O.Y. Nofar Energy Ltd.

First-Time Rating | July 2024

This credit rating report is a translation of a report that was written in Hebrew for a debt issued in Israel.
The binding version is the one in the original language.

Contacts:

Iris Sde-Or
Team Leader, Lead Rating Analyst
iris.s@midroog.co.il

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

O.Y. Nofar Energy Ltd.

Issuer Rating	**A3.il**	**Outlook: Stable**
Series Rating	**A3.il**	**Outlook: Stable**

Midroog assigns an A3.il rating, with a stable outlook, to O.Y. Nofar Energy Ltd. ("Nofar" or the "Company"), and it assigns the same rating to bonds (Series 1, 2 and 3) issued by the Company.

Outstanding bonds rated by Midroog:

Bond Series	Security No.	Rating	Outlook	Final Maturity
NOFAR ENRG B1	1179340	A3.il	Stable	31.12.2027
NOFAR ENRG C2	1198035	A3.il	Stable	01.07.2029
NOFAR ENRG B3	1198043	A3.il	Stable	30.06.2030

Company Profile

O.Y. Nofar Energy Ltd. was incorporated in 2011 as a private company, becoming a publicly traded company in 2020. The Company engages primarily in the initiation, development, construction and operation of solar energy power projects as well as battery energy storage projects, both on its own and through subsidiaries and partnerships owned by it. As of the report date, the Company's operations span several territories, including Israel, Europe and the US. The Company is 42.12% owned by non-institutional investors, including Mr. Ofer Yannay (27.67%), Noy Infrastructure (9.51%), Nadav Tenne (4.92%) and other interested parties holding an insignificant percentage. A further 43.02% of the Company is owned by various institutional investors, and the remainder is publicly held.

The Company operates in and outside Israel, as follows:

Israel – The Company engages, itself and through companies owned by it, in the initiation, construction, holding, operation and maintenance of solar energy systems on rooftops, water reservoirs and land, as well as battery energy storage systems. As of the report date, this activity is carried out primarily through associates holding hundreds of solar energy systems and storage systems, which generate electricity and sell it to private consumers and electricity distributors or to the Israel Electric Corporation Ltd. ("**IEC**") and to Noga Israel Independent System Operator Ltd. ("**Noga**" or the "**System Operator**"). The Company also operates charging and power supply stations, including through the subsidiary Enova which is jointly owned with Milgam Ltd.

Spain – Initiation activity in Spain is carried out through Noy Nofar Europe in collaboration with local entrepreneurs holding 5%-10% of the rights in the projects. As of the report date, the Company owns through Noy Nofar Europe four solar energy projects with a cumulative capacity of 447 MW: Olmedilla (connected), with a capacity of 169 MW-DC; Sabinar I (connected), with a capacity of 155 MW; Sabinar

II (ready to connect), with a capacity of 83 MW; Sabinar III (pre-construction), with a capacity of 40 MW. Over the years, the project companies have entered into significant financing agreements in Spain, as well as PPA agreements for between 3-9 years. Electricity that is not sold under PPA agreements, is sold in the open (merchant) market at market prices.

Romania – The Company established a local initiation platform in Romania (Nofar Energy SRL), which is responsible for the initiation, location, development, acquisition, construction and financing of solar energy projects in Romania. In 2023, the Ratesti project, with a capacity of 155 MW, was connected to the power grid and financing was obtained for the project. Additionally, the Group's companies have entered into several agreements for the acquisition of a backlog of five projects with a total capacity of 316 MW, among them the Corbii Mari project, with a capacity of 266 MW, and the Lepuresti project, with a capacity of 170 MW. Apart from this, the local platform is currently considering the initiation, acquisition and development of storage projects in Romania, including the incorporation of storage in the solar energy projects.

UK – During 2021, the Company established in the UK, jointly with local entrepreneurs, two dedicated initiation platforms: Noventum (80% owned), which engages in the initiation and development of renewable energy projects, and Atlantic Green (75% owned), which engages in the initiation, construction and holding of standalone battery energy storage projects. As of the report date, Atlantic Green owns the Buxton project, with a 60 MWh storage capacity, which is partly connected and undergoing running-in and partly in the process of connection to the grid, and Cellarhead, with a 624 MWh storage capacity, one of the largest projects of its kind in the UK, currently undergoing construction. Concurrently, Atlantic Green is continuing to mobilize project financing for the Cellarhead project, and it is also considering the acquisition of additional energy storage projects in the UK. Noventum is a platform engaging in the development of renewable energy projects in the UK. We note that the Company plans to carry out RTB[1] activity through this platform – that is, projects that have received permits and reached the stage where they can be built – with the aim of building and/or selling these projects to third parties at that stage. According to the Company, the backlog of projects is estimated at 3.3 GW, with the majority approved to connect to the grid.

Italy – The Company's activity in Italy is carried out through Sunprime, a C&I company (33.3% indirectly owned by the Company), which engages in the development, design, licensing, construction and operation of rooftop and ground-mounted solar energy systems operating mainly pursuant to tender procedures conducted by the Italian Energy Services Authority (GSE) for the sale of electricity at tariffs protected through CfD[2] contracts.

[1] Ready-to-Build
[2] Contract for Difference

Poland – The Company's main activity in Poland is carried out through Electrum Nofar, a corporation owned 80% by Nofar Europe and 20% by Electrum SP. Z OO, a Polish engineering, construction and maintenance company in the field of energy. As of the report date, the Company has a 20 MW capacity project (Krzywinskie project) that is connected to the grid, and a 19.7 MW capacity project (Dziewoklucz project) that is awaiting the completion of upgrade works of the grid operator required to connect it to the grid.

USA – The Company's activity in the US is carried out through Blue Sky Utility LLC, a company 67% owned by the Company, engaging in the initiation, development, licensing, financing, design, management, construction and holding of, and agreements with tax partners in connection with, solar energy projects on the rooftops of commercial building and energy storage systems in the US. Blue Sky focuses on collaborations and agreements mainly with REIT funds holding hundreds of commercial real estate properties, on the construction of solar energy systems on the rooftops of those properties, and on the sale of the electricity produced on the properties to tenants of the real estate companies.

We note that the Company is acting to expand its initiation activities and investments in renewable energies and battery energy storage systems to additional markets, including the construction and development of, and investment in, additional platforms in Germany, Serbia, Greece and the Czech Republic. We likewise note that the Company has a 209 MWh storage project in Germany that is in the process of construction.

The Company has projects in various stages, as detailed below:

Income-generating projects – According to the Company's financial statements for the first quarter of 2024, the Company owns projects in commercial operation with a capacity of 933 MW-DC and 29 MWh storage capacity (proportion owned by the Company – 419 MW and 12 MWh), of which 315 MW are provided by projects in Israel that generate electricity and sell it to private consumers and electricity distributors or to IEC and Noga. The Company has variable percentages of ownership in projects, as shown below:

Project name	Country of operation	Weighted ownership percentage	Installed capacity MW or MWh (as applicable) in terms of 100% ownership	Project type
Project backlog	Israel	40%	315.0	Solar
Storage systems	Israel	37%	29.0	Storage
Sunprime	Italy	33%	101.0	Solar
Olmedilla	Spain	50%	169.0	Solar
Sabinar I	Spain	47%	155.0	Solar
Blue Sky	US	67%	18.0	Solar
Krzywinskie	Poland	72%	20.0	Solar
Ratesti	Romania	50%	155.0	Solar

Projects ready to connect – The Company has ready-to-connect projects in several countries, with a total capacity of 197 MW-DC and 122 MWh storage capacity (Company's share – 89 MW and 65 MWh), which are set to begin commercial operation in 2024, as follows:

Project name	Country of operation	Weighted ownership percentage	Installed capacity MW or MWh (as applicable) in terms of 100% ownership	Project type
Project backlog	Israel	40%	34.9	Solar
Storage systems	Israel	32%	61.8	Storage
Sunprime	Italy	33%	59.0	Solar
Blue Sky	US	67%	0.6	Solar
Dziewoklucz I	Poland	80%	19.7	Solar
Sabinar II	Spain	47%	83.0	Solar
Buxton	UK	75%	60	Storage

Projects under construction and pre-construction – According to the Company's financial statements for the first quarter of 2024, the Company has projects with a total capacity of 1,162 MW-DC and 940 MWh storage capacity, which are in stages of construction or pre-construction (Company's share – 948 MW and 704 MWh) and set to begin commercial operation during 2024-2026, of which five solar projects with a total capacity of 816 MW are located in Romania, and one storage project with a total capacity of 624 MWh is located in the UK, as follows:

Project name	Country of operation	Weighted ownership percentage	Installed capacity MW or MWh (as applicable) in terms of 100% ownership	Project type	Expected commercial operation
Project backlog	Israel	43%	10.7	Solar	2024
Storage systems	Israel	25%	107.3	Storage	2024-2025
Lepuresti	Romania	95%	169.9	Solar	2025
Corbii Mari	Romania	95%	265.9	Solar	2025
Ghimpati	Romania	95%	146.6	Solar	2025
Slobozia	Romania	95%	73.6	Solar	2025
Cellarhead	UK	75%	624	Storage	2025
Ada	Serbia	85%	26.6	Solar	2024
Stendal	Germany	100%	209.0	Storage	2025
Sunprime	Italy	33%	183.2	Solar	2024-2025
Cybinka	Poland	100%	28.5	Solar	2025
Blue Sky	US	67%	23.7	Solar	2024-2025
Sabinar III	Spain	47%	40.0	Solar	2025
Volter	Romania	95%	160	Solar	2025
Turners Farm	UK	80%	33.1	Solar	2025

The Company has additional projects with a capacity of up to 2.7 GW-DC and 860 MWh storage capacity which are in different stages of initiation and may mature into projects under construction. These projects are located in Israel, the US, Italy, Poland and the UK.

Summary of Rating Rationale

The rating takes into account the following considerations, among others: **(1)** The Company operates, in Israel and around the world, in the sector of electricity production from renewable energy sources, in which Midroog rates the risk as moderate. **(2)** Some of the countries in which the Company operates have a well-established regulatory environment anchored in law, including tariff regulation, that significantly moderates risks of demand and/or dependence on variable tariffs and creates high cash flow certainty for the long-term. In some countries the Company has entered into PPA[3] agreements for the sale of electricity, which bolster cash flow certainty for the period of the agreement. **(3)** Lower entry barriers to the renewable energy power production market than to the power production market based on fossil fuel plants, which is characterized by high entry barriers due, among other things, to the need for significant capital investments coupled with technological and engineering complexity. **(4)** The growth trend characterizing the renewable energy sector in Israel and worldwide, supported by government decisions for setting renewable energy promotion targets. **(5)** A substantial increase in the installed capacity and geographical diversification of the income-generating projects, from 612 MW-DC (proportion owned by the Company – 266 MW) at the end of 2022 to 933 MW (proportion owned by the Company – 419 MW) as of the report date. This trend is expected to continue in the coming years, with the entry into commercial operation of additional projects in the US, Europe and Israel. **(6)** The Company's high geographical diversification and low revenue concentration, which are expected to continue improving with the entry into commercial operation of additional projects. **(7)** The Company's strategy to create a broad and diversified geographical mix, which includes the sale of electricity in developed markets, alongside operations in developing countries with varying regulatory regimes. **(8)** The Company has a significant investment plan for the construction and development of a large number of projects in Israel and around the world, which is expected to substantially drive up CapEx expenses in the coming years. **(9)** A project finance structure based on non-recourse or limited recourse debt in the subsidiaries. **(10)** An impairment provision was made in respect of the Company's operations in the US, in addition to which some of the projects do not comply with the financial covenants. **(11)** Exposure to interest rates, exchange rates and credit risks of the various countries in which the Company operates, including Europe and the US. **(12)** The debt service coverage ratios are slow for the rating but expected to improve somewhat in the coming years, following the entry of additional projects into commercial operations and due as well to other activities. **(13)** Good financial flexibility and high liquidity reserves, standing as of March 31, 2024 at NIS 903 million, with the addition of mostly unutilized nonbinding credit facilities amounting to NIS 155

[3] Power Purchase Agreement

million. **(14)** The Company's structural and cash flow subordination to its senior and subordinated debts at the level of the projects it owns, moderated by the broad spread of high-quality projects across different geographical regions. **(15)** Refinancing risks and a substantial payment burden beginning from 2027. **(16)** In our assessment, renewable energy power production projects have low exposure to environmental and social risks, in light of supportive regulation as well as support provided by demand trends. We also rate the Company's corporate governance risk as low.

According to Midroog's base-case scenario the Company will focus in the coming years on the development of the projects which are in the construction stage, while concurrently promoting the construction of additional projects which are in the pre-financial close stage, in and outside Israel. We have assumed that the Company will develop the projects that are approaching financial closure, necessitating high CapEx investments (in the range of NIS 1.0-2.0 billion during 2024-2026). We have taken into account that the Company will comply with the timetables and budget for the development of the projects during the period of construction, while maintaining sufficient liquidity reserves We have also taken into account that the Company's income-generating projects will continue to meet high performance targets throughout the years of project level debt repayment, without significant malfunctions.

Furthermore, according to Midroog's base-case scenario, which is based on the Company's financial statements with adjustments for proportionate consolidation of associates, EBITDA is expected to be in the range of NIS 170-540 million per year during 2024-2026, following the start of commercial operation of several additional projects in Israel, Europe and the US. Likewise, during those years, the debt to EBITDA ratio is expected to be in the range of 12.5-25.0, while the interest coverage ratio is expected to be relatively weak, in the range of 0.3-0.8. We have assumed that leverage, as reflected in the gross debt to capital sources (cap) ratio, will increase over its present level to between 60%-72% in the coming years. We note that the Company foresees revenues from RTB activity, which have been partially factored into the base-case scenario, in light of the absence of a proven track record for this activity.

Rating Outlook

The stable outlook is supported by the Company's business position, the geographical spread of its operations and adequate liquidity reserves, which confer on the Company financial flexibility and certainty regarding the cash flow from assets for the production of electricity, mainly from solar energy.

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

Factors That Could Lead to a Rating Upgrade

- Significant improvement in the Company's business profile, through the expansion of its operations and cash flow sources.
- Significant improvement in financial strength and in the debt coverage ratios.

Factors That Could Lead to a Rating Downgrade

- A change in the sector's risk profile, including deterioration in the supportive regulatory environment.
- Significant weakening of the Company's financial strength and coverage ratios.
- Material deviations from the timetable and budget framework established for the development of the projects under construction.
- Increase in the operating risk of the Company's underlying assets.

[4] The report is published on the Midroog website.

O.Y. Nofar Energy Ltd. – Key financial indicators, NIS in millions[5]

	31.03.2024	31.03.2023	31.12.2023	31.12.2022	31.12.2021
Revenue	66,097	93,823	344,361	332,197	360,762
EBITDA	1,985	6,881	26,850	(22,203)	16,033
Cash and cash equivalents[6]	904,902	522,419	671,399	736,626	1,065,370
Equity	2,722,716	2,646,048	2,771,121	2,524,619	1,446,873
Financial debt	3,092,707	1,769,685	2,531,987	1,700,809	587,555
Total assets	6,181,948	4,787,961	5,668,267	4,597,703	2,177,773
Financial debt to Cap	51.3%	38.4%	45.9%	38.6%	28.2%
Capex[7]	159,090	170,517	1,067,471	707,403	302,652

DETAILED RATING CONSIDERATIONS

Growth trend in the renewable energy industry in Israel and the world, supported by renewable energy promotion targets

The renewable energy industry is experiencing in recent years accelerated growth, characterized by a significant and steady increase in installed capacity and investments, mainly in projects using photovoltaic and wind energy technologies. In parallel, there has been a decline in construction, operation and maintenance costs, stemming, among other things, from technological advances. Total installed capacity of renewable energy worldwide is expected to grow by 3,700 GW by 2028, 70% above the forecast published in 2022. [8] As an outcome, renewable energy is set to replace coal as the largest energy source in 2025. Simultaneously, as part of the global trend to reduce greenhouse gas emissions, numerous countries are encouraging the production of electricity from renewable energy sources, through regulatory and tariff support. The US administration and the European Union have set a target of zero greenhouse gas emissions by 2050. In our estimation, the scope of electricity production using renewable energy will continue to grow in the coming years. In addition, we estimate that the ongoing war between Russia and Ukraine will boost demand for renewable energy in Europe, in light of efforts by EU member countries to eliminate their dependence on gas imports from Russia.

[5] The data are presented based on the Company's financial statements, without adjustment for proportionate consolidation of associates.
[6] Including bank and other short-term deposits.
[7] Adjusted for payment of principal on lease liabilities and for investments in fixed assets and corporate acquisitions.
[8] Report of the International Energy Agency, January 2024.

In October 2020,[9] the Israeli government decided to increase the target for power generation from renewable energy sources to 30% by 2030, instead of the previous target of 17%, including an interim target of 20% by 2025. In July 2021,[10] a national target was set for the reduction of greenhouse gas emissions in Israel by 2050, such that total emissions in that year will be 85% below the amount measured in 2015. Furthermore, it was decided for the first time in Israel to levy a coal tax, as a penalty for the damage caused by greenhouse gas emissions.[11] In September 2023, the Ministerial Legislation Committee approved a national target of zero greenhouse gas emissions in Israel by 2050. In addition, it was determined that by 2030, the amount of greenhouse gas emissions would be reduced by 30% compared to 2015.[12] Additionally, in July 2024 the Electricity Authority published a call for public comments on the subject of the renewable energy targets for 2035, including consideration of higher targets at a minimum of 35%-45% of total electricity consumption.[13] In our estimation, this policy will continue to support electricity production using renewable energy in Israel in the coming years.

According to reports by the Company, targets for renewable energy power production up to 2030 exist also in countries where the Company operates. In Spain the target stands at 56% (of which 24% solar energy and 32% wind systems), in Romania there is a target of 38%, in Italy – 28%, and in Poland – a minimum of 23% of total electricity production. In 2022 the US administration approved an extension of the period of eligibility for a tax incentive for renewable energy projects until 2032, together with an increase in the incentive rate from 26% to 30%, in addition to which other significant tax benefits were approved that are to be granted subject to compliance with certain conditions.

Growth in the installed capacity and in the geographical diversification of the Company's assets, along with a trend towards expansion and focus on the field of storage

According to the Company's financial statements for the first quarter of 2024, the Company operates income-generating projects with a total capacity of 933 MW-DC and 29 MWh storage capacity (proportion owned by the Company – 419 MW and 12 MWh), compared to 628 MW and 21 MWh storage capacity (proportion owned by the Company – 272 MW and 8 MWh in the year-before period. During the period, the Ratesti solar energy project in Romania, with a capacity of 155 MW, and the Krzywinskie solar energy project in Poland, with a capacity of 20 MW, entered into commercial operation, alongside an increase in the Company's project backlog in Israel by 52 MW capacity and 8 MWh storage capacity, as well as in Italy by 75 MW capacity. According to the Company, it also has a backlog of projects with a total capacity of 197 MW and 122 MWh storage capacity that were connected after the report

[9] Renewable Energy in Israel – Background and Issues for Discussion – October 19, 2020.
[10] Government Decision on a Carbon-Poor Economy dated July 25, 2021.
[11] Government Decision on the Pricing of Greenhouse Gas Emissions, dated August 1, 2021.
[12] Approval of the Climate Law, September 2023.
[13] Call for Public Comments on the Subject of Renewable Energy Targets for 2035.

publication date or that are in stages of connection and are due to begin commercial operation during 2024.

The key projects are located in Israel (backlog of solar and storage projects with a total capacity of 35 MW and 62 MWh), in Italy (backlog of solar projects with a total capacity of 59 MW), in Spain (Sabinar II project with a total capacity of 83 MW), and in the UK (Buxton storage project with a total capacity of 60 MWh). The Company also has other projects with a total capacity of 1.2 GW and another 40 MWh storage capacity, which are in the construction or preconstruction stages and expected to enter commercial operation during 2024-2026. As of the date of writing the report, the Company's most significant projects in the preconstruction stage are the Cellarhead storage project in the UK, with a total capacity of 624 MWh, and a backlog of five projects in Romania, which are in the construction or preconstruction stages, with a total capacity of 816 MW-DC.

The Company has a significant investment plan for the coming years in the field of storage. As of the report date, the backlog of storage projects in stages of connection, construction, preconstruction and licensing is estimated at 1.92 GWh (Company's share – 1.16 GWh), with the projects distributed between Israel, Germany and the UK. In Israel, the backlog is estimated at 772 MWh, in Germany the Stendal storage project has a capacity of 209 MWh, and in the UK there is a backlog of storage projects with a total capacity of 945 MWh, including the Toton project, with a capacity of 260 MWh, and the Cellarhead project, as described above.

The Company has a wide distribution of customers in and outside Israel. In Israel, the customers of the Group's companies are mainly the consumers (partners in the joint project corporations or the owners of the properties within whose area the photovoltaic systems are built), electricity distributors that purchase the electricity produced in the systems located within their area from the joint project corporations, the System Operator and IEC, and there is no electricity consumer generating revenues in Israel that account for 10% or more of total revenues. Outside Israel, revenues from the sale of electricity produced in the Olmedilla and Sabinar I projects in Spain are generated under agreements for the sale of electricity (PPA[14]) entered into by those companies with Telecor SA, and partly in the open (merchant) market at spot prices. We consider Telecor SA to be a major customer, in view of the amount of revenues received from it, estimated at NIS 103 million for 2023. Electricity sales by the project companies Ratesti and Krzywinsksie in Romania and in Poland, respectively, are made in the open market or based on open market prices. Blue Sky in the US mostly enters into agreements with the tenants of properties on which systems were installed, for the sale of the credit in respect of the electricity that is supplied to the grid until the end of the tenant's rental agreement. Regarding Sunprime in Italy, the Company acts pursuant to tender procedures conducted by the Italian Energy Services Authority (GSE) for the sale of electricity under contracts for difference (CfD).

[14] Power Purchase Agreements.

Development of RTB activity – The Company operates through Noventum, a British platform 80% owned by Nofar and established by it in 2021, and Electrum Nofar, which develop renewable energy projects until they reach the RTB stage, that is, projects that have matured in terms of approvals and reached the stage where they can be built, with the aim of building or selling the projects at that stage to third parties at returns estimated by the Company to be high. The development of significant activity in this field could create an additional material line of business and improve the Company's business diversification in the coming years.

The Company's strategy for creating a broad and diversified geographical mix, which includes the sale of electricity in developed markets alongside operations in developing countries with a varying regulatory regime

The Company operates as an entrepreneur, developer and owner of facilities for the generation of electricity from renewable energy sources. The business model is based on investment in the initiation and construction of projects, and recovery of the investment from revenues from the sale of electricity for the power grid and/or from the realization of assets in its possession, through the sale of its rights in the facilities. The projects are financed through a combination of an equity component and a senior and/or public debt component. The Company has experience in project finance in Israel and worldwide, in conjunction and collaboration with local and international banks. In the Israeli market, the Company generally operates along the entire chain of value of the initiation, development and licensing stages of the facilities. In the international market, the Company's strategy is to join forces with local partners to jointly advance the initiation and development of the facilities or to develop the projects independently. Geographically, the Company's strategy is to create a broad and diversified mix that includes the sale of electricity in developed markets alongside operations in developing countries which have adopted a relatively transparent and clear regulatory regime.

In October 2022, the European Union approved temporary regulations[15] for addressing energy prices, in which it was determined that member states of the European Union would establish temporary regulations with the aim of limiting electricity consumption and reducing electricity prices. In this framework, a regulation was approved providing for a reduction in the price of electricity for EU citizens, including the setting of a cap on revenues of companies from renewable energy, so as to stand at a maximum of EUR 180 per MWh, until the end of January 2024.[16] Furthermore, in December 2023 the European Union approved the extension of the regulation until the end of January 2025.[17] We note that in Italy the Company operates pursuant to a tender procedure conducted by the Italian Energy Services Authority for a protected tariff for a period of 20 years, and the price cap is not expected to affect the Company's

[15] Council Regulation (EU) 2022/1854, October 2022.
[16] Council Regulation (EU) 2022/2578, December 2022.
[17] Council Regulation (EU) 2023/2920, December 2023.

revenues. In Poland, Romania, Spain and the UK, where the bulk of the Company's operations are located, the price cap, to the best of the Company's knowledge, will not affect revenues.

In our estimation, the regulatory policy in the US concerning renewable energy, as described above, will support substantial growth in the Company's US operations in the coming years.

The Company has a significant and challenging investment plan, which is expected to enable its continued accelerated growth

The Company has a significant investment plan that includes construction and development of a large number of projects in Israel and worldwide. The investment plan has led to a substantial increase in CapEx expenses in recent years, with these expenses projected to be in the range of NIS 1.0-2.0 billion in 2024-2026, compared to NIS 1.1 billion in 2023 (including corporate acquisitions), and a substantial part of the investments expected to be made in projects in Europe, as set out above. However, the Company's high liquidity reserves, standing at NIS 903 million as of March 31, 2024 as well as project debt issuances, which are in advanced stages, and other capital or debt issuances, are expected to support the investment needs. According to the Company, the investment plan is flexible, with investments made only when it has the necessary sources of financing for the projects, and it believes it will be able to complete the construction of the projects, particularly those in which it is the controlling shareholder.

Increase in the Company's cash flow, which is based on long-term electricity supply agreements, along with slow debt service coverage ratios, which are expected to improve in the coming years.

Electricity generation facilities are vital infrastructure and a significant component of the electricity economy, with the electricity generated by them sold under PPA agreements, regulatory tariff arrangements or CfD contracts with the electricity companies and/or the local system operator and/or in the electricity market. PPA agreements, regulatory tariff arrangements and CfD arrangements include, inter alia, a fixed rate that is paid in return for the supply of electricity, and in our assessment they contribute greatly to the stability and certainty of the Company's cash flow. In 2023, adjusted EBITDA amounted to NIS 26.9 million, compared to negative adjusted EBITDA of NIS 22.2 million in 2022. Under Midroog's base case scenario, EBITDA (on a proportionate consolidation basis) is expected to increase significantly to between NIS 170-550 million during 2024-2026, mainly following the start of commercial operation of significant new projects, as elaborated above. We note that the Company's debt service coverage ratios are improving but remain slow for the rating level and are characterized by a high leverage ratio, against assets with long-term cash flows and in alignment with the project debt duration. This is reflected, inter alia, by the debt to EBITDA ratio, which is expected to stand at 25.0 in 2024, with the ratio projected to improve somewhat during 2025-2026 to a range of 12.0-18.0. Additionally, the ICR ratio of EBIT to finance costs is expected to stand at 0.3 in 2024, improving slightly to a range of 0.7-0.8

during 2025-2026. It is also worth noting that the Company's accelerated growth through the initiation and financing of new projects substantially slows the debt service coverage ratios, however the commercial operation of those projects (several years later) is expected to shorten them.

Exposure to interest rate and exchange rate fluctuations, as well as credit risks of the countries in which the Company operates.

The projects owned by the Company are exposed to interest rate fluctuations, as some of the loans are subject to variable interest rates. According to the Company, the senior debt interest rates in some of the projects are protected by hedging, and additional hedging will be performed to protect against an increase in the senior debt interest rates, which will cover most of the senior debt, while also taking into account the expected interest rate curve and the effects of the hedging on the projects' rates of return. In addition, the Company's operations in various countries expose it to the exchange rates of the local currencies and to exchange rate differentials, if any, arising from the translation of foreign operations as well as transactions and revenues denominated in foreign currency in relation to the shekel. Exposure exists at the level of the Company, which receives cash flows in different currencies, and at the level of the projects, which have construction and/or operating costs denominated in a currency other than the currency of denomination of the electricity sale tariff. This risk is mitigated to a certain degree through natural hedging in the projects (where revenues, expenses and the debt are denominated in the same currency). In our estimation, the Company's exposure to exchange rate fluctuations is likely to increase in the coming years, in view of substantial cash flows expected to be received from the projects in Europe and the US which are currently under construction. At the same time, we note that the Company's foreign operations and implementation of the existing electricity supply agreements also expose the Company to the credit risks of the countries in which it operates, including the US (Moody's rating of Aaa with a negative outlook), Germany (Aaa, stable), Poland (A2, stable), UK (Aa3, stable), Serbia (Ba2, stable), Romania (Baa3, stable), Spain (Baa1, stable), and Italy (Baa3, stable).

Continued rise in the Company's leverage level, due to a significant investment plan

The Company operates through project companies owned by it, in which the customary debt structure is characterized by significant leverage, ranging between 50%-85%. The level of the Company's balance sheet leverage increased somewhat in 2023, due among other things to the issuance of bonds Series 2 and 3 and reopening of bonds (Series 1), for total proceeds of NIS 874 million. The gross financial debt to capital resources (cap) ratio stood at 51.3% as of March 31, 2024, compared to 45.9% at the end of 2023. We note that in view of the Company's significant investment plan, the present leverage level is expected to increase, such that, according to Midroog's base case scenario, the gross financial debt to capital resources (cap) ratio will increase to 60% at the end of 2024 and be in the range of 68%-72% during 2025-2026 (on a proportionate consolidation basis). The expected negative impact on the leverage environment stems primarily from the initiation of new projects of significant size, which include substantial development costs, leading to increased consolidated debt.

The Company's operations in the US include an impairment provision and noncompliance with financial covenants of projects

As of the date of the financial statements for the first quarter of 2024, the Company has operations in the US for a total capacity of 18 MW, in addition to a backlog of projects in the construction and preconstruction stages with a total capacity of 24 MW. In light of the results of the US operations, the Company performed a test for goodwill impairment in the last quarter of 2023. The impairment test, which was carried out on behalf of the Company by an external appraiser, showed the recoverable amount of the systems based on value in use to be lower than their carrying amount. As a result, the Company recognized an impairment of the systems and accordingly made a provision for impairment of fixed assets in the amount of NIS 21 million, as well as a provision for impairment of an intangible asset in the amount of NIS 13 million. In addition, in December 2023 the subsidiary in the US signed a rescheduling loan with the lending bank, which included the partial repayment of five out of eleven loans to projects, which starting from the end of 2022 did not comply with the covenants stipulated by the lending bank. Furthermore, the Company is currently conducting negotiations with the bank regarding a rescheduling agreement at similar terms for the outstanding balance of the loans (totaling USD 4.6 million). According to the Company, as of the date of the financial statements for 2023, the bank had not demanded the immediate repayment of these loans, although it is entitled to do so under the financing agreement.

A coherent financial policy, good financial flexibility, along with strong liquidity and non-distribution of dividends in the short to medium term

As of March 31, 2024, the Company's liquidity reserves on a consolidated basis stood at NIS 903 million (NIS 722 million on a standalone basis), compared to NIS 661 million at the end of 2023. In our assessment, the cash reserves will continue to be relatively high also in the coming years. We note that as of the report date, the Company has mostly unutilized nonbinding credit facilities amounting to NIS 155 million. The Company has no dividend distribution policy and did not distribute dividends between 2012-2024, and according to the Company's management it also is not expected to distribute dividends in the coming years. Maintenance of these liquidity reserves along with a policy of non-distribution of dividends supports the Company's rating, with emphasis on the near term, which is marked by a significant investment plan.

ADDITIONAL RATING CONSIDERATIONS

A control structure allowing for an appropriate balance between debtholders and shareholders

The main shareholder and holder of the controlling interest in the Company is Mr. Ofer Yannay, who holds 27.7% of the Company's shares. Other major shareholders are the Noy Fund (9.51%), The Phoenix, Mor, Migdal, Altshuler, Meitav Dash, Harel and Nadav Tenne, the Company's CEO (4.92%). The Company's controlling shareholders have enabled in recent years substantial capital issues, which have contributed to maintaining reasonable leverage levels, despite of significant investments made, with share capital amounting to NIS 1.5 billion raised in the period between 2020 and 2023. Additionally, according to the Company, it will not be distributing dividends in the coming years. In our assessment, if the policy implemented by the controlling shareholders remains consistent, it can be expected to continue supporting the Company's investment plan and strengthening growth, while maintaining an appropriate debt-to-equity ratio.

Significant refinancing risk and repayment burden beginning in 2027

In 2027-2029, the Company will be faced with a substantial payment burden, arising from payments of NIS 1.3 billion on its bond series, comprising inter alia bullet payments in the amount of NIS 540 million due on Series 1 at the end of 2027 and NIS 408 million due on Series 2 during 2028-2029.

Additional debt will be coming due in several projects of the Company during 2031-2036, comprising bullet payments for an overall substantial amount. These substantial payment burdens were taken into account in determining the rating. In Midroog's assessment, the significant amounts of the payments involved create a refinancing risk for the Company during the years in question. However, in our assessment and according to the base-case scenario, the refinancing risk in the projects is partially mitigated by the fact that the project debt raised by the project company is without recourse to the Company.

Structural and cash flow subordination of the Company to projects owned by it, moderated by a broad geographical spread of projects

The Company is subordinated structurally and in cash flow priority due to its holdings in project companies with senior and subordinated debt. The underlying assets of the project companies, including the cash flows arising from them, are subject to first liens in favor of the senior debt lenders. Additionally, the distribution of surpluses from the project companies is subject to compliance with distribution triggers. It is worth noting in this regard that the coverage ratios at project level have an adequate margin from the triggers for distributing the surpluses to the Company, In our estimation, this subordination is mitigated by the broad spread of the Company's projects, which are located in different geographical regions and in multiple countries, as well as by the use of different PV and storage technologies.

Environmental, Social and Corporate Governance (ESG) Considerations

The Company's exposure to environmental risks is low, since it engages in the initiation and maintenance of projects based on photovoltaic energy and storage systems. The projects and the by-products of their operation do not emit greenhouse gases, but the Company has indirect exposure to climate risks, with unforeseen environmental events, such as floods, sandstorms and earthquakes, liable to shut down and destroy the systems that were set up, adversely affecting the projects' period of operation and profitability. However, this risk is moderated by the broad geographical spread of the Company's operations. In view of its activity in the field of renewable energy, the Company is enjoying growth due to social preference for renewable energy projects around the world, coupled with the commitment of western countries to achieve zero greenhouse gas emissions by 2050. As to governance risks, we rate their impact on the Company as insignificant.

Rating Scorecard

		As of 31.12.2023 – LTM[18]		**Midroog Forecast[19]**	
Category	**Parameters**	**Measurement [1]**	**Score**	**Measurement**	**Score**
Operating environment	Cash flow certainty	---	**A.il**	---	**A.il**
	Entry barriers	---	**A.il**	---	**A.il**
	Regulatory framework	---	**A.il-Aa.il**	---	**A.il-Aa.il**
Business profile	Total assets	6.2 billion	**A.il**	8.9 billion	**Aa.il**
	Quality of geographical spread	---	**A.il**	---	**A.il**
	Quality and diversification of products and operating segments	---	**A.il**	---	**A.il**
Profitability	CapEx/PPE	9.9%	**Aa.il**	21%	**A.il**
	Gross debt/EBITDA	37.7	**Caa.il**	18.3	**Ba.il**
Financial profile	EBIT/int.	(0.1)	**Ca.il**	0.6	**Ba.il**
	Debt/cap	48.3%	**A.il**	66.6%	**Baa.il**
	Financial policy	---	**A.il**	---	Baa.il-A.il
Implied score					**A3.il**
Final score					**A3.il**

[1] The metrics shown in the table are after adjustments by Midroog and are not necessarily identical to those presented by the Company. Midroog's forecast includes its own assessments regarding the issuer according to the Midroog base-case scenario, and not those of the issuer.

[18] The data are presented on unaudited proportionate consolidation basis.

[19] The data are presented on proportionate consolidation basis.

Related Reports

Rating of Electricity Producers – Methodology Report, January 2023

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

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

Impact of the Iron Swords War on the creditworthiness of issuers rated by Midroog – Special Report, October 2023

Table of Relationships and Holdings

Midroog Rating Scales and Definitions

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

General Information

Date of rating report:	July 28th, 2024
Rating commissioned by:	O.Y. Nofar Energy Ltd.
Rating paid for by:	O.Y. Nofar Energy Ltd.

Information from the Issuer

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

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

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