, are usually pledged by a first lien in favor of the senior debt funders. In addition, the surplus distributions from the project companies are subject to compliance with the distribution conditions. In this regard, it should be noted that the coverage ratios, at project level, have a sufficient gap, in relation to the covenants for distributing the surplus to the Company.

No Dividend Distribution in the Short to Medium Term

In accordance with the Company's management, it is not expected to distribute dividends in the next four years. It is Midroog's view that this statement reduces the uncertainty with regard to the scope of the debt service sources and it supports the rating of the Company.

Related Reports

Methodological report for rating companies and electricity suppliers operating in markets without tariff regulation

Rating of fossil and renewable energy power plant projects

Rating of financing, construction and operation of projects and infrastructures

Affinity table and holdings

Midroog Scales and Rating Settings

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

General Information

Date of rating report:	29.08.2019
Name of rating initiator:	Ellomay Capital Ltd.
Name of entity which paid for the rating:	Ellomay Capital Ltd.

Information from The Issuer

In its ratings, Midroog relies, among other things, on information received from certified parties at the issuer.

Long - Term Local Rating Scale

Aaa.il	Issuers or issues rated Aaa.il present, in Midroog's judgment, the highest credit repayment capacity relative to other local issuers.
Aa.il	Issuers or issues rated Aa.il present, according to Midroog's judgment, a very high repayment capacity relative to other local issuers.
A.il	Issuers or issues rated A.il present, in Midroog's judgment, a high credit repayment capacity relative to other local issuers.
Baa.il	Issuers or issues rated Baa.il present, according to Midroog's judgment, a medium credit repayment capacity relative to other local issuers and may have certain speculative characteristics.
Ba.il	Issuers or issues rated Ba.il present, in Midroog's judgment, a low credit repayment capacity relative to other local issuers and have speculative characteristics.
B.il	Issuers or issues rated B.il present, in Midroog's judgment, a very low credit repayment capacity relative to other local issuers and have significant speculative characteristics.
Caa.il	Issuers or issues rated Caa.il present, in Midroog's judgment, a significantly low credit repayment capacity relative to other local issuers and have very significant speculative characteristics.
Ca.il	Issuers or issues rated Ca.il present, in Midroog's judgment, an extremely low credit repayment capacity and are very close to default with some chance of repayment of principal and interest.
C.il	Issuers or issues rated C.il present, in Midroog's judgment, the lowest credit repayment capacity and are generally in default with a remote chance of repayment of principal and interest.

Note: Midroog uses numerical values 1,2,3 in each of the rating categories from Aa.il to Caa.il. The value '1' indicates that the debenture is at the upper end of its rating category, as denoted by letters. The variable ‘2’ indicates that it is at the middle of its rating category; while the variable ‘3’ indicates that the debenture is at the bottom part of its rating category, as indicated by letters.

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