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, 2008

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 000-26498

ELLOMAY CAPITAL LTD.

(Exact Name of Registrant as specified in its charter)

ISRAEL
(Jurisdiction of incorporation or organization)

Ackerstein Towers
11 Hamenofim St.
P.O.Box 2148
Herzliya 46120, Israel
(Address of principal executive offices)

Ran Fridrich, Interim CEO
Tel: +972-9-971-5613; Facsimile: +972-9-950-2942
Ackerstein Towers, 11 Hamenofim St.
Herzliya 46120, 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: None

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

Ordinary Shares
NIS 1.00 par value per share
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 December 31, 2008: 73,786,428 ordinary shares, NIS 1.00 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 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 ☒

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 Annual Report on Form 20-F for the fiscal year ended December 31, 2008 of Ellomay Capital Ltd. Unless the context in which such terms are used would require a different meaning, all references to "Ellomay," "us," "we," "our" or the "Company" refer to Ellomay Capital Ltd. and its consolidated subsidiaries.

All references to "$," "dollar," "US$" or "U.S. dollar" are to the legal currency of the United States of America, references to "NIS" or "New Israeli Shekel" are to the legal currency of Israel and references to "Euro" or "EUR" are to the legal currency of the European Union.

All trademarks, service marks, trade names and registered marks used in this report are trademarks, trade names or registered marks of their respective owners.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this annual 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 annual 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. These forward-looking statements are subject to certain risks, uncertainties and assumptions about us that could cause actual results to differ materially from those reflected in the forward-looking statements. These forward-looking statements are based, among other things, on assumptions in connection with:

- *our ability to identify, evaluate and consummate suitable business opportunities and strategic alternatives;*
- *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/or 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;*
- *our exposure to indemnity claims from Hewlett-Packard Company following the sale of our business; 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 annual report under "Item 3.D: Risk Factors," "Item 5: Operating and Financial Review and Prospects" and elsewhere in this annual report. 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 Securities and Exchange Commission (the "SEC").

To the extent that this Annual 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 selected consolidated statements of income (operations) data for the years ended December 31, 2006, 2007 and 2008, and the selected consolidated balance sheet data as of December 31, 2007 and 2008, have been derived from the audited consolidated financial statements of Ellomay Capital Ltd. set forth in "Item 18: Financial Statements." The selected consolidated statement of operations data for the years ended December 31, 2004 and 2005 and the selected consolidated balance sheet data as of December 31, 2004, 2005 and 2006 have been derived from our audited consolidated financial statements not included in this report. Our consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles.

In February 2008 we sold our business to Hewlett-Packard Company ("HP") pursuant to an assets purchase agreement executed on December 9, 2007 (the "Asset Purchase Agreement"), as more fully described below under Item 10.C "Material Contracts." As we have not to date purchased an operating business since the sale of our business to HP, the results of operations relating to the business sold continue to be reported in our consolidated financial statements in full detail, rather than reported as discontinued operations in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." See Note 1b to our consolidated financial statements included in this Annual Report. As part of the HP Transaction, we sold our holdings in three wholly owned subsidiaries (NUR Europe, NUR Japan and NUR Do Brazil) to several of HP's subsidiaries. Following the consummation of the HP Transaction, we wholly own, directly and indirectly, several subsidiaries that are currently inactive and we are in the process of dissolving, or have already arranged for the dissolution of, a number of such inactive subsidiaries.

The following tables present the financial data for Ellomay together with its subsidiaries as of the periods presented, some of which were sold to HP and some of which have been dissolved during 2008: Salsa Digital Printers (dissolved in 2008), NUR America (dissolved in 2008), NUR Europe (sold to HP), NUR DO Brazil Ltda. (sold to HP), NUR Japan (sold to HP), NUR Shanghai, NUR Asia Pacific, NUR Media Solutions, NUR Hungary Trading and Software Licensing Limited Liability Company, Encre Consumables B.V., NUR Italy, NUR UK, Excite Ink and NUR Pro Engineering.

Certain amounts from prior years have been reclassified to conform to the current year presentation. The reclassification had no effect on previously reported net loss and shareholders' deficiency. For additional information regarding the reclassification see "Item 5.A: Operating Results."

The selected consolidated financial data set forth below should be read in conjunction with and is qualified by reference to Ellomay's consolidated financial statements and the related notes, as well as "Item 5: Operating and Financial Review and Prospects" included elsewhere in this annual report.

Consolidated Statements of Income (Operations) Data
(in thousands of U.S. Dollars except per share and share data)

	Year ended December 31,				
	2004	2005	2006	2007	2008
Revenues:					
Products	71,326	67,072	72,576	80,228	10,568
Services	5,397	4,306	5,392	5,379	842

Total revenues	76,723	71,378	77,968	85,607	11,410
Cost of revenues:					
Products	44,612	43,505	43,060	46,549	7,927
Inventory write-off	9,658	2,721	806	1,169	197
	54,270	46,226	43,866	47,718	8,124
Services	6,278	5,772	7,379	8,759	2,862
Total cost of revenues	60,548	51,998	51,245	56,477	10,986
Gross profit	16,175	19,380	26,723	29,130	424
Operating expenses:					
Research and development, net	8,008	7,086	5,827	7,046	1,942
Selling and marketing	9,529	10,865	11,747	13,815	3,075
General and administrative	10,819	12,171	9,803	11,129	9,830
Doubtful accounts expenses (income)	6,266	(1,132)	(314)	942	368
Amortization of other intangible assets	862	169	167	42	-
Total operating expenses	35,484	29,159	27,230	32,974	15,215
Operating loss	(19,309)	(9,779)	(507)	(3,844)	(14,791)
Gain on sale of Company's business, net	-	-	-	-	95,137
Financial income (expenses), net	(2,639)	(3,448)	(1,316)	(1,738)	7,596
Income (loss) before taxes on income	(21,948)	(14,668)	(1,823)	(5,582)	87,942
Taxes on income	19	38	98	838	966
Net Income (loss)	$ (21,967)	$ (14,706)	$ (1,921)	(6,420)	86,976
Basic earnings (loss) per share	$ (0.91)	$ (0.46)	$ (0.03)	$ (0.09)	$ 1.19
Diluted earnings (loss) per share	$ (0.91)	$ (0.46)	$ (0.03)	$ (0.09)	$ 1.01
Weighted average number of shares used for computing basic earnings (loss) per share	24,235,406	31,932,345	60,506,854	71,537,501	72,972,565
Weighted average number of shares used for computing diluted earnings (loss) per share	24,235,406	31,932,345	60,506,854	71,537,501	86,102,748

Consolidated Balance Sheet Data
(in thousands of U.S. Dollars except share data)

	At December 31,				
	2004	2005	2006	2007	2008
Working capital (deficiency)	$ (27,744)	$ (3,254)	$ 546	$ (4,782)	$ 76,119
Total assets	$ 51,586	$ 39,716	$ 41,203	$ 52,327	$ 78,278
Total liabilities	$ 75,228	$ 67,270	$ 62,206	$ 74,506	$ 7,349
Total shareholders' Equity (deficiency)	$ (23,642)	$ (27,554)	$ (21,003)	$ (22,179)	$ 70,929
Capital stock	$ 56,631	$ 74,211	$ 75,591	$ 82,850	$ 89,109
Ordinary shares outstanding	26,165,215	60,498,062	60,523,886	72,710,505	73,786,428

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. You should carefully consider the risks described below as well as the other information contained in this annual report before making an investment decision. Any of the following risks could materially adversely affect our business, financial condition, results of operations and cash flows. In such case, you may lose all or part of your original investment.

The risks described below are not the only 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.

We have sold our business and currently conduct no business activities. In February 2008, we sold our wide-format printing business, through the sale of substantially all of our assets and liabilities relating to such business, to HP. We have since held our assets, which currently mainly consist of the cash consideration received from HP, in cash and cash equivalents. Since the consummation of the sale of our business, we have concentrated on activities relating to the investment of our funds and handling the winding up of the operations that were not transferred to HP and the remaining aspects relating to the transfer of the business to HP, as well as pursuing our current plan of operation, which is to identify and evaluate suitable business opportunities and strategic alternatives, including through the acquisition of all or part of an existing business, pursuing business combinations or otherwise. Other than activities relating to the transfer of our business to HP, attempting to locate such business opportunities and activities relating to the investment of our funds, we do not currently conduct any operations.

We are exposed to potential liabilities in connection with the sale of our business to HP. In connection with the sale of our business to HP, we have agreed to indemnify HP and its subsidiaries that purchased our assets, and their respective officers, directors, employees and affiliates, for certain breaches of the Asset Purchase Agreement, including, among others, any breach or inaccuracy of the representations and warranties, any liabilities that were not assumed by HP and certain environmental matters. Our indemnification liability pursuant to the Asset Purchase Agreement is generally limited to amounts deposited in an escrow account pursuant to such Agreement ($9.5 million deposited in an indemnity escrow account for a period of 18 months and $5 million deposited for a period of 24 months). However, we agreed that claims for indemnity relating to certain liabilities, including, among others, fraud, willing and intentional breach of warranties, liabilities arising in connection with assets or liabilities that were not purchased by HP, failure to comply with certain restrictive covenants and environmental issues, will not be limited to the amounts deposited in escrow. A claim against us could result in substantial cost, that may, if it relates to certain issues, be paid from sources other than the funds deposited in escrow, which would have a negative impact on our financial condition. The representations and warranties made by us in the Asset Purchase Agreement survive for a period of 18 months following the closing date of the transaction, which occurred on February 29, 2008.

We may not be successful in identifying and evaluating suitable business opportunities or in consummating a business combination. We do not have an agreement or understanding with any third party with respect to the future operations of the Company. There can be no assurance that we will be successful in identifying and evaluating suitable business opportunities or in consummating a business combination and we expect to incur expenses in connection with this identification and evaluation process, whether or not such process results in an investment of our funds. While we are actively exploring strategic transactions and opportunities, we have not targeted any particular industry or specific business within an industry in which to pursue such opportunities. We may enter into a business combination with a business entity having no significant operating history or other negative characteristics such as having limited earnings or no potential for immediate earnings, limited assets and negative net worth. We may also pursue a business combination that will not necessarily provide us with significant financial benefits in the short or long term. In the event that we complete a business combination, the success of our operations will be dependent upon the performance of management of the target company and our ability to retain such management and numerous other factors, some of which are beyond our control. There is no assurance that we will be able to negotiate a business combination on terms favorable to us, or at all.

If we do not conduct an adequate due diligence investigation of a target business, 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, which could cause you to lose some or all of your investment. We must conduct a due diligence investigation of the target businesses we intend to acquire. Intensive due diligence is time consuming and expensive due to the operations, accounting, finance and legal professionals who must be involved in the due diligence process. Even if we conduct extensive due diligence on a target business, we cannot assure you that this due diligence will reveal all material issues that may affect a particular target business, or that factors outside the control of the target business and outside of our control will not later arise. If our due diligence review fails to identify issues specific to a target business, industry or the environment in which the target business operates, we may be forced to later write-down or write-off assets, restructure our operations, or incur impairment or other charges that could result in losses. Even though these charges may be non-cash items and not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us or our ordinary shares.

The current general economic and business condition around the world and any subsequent economic downturn may adversely affect our ability to consummate a business combination, the prospects of any business we may acquire and the trading price of our ordinary shares. During the past two years, and particularly since September 2008, due to the severity of the crisis affecting financial institutions in the United States and in Europe, the rising costs of various commodities, the lack of growth and economic development in the United States and Europe (and, beginning in late 2008, in the rest of the developed world and emerging economies as well) and the developing recession, the general economic and business condition in many countries around the world has worsened, affecting, among other things, credit ratings of borrowers, the perceived and actual credit risks faced by lenders and purchasers of debt securities, the spending habits of consumers, and the ability to procure financing. Although this current crisis may present certain opportunities to companies such as Ellomay that are seeking prospective business combinations, if this current crisis continues, or any further economic downturns ensue, it may adversely affect our ability to procure financing required for prospective business combinations, the value of businesses we acquire and our financial condition and results of operations. In addition, this economic downturn also affects the trading prices of securities in various capital markets around the world and may significantly and adversely affect the trading price of our ordinary shares.

We may not be able to consummate a business combination that will be beneficial to our shareholders. We expect to encounter intense competition from entities having a business objective similar to ours, including venture capital funds, private equity funds, special purpose acquisition companies, operating businesses competing for acquisitions, and blank check companies, especially as the prices of potential targets decrease due to the current global financial crisis. Many of these potential acquirers are well established and have extensive experience in identifying and effecting business combinations directly or through affiliates. Such entities may possess greater technical, human and other resources than we do and our financial resources may be relatively limited when contrasted with those of many of these competitors. In addition, our history of operations and potential exposures relating to our previous operations may limit our ability to consummate a business combination that will be beneficial to our current shareholders.

When we do select a prospective target business or business in which to invest or with which to complete a business combination, we may be unable to ascertain the merits or risks of any particular target business's operations. To the extent we complete a business combination or investment transaction, we may be affected by numerous risks inherent in the business operations of the acquired business or businesses. Although our management will endeavor to evaluate the risks inherent in a particular target business, we cannot assure you that we will properly ascertain or assess all of the significant risk factors, or that we will have adequate resources to perform a complete due diligence process.

The consummation of a business combination may lead to the dilution of the value of our shares, and may involve the issuance of additional shares of our capital stock or the issuance of debt securities. Issuance of our capital stock would have a dilutive effect over the interests of our shareholders. In the event we enter into a business combination or similar arrangement, it may involve the allocation of a significant amount of cash held by us as a result of the sale of our business to HP. Depending upon the value of the assets acquired in such business combination or investment, the per share value of our ordinary shares may increase or decrease, possibly significantly. In addition, we may need to raise additional financing by issuing our ordinary shares to investors, issuing debt securities or incurring bank or other debt in order to consummate business combinations or acquisitions, and the difficulty of raising capital in the current capital markets environment makes it possible that such ordinary shares or debt securities may be issued at discounts from prevailing market prices. Our second amended and restated articles authorize the issuance of up to 170,000,000 ordinary shares. There are currently 54,893,379 ordinary shares available for issuance (after appropriate reservation for the issuance of the shares upon full exercise of our outstanding stock options and warrants). The issuance of additional ordinary shares may significantly reduce your equity interest in Ellomay and may adversely affect prevailing market prices for our ordinary shares. The incurrence of bank debt or the issuance of debt securities may place restrictions on our ability to operate our business, including leading to default and foreclosure on our assets, subjecting us to restrictive covenants and limiting our ability to obtain additional financing.

Our ability to successfully effect business combinations or 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 a business combination or acquisition is dependent upon the efforts of our key personnel, including Shlomo Nehama, our chairman of the board, and other members of our board of directors. Although we have entered into a Management Services Agreement with entities affiliated with three of our board members, including Mr. Nehama, these and our other directors are not required to commit their full time to our affairs, which could create a conflict of interest when allocating their time between our operations and their other commitments. If our directors' other business affairs require them to devote more substantial amounts of time to such affairs, it could limit their ability to devote time to our affairs and could have a negative impact on our ability to consummate a business combination.

If we acquire a business or effect a business combination with a company located outside of Israel or the United States, we would be subject to a variety of additional risks that may negatively impact our operations. We may acquire or effect a business combination with a company located outside of Israel or the United States. If we did, we would be subject to any special considerations or risks associated with companies operating in the target business' home jurisdiction, including rules and regulations or currency conversion or corporate withholding taxes on individuals, tariffs and trade barriers, regulations related to customs and import/export matters, longer payment cycles, tax issues, such as tax law changes and variations in tax laws as compared to Israel and the United States, currency fluctuations and exchange controls, challenges in collecting accounts receivable, cultural and language differences, employment regulations, crime, strikes, riots, civil disturbances, terrorist attacks and wars and deterioration of political relations with Israel. We cannot assure you that we would be able to adequately address these additional risks. If we were unable to do so, our operations might suffer.

If we are characterized as a passive foreign investment company, our U.S. shareholders may suffer adverse tax consequences. As a result of the sale of our business to HP in February 2008, our assets mainly consist of cash and cash equivalents producing passive income. If, for any taxable year, our passive income, or our assets that produce passive income, exceed specified levels, we may be characterized as a passive foreign investment company, or PFIC, 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 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. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to this decision. Although we believe that for fiscal year 2008 we met the requirements set forth in Section 1298(b)(3) of the Internal Revenue Code, providing an exception from the PFIC status for a "change of business" situation, we cannot assure you, that the Internal Revenue Service or the courts would agree with our conclusion if they were to consider our situation. In addition, we cannot use such exception for two years in succession and therefore if we will meet the criteria of a PFIC, as set forth in the Internal Revenue Code, for fiscal year 2009, we will lose our exception from PFIC status for fiscal 2008 as well. The determination of our PFIC status for fiscal year 2009 will depend on the type of assets we will hold during that year and the income derived from such assets, and if we were to avoid being classified as a PFIC for this year, this would require the closing of an acquisition of an operating business to occur within fiscal 2009, an occurrence that cannot be currently anticipated or in any way assured. Certain elections may be used 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 possible classification as a PFIC. For a more detailed discussion of the consequences of our being classified as a PFIC, see "Item 10.E: Taxation" under the caption "U.S. Tax Considerations Regarding Ordinary Shares."

We may be deemed an "investment company" under the Investment Company Act of 1940, which could subject us to material adverse consequences. As a result of the sale of our business to HP, we could be deemed to be an "investment company" under the Investment Company Act of 1940 (the "Investment Company Act"). During the twelve-month period following the sale of our business to HP, we were not deemed an "investment company" under the Investment Company Act, as we relied on an exemption from that act for transient investment companies for a twelve-month period. As we have not entered into a business combination or developed an operating business and such period has expired, unless we limit the nature of our investments and assets and succeed in making strategic "controlling" investments, we may be 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. Such order would subject us to additional commitments and regulatory compliance. We may be required to restrict our investments, in the short-term and in the long-term, so as not to fall within the statutory definition of investment company. Such investments might not be as favorable to us as the 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 we do not believe that we are engaged in "investment company" activities or business.

We have undergone, and may in the future undergo, tax audits and may have to make material payments to tax authorities at the conclusion of these audits, including in connection with the sale of our business to HP. Previously to the sale of our business to HP, we conducted business globally and a substantial part of our operations was conducted in various countries. 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 and were not assumed or purchased by HP as part of the business sold. 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 may be subject to further audit and assessment by the applicable tax authorities. The consummation of the transaction with HP may increase the likelihood of additional audits of our tax returns in the future. While we believe we comply with applicable income tax laws, there can be no assurance that a governing tax authority will not have a different interpretation of the law and assess us with additional taxes, as a result of which our future results may be adversely affected.

Because our ordinary shares are quoted on the pink sheets and their trading may become subject to the Securities and Exchange Commission's "penny stock" regulations, the market liquidity of our ordinary shares is very limited. On May 19, 2005, our ordinary shares were delisted from the Nasdaq Capital Market. The basis of the delisting was our failure to comply with the minimum stockholders' equity requirement for continued listing on the Nasdaq Capital Market. Our ordinary shares are currently quoted on the over-the-counter market in the "Pink Sheets" under the symbol "EMYCF.PK."

As a result of the removal of our ordinary shares from quotation on the Nasdaq Capital Market, our ordinary shares are not 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. Additionally, certain investors will not purchase securities that are quoted on the pink sheets, which could materially impair our ability to raise funds through the issuance of our ordinary shares in the securities markets.

Because our ordinary shares have been removed from quotation on Nasdaq and the trading price of our ordinary shares is less than $5.00 per share, trading in our ordinary shares may become subject to the requirements of Rule 15g-9 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Although we currently meet the criteria of average revenues in excess of $6 million set forth in Rule 3a51-1(g)(2) which exempts our ordinary shares from being deemed "penny stock, brokers are still subject to special record keeping requirements with respect to our ordinary shares and must demonstrate that we have met these criteria. In addition, if we do not consummate the acquisition of an operating business in 2009, or if the businesses we do acquire lack sufficient revenues, our ordinary shares may be deemed "penny stock" and would then be subject to the full sales practice requirements of Rule 15g-9. Pursuant to Rule 15g-9, brokers and dealers who recommend penny stocks to persons other than established customers and accredited investors must satisfy special sales practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's written consent prior to the transaction.

The Securities Enforcement Remedies and Penny Stock Reform Act of 1990 also requires additional disclosure in connection with any trades involving a stock defined as a penny stock (generally, according to regulations adopted by the SEC, any equity security not traded on an exchange or quoted on Nasdaq or the OTC Bulletin Board that has a market price of less than $5.00 per share, subject to certain exceptions), including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith. Such requirements could further limit the market liquidity of our ordinary shares.

We do not intend to pay cash dividends prior to the completion of a business combination and may not pay dividends in the future following the completion of a business combination. We have not paid any cash dividends on our ordinary shares to date and do not intend to pay cash dividends prior to the completion of a business combination. The payment of dividends after completion of an initial business combination will depend on our revenues and earnings, if any, capital requirements and general financial condition after a business combination is completed and will be within the discretion of our then-board of directors. As a result, any gains on an investment in our securities will need to come through appreciation of the value of such securities.

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. Most of our officers and directors reside outside of the United States. Therefore, you may not be able to enforce any judgment obtained in the U.S. against us or any of such persons. You may not be able to enforce civil actions under U.S. securities laws if you file a lawsuit in Israel. In addition, if a foreign judgment is enforced by an Israeli court, it will be payable in Israeli currency."

Currency fluctuations may affect the value of our assets and decrease our earnings. Substantially all of the consideration for the sale of our business to HP was paid to us in US$. Some of our retained assets and liabilities however are denominated in other currencies. The devaluation of the US$ against such other currencies and other currency fluctuations may decrease the value of our assets and could impact our business.

Our stock price has decreased significantly and may continue to be volatile, which could adversely affect the market liquidity of our ordinary shares and our ability to raise additional funds. Our ordinary shares have experienced substantial price volatility, particularly as there is very limited volume of trading in our ordinary shares and every transaction performed significantly influences the market price. The market price for our ordinary shares has generally followed a historical downward trend since 2000. On May 19, 2005, our ordinary shares were delisted from the Nasdaq Capital Market due to our failure to comply with the minimum stockholders' equity requirement for continued listing. Our ordinary shares are currently quoted on the over-the-counter market in the "Pink Sheets" under the symbol "EMYCF.PK." We are now subject to price and volume fluctuations that affect trading in the securities of shell companies, special purpose acquisition companies and other publicly traded investment vehicles. These factors, as well as general economic and political conditions, may materially adversely affect the market price of our ordinary shares in the future. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain or attract key employees, many of whom are generally granted stock options as part of their compensation package, and negatively affect our ability to raise funds through both debt and equity, discourage potential customers and partners from doing business with us, and could result in a material adverse effect on our business, financial condition, and results of operations.

If we fail to maintain effective disclosure controls and procedures and internal controls over financial reporting in accordance with Sections 302 and 404 of the Sarbanes-Oxley Act, our business, operating results and share price could be materially adversely affected. The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Section 404, have resulted in increased general and administrative expense and a diversion of management time and attention, and we expect these efforts to require the continued commitment of resources. Pursuant to the requirements of Sections 302 and 404 of the Sarbanes-Oxley Act of 2002, our management is required to design and evaluate the effectiveness of our disclosure controls and procedures and of our internal control over financial reporting as of the end of the fiscal year that is the subject of this report. Following its review of our internal controls for the fiscal years ended December 31, 2006 and 2007, our management concluded that due to the material weaknesses identified in our internal controls over financial reporting, our disclosure controls and procedures as of the end of such fiscal years were not effective. In addition, due to the existence of these material weaknesses, our management concluded that our internal control over financial reporting was not effective as of December 31, 2007. Although we have implemented corrective measures, documented and tested our internal control systems and procedures and have made improvements in order for us to comply with the requirements of Section 404 and while our management concluded that our disclosure controls and procedures and our internal control over financial reporting were effective as of December 31, 2008, we may still be exposed to claims from regulatory authorities and our shareholders in connection with our ineffective controls in prior years. In addition, we cannot predict the outcome of our testing in future periods. See "Item 15: Controls and Procedures." Beginning with our annual report for our fiscal year ending December 31, 2009, our report in connection with internal control over financial reporting must also contain a statement that our independent registered public accounting firm have issued an attestation report on their assessment of the effectiveness of such internal controls. Once we acquire an operating business, we may be required to implement new internal control procedures over financial reporting. We may also experience higher than anticipated operating expenses and fees in this context. If we are unable to implement these changes effectively or efficiently, or if our internal controls are found to be ineffective in future periods, whether by our management or by our independent registered accounting firm, it could harm our financial reporting or financial results, impact the market price of our ordinary shares, and could result in our being unable to obtain an unqualified report on internal controls from our independent registered public accounting firm.

We are controlled by a small number of shareholders, who may make decisions with which you may disagree. In February and March 2008, a group of investors comprised of Kanir Joint Investments (2005) Limited Partnership ("Kanir") and S. Nechama Investments (2008) Ltd. ("Nechama Investments"), acquired a substantial amount of our securities in a series of private transactions and have also entered into a shareholders agreement. Consequently, these shareholders currently hold 62% of our outstanding ordinary shares and, taking into account the convertible securities and other rights held by them, are currently the beneficial owners of 72.3% of our ordinary shares. Therefore, acting together, they 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. Moreover, at our general meeting of shareholders held on December 30, 2008, our shareholders adopted our Second Amended and Restated Articles, which were presented to our shareholders at the request of Kanir and Nechama Investments. Several of the amendments, including the casting vote provided to our Chairman of the Board under certain circumstances and the ability of members of our Board to demand that certain issues be approved by our shareholders, requiring a special majority, all as more fully described in "Item 10.B: Memorandum of Association and Second Amended and Restated Articles," may have the affect of delaying or preventing certain changes and corporate actions that would otherwise benefit our shareholders.

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. 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 Ackerstein Towers, 11 Hamenofim Street, Herzliya 46120, Israel, and our telephone number is +972-9-971-5613. 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 (the "Companies Law").

Our ordinary shares were traded on the Nasdaq National Market between October 1995 and July 2003. During 2002, the bid price for our ordinary shares closed below the minimum bid price of $1.00 per share as required for continued listing on the Nasdaq National Market for a period of 30 consecutive trading days. Accordingly, in July 2003, we transferred our securities to the Nasdaq Capital Market, whereby we were granted an extension of 180 days to meet the minimum requirement of $1.00 per share. We regained compliance with this requirement in October 2003. Our ordinary shares were traded on the Nasdaq Capital Market between July 2003 and May 2005. As a result of our failure to comply with the minimum $2.5 million stockholders' equity requirement for continued listing set forth in Marketplace Rule 4320(e)(2)(B) and Rule 4310(c)(3)(A), our ordinary shares were delisted from the Nasdaq Capital Market on May 19, 2005 and are currently quoted in the over-the-counter market in the "Pink Sheets" under the symbol "EMYCF.PK."

Significant Events

On December 9, 2007, we entered into an Asset Purchase Agreement with HP for the sale of our business to HP and several of its subsidiaries (the "HP Transaction"). The Asset Purchase Agreement contemplated the sale of substantially all of our assets and liabilities relating to our business, with the exclusion of cash, debt and other specific assets and liabilities as agreed upon between the parties to the Asset Purchase Agreement. In connection with the Asset Purchase Agreement, HP and several of its subsidiaries also agreed to acquire three of our subsidiaries, NUR Europe S.A., a company organized pursuant to the laws of Belgium, NUR Japan Ltd., a company organized pursuant to the laws of Japan and NUR Do Brazil Ltda., a company organized pursuant to the laws of Brazil.

On February 29, 2008 (the "APA Closing Date"), the sale of our business to HP was finalized. The base purchase price pursuant to the Asset Purchase Agreement is $117.5 million. The purchase price was subject to upward or downward adjustment based on the net debt (bank debt less cash balances) of the Company and its subsidiaries that were not purchased by HP as of the APA Closing Date. The purchase price adjustment on such date was approximately $4 million, increasing the total consideration under the Asset Purchase Agreement from $117.5 million to $121.5 million. Following the APA Closing Date, the parties reached a mutual resolution to assign NUR Europe's facilities and related capital lease to a third party. Therefore, we were entitled to additional net proceeds (after deduction of HP's expenses in connection with such capital lease and other expenses that were to be borne by us pursuant to the Asset Purchase Agreement) in the amount of $1.1 million as additional consideration for NUR Europe's shares, increasing the aggregate consideration in connection with the HP Transaction to

$122.6 million.

Of the total consideration:

- $103.9 million was transferred to us on the APA Closing Date.

- $1.6 million was withheld by HP until final calculation of the net debt as of the APA Closing Date. Based on the final net debt calculation we were entitled only to an amount of $1.504 million, which was transferred to us on July 30, 2008.

- $1.5 million was withheld by HP until the resolution of NUR Europe's obligations with respect to its capital lease and Government grants. Of the $1.5 million withheld, an amount of $1 million was transferred to us on December 2, 2008 as a result of the assignment of NUR Europe's facilities and related capital lease to a third party. The $0.5 million withheld in connection with NUR Europe's obligations with respect to the government grants is still being held by HP.

- Of the additional proceeds in the amount of $1.1 million related to NUR Europe's facilities, a total amount of $0.4 million was transferred to us on December 18, 2008 and an additional amount of approximately $0.7 million was transferred to us on March 13, 2009.

- The remaining $14.5 million was deposited into an escrow account to secure the indemnity obligations of the Company and its remaining subsidiaries. The escrow funds, net of amounts distributed to HP in satisfaction of indemnity obligations, are to be distributed to us in two installments: $9.5 million is to be distributed eighteen months following the APA Closing Date and $5 million is to be distributed to us twenty-four months following the APA Closing Date.

In March 2008, following the consummation of the HP Transaction, we repaid our short-term debt to our lender banks, Bank Hapoalim B.M., Bank Leumi Le-Israel B.M. and Israel Discount Bank Ltd. (the "Banks"), in the amount of $9.8 million and, in early April 2008, we fully repaid our long-term debt to the Banks in the amount of $12.1 million.

Our current plan of operation is to identify and evaluate suitable business opportunities and strategic alternatives, including through the acquisition of all or part of an existing business, pursuing business combinations or otherwise. Following the closing of the HP Transaction, we have ceased conducting any operating activity and currently substantially all of our assets consist of cash and cash equivalents. We now only conduct activities relating to the attempt to locate business opportunities and strategic alternatives, activities relating to the investment of our funds and activities relating to the winding up of the operations that were not transferred to HP and the remaining aspects relating to the transfer of the business to HP.

In the beginning of 2007 we raised $6.3 million through the private placement of 11,734,950 of our ordinary shares to various investors at a price of $0.54 per share. The investors also received warrants to purchase additional 3,520,485 ordinary shares at an exercise price of $0.65 per share, exercisable for a period of five years following the closing of the private placement. The private placement included two stages, an initial closing resulting in gross proceeds in the amount of $3.8 million in January 2007 and a follow-on investment resulting in gross proceeds of $2.5 million in February 2007. In connection with the private placement, we paid our adviser, Meitav Underwriting Ltd., a cash fee of $0.25 million. The private placement was effected in accordance with the exemptions from registration provided under Section 4(2) under the Securities Act of 1933 (which we refer to as the "Act") and Regulation S promulgated under the Act.

During the first half of 2006 we made leasehold improvements in our new manufacturing site in Lod, Israel. We invested in these leasehold improvements approximately $0.80 million. During 2007, our ERP system and IT infrastructure was upgraded for an aggregate investment of approximately $0.69 million. During 2008, we did not have any principal capital expenditures or divestitures and we do not have any principal capital expenditures and divestitures currently in progress.

For more information on our financing activities please refer to "Item 5: Operating and Financial Review and Prospects."

B. Business Overview

Following the closing of the HP Transaction and the sale of our operating business to HP and several of its subsidiaries on February 29, 2008, we ceased substantially all of the operations of our business as conducted prior thereto. We currently hold substantially all of our assets in cash and cash equivalents. Our current plan of operation is to identify and evaluate suitable business opportunities and strategic alternatives, including through the acquisition of all or part of an existing business, pursuing business combinations or otherwise. While we are actively exploring strategic transactions and opportunities, we have not targeted any particular industry or specific business within an industry in which to pursue such opportunities.

The following is a description of the business conducted by us prior to the closing of the HP Transaction:

Prior to the closing of the HP Transaction, we were a leading supplier of wide format and super-wide format digital printing systems worldwide. We developed, manufactured, sold and serviced digital color printers for the printing of large images such as billboards, posters and banners, point of purchase displays, exhibition and trade show displays, as well as decorations and backdrops for construction scaffolding covers, showrooms, television and film studios, museums and exhibits. We also supplied our customers with ink and solvent products for use with wide format and super-wide format digital printers.

We conducted the research and development activities related to printing equipment and ink at its facility in Lod, Israel. We had worldwide marketing, sales and service subsidiaries or divisions in Europe, North America, South America, Asia Pacific and the Middle East and Africa regions.

We offered several lines of printers in the wide and super-wide format categories which were either solvent-ink based or UV-ink based. In the solvent-ink based printers market we offered the NUR Fresco series and the NUR Tango. In the UV-ink based printers market, we offered the NUR Tempo series and the NUR Expedio series. These printers are sometimes referred to collectively herein as “our printers.”

We also sold specialized ink products for use with our printers. The ink products previously sold by us to our customers for use with the NUR Fresco, NUR Ultima, NUR Salsa, NUR Blueboard, NUR Tempo, NUR Expedio and NUR Tango printers were resistant to water and ultraviolet rays and were well suited for indoor and outdoor use.

We sold our printers and related products primarily to commercial digital printers, design and service firms, screen printers, commercial photo labs, outdoor media companies and trade shops. As of the consummation of the sale of our business to HP, our printers were installed in more than 800 sites throughout Europe, North and South America, Africa and Asia.

Industry Background

The market for printed applications requiring wide format and super-wide format printing has expanded during the last few years during which we were active in such market. Wide format and super-wide format printing applications include billboards, flags, posters and banners, special event and trade show displays, point of purchase displays, fleet graphics, decorations and backdrops. For example, the retail, automotive, restaurant, travel and gasoline industries used outdoor advertising to promote their products in numerous locations including roadside billboards and posters displayed on streets and buildings, as well as the outside of buses, vans, trucks and trains, so-called vehicular graphics. Wide format and super-wide format prints could also be found in theaters as stage decorations, in museums and exhibitions as backdrops or displays and on construction sites as building site coverings. Prior to the introduction of digital printing systems, wide format and super-wide format short-run prints were produced either by hand painting, which is relatively slow and expensive, and produces lesser quality images, or by screen or offset printing, both of which are relatively expensive and time consuming processes.

Traditional Wide Format and Super-wide Format Printing Methods

Conventional methods of wide format and super-wide format printing have included hand painting, screen printing and offset printing. Generally, producing wide format and super-wide format color prints by traditional methods in relatively short runs (i.e., a few copies to a few hundred copies), depending on the application, has either been relatively slow and expensive or of limited quality. Because of the inherent limitations of the traditional wide format and super-wide format printing methods, quality wide format and super-wide format prints produced by these methods are generally limited to long runs of identical prints, designed and prepared well in advance or, in the case of hand painting, to single print applications. As a result, traditional methods of producing wide format and super-wide format prints have not provided timely and economic solutions for the needs of the short run printing market.

Hand Painting. Hand painting involves either the projection of an image onto a substrate, which is then drawn onto the substrate and subsequently painted by hand, or the spraying of paint onto material covered by a template that has been cut to the desired shape. The process of hand painting is an alternative mainly in developing countries where labor costs are significantly lower and where the significantly lower image quality is tolerated by the local market.

Screen Printing. The screen-printing process is distinguished by its ability to print finely detailed images on practically any surface, including paper, plastics, metals and three-dimensional surfaces. However, the process requires significant set-up time and investment in materials before the image can be sent to press. This cost constrains the minimum number of copies the screen printer can produce economically. As screen-printing is a highly labor-intensive process, it is best suited for run lengths between 50 to 400 copies. Hence, this is a market in which we believe our digital printers can be highly competitive.

Offset Printing. Offset color printing generally produces very high quality images compared to hand painting or screen-printing. However, because of the complex steps involved in offset color printing, each printing job, whether small or large, involves substantial set-up time and costs. In addition, much like hand painting and screen-printing, alterations and customizations are not economically feasible unless the entire offset color printing process is repeated. Another drawback is that the variety of substrate materials and widths suitable for use with offset printing machinery is limited. In general, offset color printing is best suited for long print runs.

Wide Format and Super-wide Format Digital Printing

The introduction of digital printing has aided in the transformation of the wide format and super-wide format printing industry by lowering set-up costs, shortening turnaround time and reducing labor requirements. Digital printing involves the production of hard-copy images and text from digital data that is either generated on a computer at the printing site or originated by a customer on the customer’s computer system. The digital data is then transferred directly from an electronic pre-press or desktop publishing system to the digital printer. During our operations in the digital printing business, there were several digital printing technologies available, including electrostatic, piezo drop-on-demand, thermal transfer and continuous inkjet printing.

Electrostatic Printing. Electrostatic printing is a non-impact printing technique that employs an array of metal styli, selectively pulsed to a high potential to generate a charged latent image on dielectric-coated paper, which is then toned to develop the latent image into a visible image. The achievable printing resolution is up to 400 dots per square inch. The main drawback of the technology is the need for special and expensive substrates and toners. This requirement increases the cost of consumables considerably.

Piezo Drop-On-Demand Inkjet Printing. Drop-on-demand technology involves the intermittent firing of ink drops when needed on the substrate. It provides high resolution and enables use of a variety of inks for home, office and industrial use. To address the needs of the wide format market for images with higher resolutions compared to those of other digital printing methods, for use with shorter viewing distances, we utilize drop-on-demand inkjet technology in our printers.

Thermal Transfer Printing. Thermal transfer printing is a contact printing technology that employs arrays of heated needles and pressure to melt and transfer wax based inks from a carrier roll onto a restricted variety of substrates. Like electrostatic printing, thermal transfer printing requires relatively expensive consumables.

Continuous Inkjet Printing. Continuous inkjet printing technology involves the continuous flow of electrically conductive ink within a closed loop that is deflected onto a specific location on a sheet of paper or other medium. The ink is separated into uniform micro-drops and the micro-drops are electronically directed to be printed onto a selected area of the medium. Continuous inkjet printing technology allows for high-speed printing and produces images with good resolutions sufficient for viewing from distances of beyond five feet. Continuous inkjet printers also produce multiple copies with consistent color quality. The cost of equipment using continuous inkjet printing technology is relatively high in comparison to printers using electrostatic technology. However, the cost of the output produced with continuous inkjet printers is lower than that of electrostatic printers.

Products

Our revenues were derived primarily from the sale and service of our printers and the sale of ink and solvent products used with our printers. See “Item 5.A: Geographic Breakdown of Revenues” for more information on the breakdown of revenues by category of activity and into geographic markets. As previously mentioned, all products detailed herein have been sold to HP in connection with the HP Transaction and are no longer manufactured, sold or serviced by us.

Printers

UV-Ink Based Roll-Fed Printers

NUR Expedio™ Series

The NUR Expedio Series included NUR Expedio 5000, a 5-meter/16-feet super-wide inkjet production printer, NUR Expedio™ Revolution, a billboard printer using a special billboard ink, NUR Expedio™ 3200, a 3.2 meter, UV roll-to-roll printer, , NUR Expedio™ Inspiration, a 3.2 meter, wide-format inkjet production printer with the ability to print on both flexible and rigid materials when combined with the NUR Expedio™ 3200 / Expedio Inspiration Flatbed Module, a flatbed add-on module for the NUR Expedio 3200 and the NUR Expedio Inspiration wide-format UV-inkjet production printers.

UV-Flatbed Digital Printers

NUR Tempo Series

The NUR Tempo Series included the NUR Tempo, able to print on almost any type of substrate, NUR Tempo L, a mid-range, four-color flatbed printer, NUR Tempo II, a flatbed wide-format inkjet printer and NUR Tempo Q, a high quality printer with increased printing capacity.

Solvent-ink based Digital Printers

NUR Fresco™ Series

The NUR Fresco Series included NUR Fresco, a printer that used piezo drop-on-demand inkjet technology, NUR Fresco HiQ 8C, a printer based on a previous model printer which was modified to print using eight-color mode instead of the standard four-color mode, NUR Fresco X-Press 100, a printer that extended the productivity and versatility of the NUR Fresco photorealistic production printers to accommodate long print runs and high volume production environments, NUR Fresco II series, a series that replaced the NUR Fresco HiQ models and NUR Fresco III, a printer with higher speeds and productivity.

NUR Tango

The NUR Tango printer was manufactured by a third party under an exclusive OEM agreement and provided high production speeds and additional Color Activator (dryer) and switch-able Ink system for direct or indirect solvent dye sublimation printing. The OEM agreement was terminated prior to the consummation of the HP Transaction.

Our Printers – General

Our printers required little operator supervision, enabling one operator to run several machines at once. While the operators must have been specifically trained in the operation of our printers, unlike conventional methods such as offset printing, no special color mixing skills are required.

As compared to traditional methods of wide format and super-wide format printing, our printers could significantly reduce the set-up and operating costs associated with each print job. Both the number of personnel and the number of skilled personal that were required for the operation of our printers were lower than in traditional methods of wide-format and super-wide format printing. These advantages made wide format and super-wide format short-run color printing significantly more economical than is possible using traditional printing methods. Additionally, the relatively quick turnaround for the printed product enabled our printers to produce more output in a given period, thereby further lowering the costs of labor per print.

Unlike hand painting, screen or offset printing, the layout can be viewed through the pre-press workstation prior to printing, permitting last minute fine-tuning. By running a single copy of the print, corrections of text, enhancements of images, and additions of color can all be accomplished with minimal time, effort and cost. Additionally, since the format can readily be changed, our printers allowed the end-user to make each print in the run different, with little time, effort, or additional cost. For example, if so desired, different languages, graphics and text could be added to each print in a run.

As of the end of fiscal 2007, the retail prices of our printers generally ranged from $120,000 to $450,000 per machine.

Consumables

Inks

The NUR Tempo and NUR Expedio printers use specialized UV-curable inks. The ink used was resistant to water and ultraviolet rays, making it fairly durable and thus well suited for outdoor conditions. The NUR Tempo, through the utilization of the ink, can print on almost an unlimited variety of substrates. The NUR Expedio also prints on a variety of media. The ink we sold enabled the output of the NUR Tempo and NUR Expedio to be used both for indoor and outdoor advertising without additional lamination.

The NUR Fresco and NUR Ultima printers use specialized all-in-one solvent-pigment based ink designed for the needs of the wide format and super-wide format market and suited for drop-on-demand technology printers. This ink was developed to ensure color-real, long lasting, color consistent, weather resistant prints. The NUR Blueboard printers that were in our installed base as of the consummation of the HP Transaction, use specialized solvent-based pigmented ink designed for the needs of billboard application. The ink is resistant to water and ultraviolet rays, making it fairly durable and thus well suited for outdoor conditions.

We manufactured ink in our plant in Ashkelon, Israel, and our ink research and development activities were located in Lod, Israel.

Sales and Marketing

We distributed and sold our products directly and through the following wholly owned subsidiaries: NUR Europe (which was sold to HP), NUR America, NUR Asia Pacific, NUR DO Brazil (which was sold to HP) and NUR Japan (which was sold to HP).

Our marketing activities included participating in relevant tradeshows worldwide, advertising in trade publications, marketing directly to a target base, as well as publishing our own newsletters, participating in services and industry forums and maintaining an Internet site.

In addition, we worked to develop, market and sell a wide range of advanced ink products, all of which are designed to work with our previously existing range of printers.

The Israeli Government, through the Fund for the Encouragement of Marketing Activities of the Ministry of Industry, Trade and Labor (the “Marketing Fund”), awarded participation grants for marketing expenses incurred overseas. During 2007 and 2008 we did not receive grants from the Marketing Fund and we were not eligible to receive such grants. Under the terms of grants awarded to us in prior years by the Marketing Fund, we were obligated to pay a royalty of 3-4% of the export added value to the Marketing Fund until 100%-150% of the grants received in prior years had been repaid. In connection with a dispute with the Ministry of Industry, Trade and Labor, we withheld payments owed to the Marketing Fund. In February 2006, as part of the OCS Settlement Agreement described below, the District Court in Jerusalem approved a settlement between us and the Ministry of Industry, Trade and Labor in connection with our outstanding debt to the Marketing Fund. Under the terms of the approved settlement, we were required to make aggregate payments of approximately $0.78 million to the Marketing Fund over a three-year period. The liability to the Marketing Fund was fully paid during 2008. For more details regarding the settlement agreement see “Item 8.A: Legal Proceedings.”

Production and Sources of Supply

We manufactured and assembled our printers at a single, large manufacturing facility located in the Telrad Campus in Lod, Israel.

Full system integration, acceptance and quality control testing of the printers were conducted by our employees at the manufacturing facility. Product quality control tests and inspections were performed at various steps throughout the manufacturing process, and each product was subject to a final test prior to delivery. As previously mentioned, NUR Tango printers were manufactured by a third party under an exclusive OEM agreement which was terminated prior to the sale of our business to HP.

During the conduct of our business, we were able to obtain adequate supplies of the components necessary to produce our printers and did not have any material problems with our subcontractors. The prices of our principal components did not materially change during 2007 and such portion of 2008 in which we still conducted our business (January – February).

We manufactured ink products at our plant in Ashkelon, Israel. The ink for use with the NUR Blueboard was manufactured by a third party, exclusively for us and under our brand name. Some of the ink products for use with the NUR Tempo and NUR Expedio were also manufactured for us by a third party under our previously-owned brand name.

Service and Support

Installation, post sale customer support and warranty services of our products were provided by us and our subsidiaries NUR America, NUR Europe (which was sold to HP), NUR Italy, NUR UK, NUR Asia Pacific, NUR DO Brazil (which was sold to HP) and NUR Japan (which was sold to HP). In most cases, our warranty to our direct customers and distributors covered defects in our printers for a period of six to twelve months after installation. We were also committed to maintaining sufficient spare parts and materials necessary for the operation of our printers for a certain period after cessation of the manufacturing of such printers.

Research and Development

Our research and development center, which as of the sale of our business to HP engaged over 50 employees, was focused on developing new products, enhancing the quality and performance relative to price of our existing products, reducing manufacturing costs, upgrading and expanding our product line through the development of additional features and improving functionality in response to market demand.

Total net research and development expenses were approximately $5.8 million, $7.0 million and $1.9 million in the years ended December 31, 2006, 2007 and 2008, respectively.

Research and development expenses were composed principally of salaries for employees, the hiring of subcontractors, prototype material costs and depreciation of printers and capital investment in infrastructure for software and electronic designs.

Between 1997 and 2003, NUR Media Solutions, our subsidiary and NUR Europe, our former subsidiary (sold to HP), received three research and development grants in the aggregate amount of approximately EUR 2.4 million from local authorities in Belgium. The obligation to pay royalties from the sales of products developed with these grants was retained by NUR Media Solutions in connection with the HP Transaction and we undertook to release NUR Europe from its obligations, if any, pursuant to these grants. These grants are subject to certain terms and conditions pursuant to agreements entered into between the subsidiaries and the local authorities in Belgium. Under the terms of the grants, the subsidiaries have an obligation to pay royalties at the higher of a certain minimum annual amount or at a rate of 4% on the sales of products developed with funds provided by the local authorities in Belgium, up to an amount equal to the research and development grants received in connection with such products, linked to the Euro. The commencement of the royalty payments to the local authorities in Belgium is contingent upon such subsidiaries generating sales from products developed under these grants. The grants are not repayable in the event that the subsidiaries decide to cease the research and development activities or the exploitation of the products developed under these grants and all know- how and results of the research and development are transferred to the local authorities. In the event that such subsidiaries decide to cease exploitation of the products developed under these grants a notification thereof should be given to the local authorities in Belgium. Our subsidiaries ceased the research and development activities and the exploitation of certain products for which grants were received but did not submit notification to the local authorities and instead continued to pay royalties, with a total of EUR 0.659 million remitted through 2005. During the years ended December 31, 2006, 2007 and 2008, our subsidiaries did not pay any royalties to the local Belgian authorities, other than the settlement amount paid on December 2, 2008 as noted below.

During November 2008 NUR Media Solutions reached a settlement with the Belgian authorities by which the authorities waived the repayment of a portion of the grants and, in return, we paid back on December 2, 2008 a total of EUR 0.390 million as full and final settlement.

In the past, we received grants from the Government of Israel, through the Office of the Chief Scientist, or the OCS, for the development of our systems and products. The terms of the grants prohibit the manufacture of products developed with government grants outside of Israel without the prior consent of the OCS. These restrictions do not bar exports from Israel of products developed with such technologies. In addition, the know-how and the technology developed pursuant to these grants may not be transferred to third parties or out of Israel without the approval of the OCS. The approval of the OCS, if granted, generally subject us to additional financial obligations. These restrictions do not terminate following repayment of the grants. Other than with respect to the MAGNET and Magneton projects described below, we have not received research and development grants from the OCS since 2001. The OCS awards grants of up to 50% (and in certain circumstances up to 66%) of a project's approved expenditures in return for royalties. Under the terms of previously granted funding, royalties were payable generally at a rate of 2% to 3% on sales of products developed from the funded project up to 100% to 150% of the dollar value of the original grant. During 2001, we made royalty payments of $0.2 million in respect of such grants to the OCS. In February 2005, we filed a claim with the District Court in Jerusalem against the OCS for a declaratory judgment denying an alleged liability for unpaid royalties to the OCS of approximately $0.8 million and for the recovery of approximately $0.27 million that was previously paid to the OCS. In February 2006, the court approved a settlement between us and the OCS (the "OCS Settlement Agreement"). Under the terms of the OCS Settlement Agreement, we were required to make aggregate payments of approximately $0.6 to the OCS over a three-year period. We also agreed to make payments equal to 5% of our operating income in order to accelerate the repayment of the agreed upon royalties. The amounts required to be paid by us pursuant to the OCS Settlement Agreement were fully repaid by us during 2008. For additional information regarding the OCS dispute please see “Item 8.A: Legal Proceedings.”

In addition to the OCS grants described above, following our participation in a research and development consortium of industrial companies and academic institution within the framework of the MAGNET program of the OCS, we worked on an ink technology project with the Technion – The Israel Institute of Technology, which received the approval of the Mini-MAGNET (or Magneton) committee of the OCS. The Magneton is designated to support knowledge-transfer relationships between industry and academic institutions. Under the terms of the Magneton program, the OCS contributes 66% of the OCS-approved program research budget. No royalties are payable to the OCS with respect to this funding, however, the terms of our agreement with the Technion required us to pay royalties to the Technion on the proceeds from sales of products resulting from this project when such sales commenced. The terms of the program prohibit both the manufacture of products using technology developed in the context of the program outside of Israel and the transfer of technology developed under the program, without the prior written consent of the OCS. Such consent may require the refund of the grants awarded. We have not received any monies relating to the Magneton project, as a majority of the monies due to us in connection with grants were applied against our debt to the OCS pursuant to the OCS Settlement Agreement.

All of the intellectual property used in our business was sold to HP in connection with the HP Transaction, including intellectual property developed with the assistance of the OCS.

HP has approached the OCS and requested to transfer the technology and manufacturing of products developed with the assistance of the OCS outside of Israel. Pursuant to the terms of the Asset Purchase Agreement, we may be required to reimburse HP, out of the amounts deposited in the escrow account, for payments made to the OCS in connection with such transfer of manufacturing. It is too early to determine what amounts will be paid by HP to the OCS or will be required to be paid by us to HP.

Competition

Prior to the consummation of the sale of our business to HP, the principal competitive factors that affected the sales of our products were their performance relative to price, productivity and throughput; product features and technology; quality, reliability, cost of operation and consumables; the quality and costs of training, support and service and our ability to be flexible in adapting to customers’ applications of our products. Other competitive factors included the ability to provide access to product financing, our reputation and the customers’ confidence that we would continually develop new products and product accessories that would help them maintain and grow their business.

Our main competitors in the roll-fed arena were EFI/VUTEk, Hewlett-Packard/Scitex Vision and Gandi Innovations. These companies have introduced products that directly compete with the NUR Fresco and NUR Expedio printers. In the market for flatbed printers utilizing UV-curable ink, the main competitors were Durst Phototechnik, Inca Digital Printers, Hewlett-Packard/Scitex Vision, Leggett & Platt (Spuhl), Gandi Innovations and EFI/VUTEk. These companies have introduced products that compete with the NUR Tempo. There were also a growing number of manufacturers in the Asia Pacific region (especially China and Korea) that began developing, manufacturing and selling inexpensive printers. In the years prior to the sale of our business to HP, these manufacturers have started to penetrate the international market.

Trade Secrets, Patents and Proprietary Rights

Prior to the sale of our business to HP, we relied on a combination of trade secrets, licenses and patents, together with non-disclosure and confidentiality agreements, to establish and protect our proprietary rights in our products and intellectual property. We cannot provide any assurance that our existing or previously owned patents will not be challenged, invalidated, or circumvented. There can be no assurance that third parties will not assert infringement claims against us or HP in the future, in connection with intellectual property we sold to HP. The cost of responding to such assertions, regardless of their validity, could be significant. In addition, such claims may be found to be valid and could result in awards against us or HP, which could have a material effect on our results or on the amounts deposited in the escrow account in connection with the HP Transaction.

We believe that our success was less dependent upon the legal protection afforded by patent and other proprietary rights than on the knowledge, ability, experience and technological expertise of our employees and our key suppliers. It was our policy to have employees sign confidentiality agreements, and to have third parties sign non-disclosure agreements. Although we take and have in the past taken precautionary measures to maintain our trade secrets, no assurance can be given that others have not acquired equivalent trade secrets or otherwise gained access to or disclosed our proprietary technology.

Insurance

Following the consummation of the sale of our business to HP, we terminated all business related insurance policies and obtained new reduced coverage and certain run-off insurance policies. We believe that the insurance coverage is adequate and appropriate in light of our current business and the circumstances resulting from the HP Transaction.

Government Regulations

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.

As a result of the sale of our business to HP, we could fall within the definition of an "investment company" under the Investment Company Act. During the twelve-month period following the sale of our business to HP, we were not deemed an "investment company" under the Investment Company Act, because we relied on an exemption from that act for transient investment companies for a twelve-month period. As we have not entered into a business combination or developed an operating business and such period has expired, unless we limit the nature of our investments and assets and succeed in making strategic "controlling" investments, we may be 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. Such order would subject us to additional commitments and regulatory compliance. We may be required to restrict our investments, in the short-term and in the long-term, so as not to fall within the statutory definition of investment company. Such investments might not be as favorable to us as the 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 we do not believe that we are engaged in "investment company" activities or business.

Shell Company Status

Following the consummation of the HP Transaction, we have ceased conducting any operating activity and substantially all of our assets currently consist of cash and cash equivalents. Accordingly, we may be 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" subjects us to various restrictions and requirements under the U.S. Securities Laws. In the event we consummate a transaction that causes us to cease being a "shell company," we are required to file a report on Form 20-F within four business days of the closing of such transaction. The Form 20-F is required to include full disclosure with respect to the acquired business and our post-transaction status, including financial statements reflecting the affect of the transaction on our financial position. This requirement may delay the closing of a prospective business combination or limit our ability to consummate certain business combinations.

During the period in which we are deemed to be a "shell company" and for a period of sixty days following the filing of the Form 20-F reflecting the change in our status as described above, we may not use any Form S-8 we have on file in order to enable the issuance of our shares and the resale of such shares by our employees. In addition, the provisions of Rule 144 promulgated under the Securities Exchange Act of 1934 may not be used for resale of shares issued by us at the time we were deemed to be a "shell company" for as long as we are deemed to be a shell company and for a period of one-year thereafter. These restrictions may limit our ability to compensate our employees and attract new key personnel and may also restrict our ability to raise capital via the private placement of our shares.

C. Organizational Structure

Prior to the consummation of the HP Transaction, we operated our business through wholly-owned subsidiaries that conducted sales and marketing activities in pre-defined geographical regions.

As part of the HP Transaction, we sold our holdings in three wholly owned subsidiaries (NUR Europe, NUR Japan and NUR Do Brazil) to several of HP's subsidiaries. Following the consummation of the HP Transaction, we wholly own, directly and indirectly, several subsidiaries that are currently inactive and we are in the process of dissolving, or have already arranged for the dissolution of, a number of such inactive subsidiaries.

D. Property, Plants and Equipment

Prior to the consummation of the HP Transaction, our production facilities were located in Lod, Israel and Ashkelon, Israel and our main office was located in Lod, Israel. We also leased additional premises (offices, demo centers and storage spaces) in Europe, the United States, Asia Pacific and Japan. Following the consummation of the HP Transaction, most of our operating and capital lease commitments were assumed by HP or its subsidiaries or terminated. We have retained a lease of premises of our US subsidiary, NUR America, which is fully sub-leased to a third party.

We currently lease temporary office space in Herzliya, Israel, until we locate an office space that will suit our new operations and requirements.

ITEM 4A: Unresolved Staff Comments

Not applicable.

ITEM 5: Operating and Financial Review and Prospects

Our discussion and analysis of our financial condition and results of operation are based upon our consolidated financial statements and accompanying notes, which have been prepared in accordance with United States generally accepted accounting principles. Our operating and financial review and prospects should be read in conjunction with our financial statements, accompanying notes thereto and other financial information appearing elsewhere in this annual report.

Our consolidated financial statements reflect the results of the sale of our wide-format printing business to HP, consummated on February 29, 2008. As we have not acquired a new operating business during the year ended December 31, 2008, the results of our operations prior to the consummation of the sale of our business to HP are not reported as "discontinued operations" in our consolidated financial statements in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". **Therefore, the data presented in our consolidated financial statements and in our discussion below are not indicative of our future operating results or financial position.**

A. Operating Results

General

Prior to the consummation of the HP Transaction, we were a world leader in the market for the sale of wide format and super-wide format digital printing systems. We developed, manufactured, sold and serviced digital, inkjet color printing systems for on-demand, production, wide format and super-wide format printing. We also supplied ink products that are consumable products for the operation of our printers.

Our total revenues increased from $78.0 million in the year ended December 31, 2006 to $85.6 million in the year ended December 31, 2007 and amounted to $11.4 million during January and February 2008, prior to the consummation of the HP Transaction. Our net loss for the years ended December 31, 2006 and 2007 was $1.9 million and $6.4 million, respectively and our net income for the year ended December 31, 2008 was $87 million.

The decrease in revenues in 2008 was primarily due to the sale of our business to HP and the cessation of our wide-format printing business at the end of February 2008.

Up to the consummation of the HP Transaction on February 29, 2008:

- Our revenues were derived from the sale of our printers and from the sale of ink products, spare parts and related services.
- Cost of sales of printers and related materials included materials, labor, overhead, and other direct or allocated costs involved in the manufacture, warehousing, delivery, support, and maintenance of products.

- Net research and development expenses were comprised primarily of labor costs, materials consumed and payments to subcontractors, consultants and others. Research and development expenses are carried to the statement of operations as incurred.
- Sales and marketing expenses were comprised primarily of salaries and commissions, advertising and promotion costs, trade shows and other marketing activities.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles. For additional information regarding our significant accounting policies see Note 2 to our consolidated financial statements included as a part of this annual report on Form 20-F. While all the accounting policies impact the financial statements, certain policies may be viewed to be critical. These policies are most important for the fair portrayal of our financial condition and results of operations and are those that require our management to make difficult, subjective and complex judgments, estimates and assumptions, based upon information available at the time that they are made, historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates.

In many cases, the accounting treatment of a particular transaction is specifically dictated by United States generally accepted accounting principles and does not require management's judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result.

Our management believes that the significant accounting policies which affected management's more significant judgments and estimates used in the preparation of our consolidated financial statements and which are, following the sale of our business to HP as described above, the most critical to aid in fully understanding and evaluating our reported financial results include those in respect to: income tax and litigation. During the period prior to the sale of our business to HP, the most critical accounting policies in our management's view include those with respect to: revenue recognition, allowance for doubtful accounts, inventory valuation, income taxes, litigation and stock-based compensation.

Income Taxes

On January 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS 109. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. We accrue interest and penalties related to unrecognized tax benefits in the provision for income tax.

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

Litigation

Our management accrues liabilities related to litigation brought against us when the amount or a range of the potential loss can be estimated and it is probable that a loss will be incurred. In determining whether liabilities should be recorded for pending litigation claims, we assess the allegations made and the likelihood that we will successfully defend ourselves. When we believe that it is probable that we will not prevail in a particular matter, we then estimates the amount of the liability based in part on advice of legal counsel. As litigation progresses, we continue to assess our potential liability and revise our estimates accordingly. Such revisions in our estimates could materially impact our results of operations and financial position. Estimates of litigation liability affect our other accounts payable and accrued expenses line item in our consolidated balance sheet and our general and administrative expense line item in our statement of operations.

Stock-Based Compensation

We account for equity-based compensation in accordance with SFAS No. 123(R), "Share-Based Payment." Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense over the requisite service periods. Determining the fair value of stock-based awards at the grant date requires the exercise of judgment, including the amount of stock-based awards that are expected to be forfeited. If actual results differ from these estimates, equity-based compensation expense and our results of operations could be impacted. We estimate the fair value of employee stock options using a Black-Scholes-Merton valuation model. The fair value of an award is affected by our stock price on the date of grant as well as other assumptions including the estimated volatility of our stock price over the term of the awards and the estimated period of time that we expect employees to hold their stock options. The risk-free interest rate assumption is based upon United States treasury interest rates appropriate for the expected life of the awards. We use the historical volatility of our publicly traded stock options in order to estimate future stock price trends. In order to determine the estimated period of time that we expect employees to hold their stock options, we have used historical behavioral patterns rates of employee groups by job classification. Our expected dividend rate is zero since we do not currently pay cash dividends on our ordinary shares and do not anticipate doing so in the foreseeable future.

Revenue Recognition

During the periods covered by the consolidated financial statements prior to the consummation of the HP Transaction, we generated revenues from the sale of printers, inks and consumable products and from servicing our products. We generated revenues from the sale of our products directly to end-users and indirectly through independent distributors. Revenues from these independent distributors were deferred until our products were installed in their customers' premises, provided that all other revenue recognition criteria were met.

Revenues from printer sales were recognized in accordance with Staff Accounting Bulletin No. 104 "Revenue Recognition in Financial Statements" upon installation, provided that the collection of the resulting receivable was probable, persuasive evidence of an arrangement existed, no significant obligations in respect of installation remained and the price was fixed or determinable. We did not grant a right of return.

When a sale involved multiple elements, such as sales of printers that included a right to receive specified upgrades or an extended warranty agreement, the entire fee from the arrangement was evaluated under Emerging Issues Task Force No. 00-21, "Revenue Arrangements with Multiple Deliverables." In such arrangements Ellomay accounted for the separate elements as different units of accounting, provided that the delivered element had value to the customer on a standalone basis and there was objective and reliable evidence of the fair value of the undelivered element. In cases where there was no objective and reliable evidence of the fair value of the undelivered element, Ellomay accounted for the total arrangement as one unit of accounting. As such, we recognized revenue for the arrangement only when all revenue recognition criteria were met for the undelivered element.

We considered all arrangements with payment terms extending beyond the standard payment terms not to be fixed or determinable. If the fee was not fixed or determinable, revenue was recognized as payments became due from the customer, provided that all other revenue recognition criteria had been met.

Revenues from ink and other consumable products were generally recognized upon shipment, assuming all other revenue recognition criteria have been met.

Revenues from services were comprised of maintenance and support arrangements. Revenues from maintenance and support arrangements were recognized on a straight-line basis over the term of the arrangement.

In cases where we accepted a trade-in of an old printer as part of a sale of a new printer, the fair value of the old printer was recorded as revenue, provided that such value could be determined. If such value could not be determined, the old printer was recorded at a zero value. The amount of revenues recognized for the transaction equaled the fair value of the old printer plus any monetary consideration received.

We followed very specific and detailed guidelines, several of which are discussed above, in measuring revenue; however, certain judgments affect the application of our revenue recognition policy.

Our revenue recognition policy took into consideration the creditworthiness and past transaction history of each customer in determining the probability of collection as a criterion of revenue recognition. This determination required the exercise of judgment, which affected our revenue recognition. If we determined that collection of a fee was not probable, we deferred the revenue recognition.

Allowance for Doubtful Accounts

We maintained an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Our management periodically performed evaluations of the composition of accounts receivable and expected credit trends, established an allowance for doubtful accounts on the basis of an aging key and in respect to specific balances whose collection was considered to be in doubt and charged-off receivables deemed uncollectible. The past due status of accounts receivable was determined primarily based upon contractual terms. Our customers included commercial printing companies, sign printers, screen printers, billboard and media companies, professional photo labs, and digital printing service providers. Among our customers, there were small and medium size businesses, which were sensitive to adverse changes in the market. Such adverse changes include declines in demand for services offered by customers and their inability to obtain financing. As part of the HP Transaction, all of our accounts receivable were acquired by HP.

Inventory Valuation

At each balance sheet date, we evaluated our inventory balance for excess quantities and obsolescence. This evaluation included an analysis of sales levels by product line and projections of future demand. In addition, we wrote off inventories that were considered obsolete. Remaining inventory balances were adjusted to the lower of cost or market value. As part of the HP Transaction, all of our inventory balances were acquired by HP.

Recently Issued Accounting Guidance

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. The impact of SFAS 141R on the Company's consolidated results of operations and financial condition will depend on the nature and size of acquisitions, if any, subsequent to the effective date.

In February 2008, the FASB issued FSP No. FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13," and FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP No. FAS 157-2") Collectively, the Staff Positions defer the effective date of Statement 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value on a recurring basis at least annually, and amend the scope of Statement 157. We adopted Statement 157 and the related FASB staff positions except for those items specifically deferred under FSP No. FAS 157-2. We do not expect the adoption of SFAS 157, with respect to nonfinancial assets and liabilities under the scope of the FSP No. FAS 157-2, will have an impact on our consolidated financial statements.

Geographic Breakdown of Revenues

Prior to the consummation of the HP Transaction, we sold our products and services throughout the world. Revenues are generally attributed to the location of the sale of the product or service to the end-user. The tables below shows the breakdown of revenues by categories of activities and into geographic markets in the years ended December 31, 2006, 2007 and 2008. As previously noted, the results for the year ended December 31, 2008 reflect only two months of operations conducted by us prior to the consummation of the HP Transaction.

	Year Ended December 31,		
REGION	2006	2007	2008
	(In thousands of U.S. dollars)		
Asia	$ 8,740	$ 10,810	$ 664
America	26,837	26,453	3,157
Europe, Middle East & Africa	42,391	48,344	7,589
Total Revenues	$ 77,968	$ 85,607	$ 11,410

	Year Ended December 31,		
CATEGORY	2006	2007	2008
	(In thousands of U.S. dollars)		
Printers and Spare Parts	$ 50,120	$ 53,592	$ 6,606
Ink	22,456	26,636	3,962
Services	5,392	5,379	842
Total Revenues	$ 77,968	$ 85,607	$ 11,410

Results of Operations

The following table sets forth for the periods indicated certain line items from our consolidated statements of operations as a percentage of our revenues:

	Year Ended December 31,		
	2006	2007	2008
Revenues:			
Products	93.0%	93.7%	92.6%
Service	7.0	6.3	7.4
Total revenues	100	100	100
Cost of revenues:			
Products	55.2	54.4	69.5
Inventory write-off	1.0	1.4	1.7
	56.2	55.8	71.2
Services	9.5	10.2	25.0
Total cost of revenues	65.7	66.0	96.2
Gross profit	34.3	34.0	3.8
Research and development, net	7.5	8.2	17.0
Selling and marketing	15.1	16.1	27.0
General and administrative expenses	12.6	13.0	86.2
Doubtful accounts expenses (income)	(0.4)	1.1	3.2
Amortization of other intangible assets	0.2	-	-
Operating loss	(0.7)	(4.5)	(129.6)
Gain on sale of Company's business, net	-	-	833.8
Financial income (expenses), net	(1.7)	(2.0)	66.6

Taxes on income	0.1	1	8.5
Net income (loss)	(2.5)	(7.5)	762.3

The above table presents the financial data for Ellomay together with our subsidiaries Salsa Digital Printers (which was dissolved during 2008), NUR America (which was dissolved during 2008), NUR Europe (which was sold to HP), NUR Asia Pacific, NUR DO Brazil (which was sold to HP), NUR Japan (which was sold to HP), NUR Italy, NUR UK, NUR Media Solutions, Excite Ink, NUR Hungary Trading and Software Licensing Limited Liability Company, NUR Pro Engineering, NUR Shanghai and Encre Consumables B.V. All of our subsidiaries that have not been sold or dissolved are currently inactive.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Revenues. Revenues from product sales and services were approximately $11.4 million in the year ended December 31, 2008, compared to approximately $85.6 million in the year ended December 31, 2007.

The decrease in revenues of approximately $74.2 million was primarily due to the sale of our business to HP and the cessation of our wide format printing business at the end of February 2008.

Revenues-products. Revenues from sales of products were approximately $10.6 million (or 92.6% or total revenues) in the year ended December 31, 2008, compared to approximately $80.2 million (or 93.7% of total revenues) in the year ended December 31, 2007.

The decrease in revenues from products of approximately $69.6 million was mainly attributable to the sale of our business to HP and the cessation of our wide format printing business at the end of February 2008.

Revenues-services. Revenues from services rendered were approximately $0.8 million (or 7.4% of total revenues) in the year ended December 31, 2008, compared to approximately $5.4 million (or 6.3% of total revenues) in the year ended December 31, 2007.

The decrease in revenues from services of approximately $4.6 million was mainly attributable to the sale of our business to HP and the cessation of our wide format printing business at the end of February 2008.

Cost of revenues. The cost of revenues was approximately $11 million (or 96.2% of total revenues) in the year ended December 31, 2008, compared to $56.5 million (or 66% of total revenues) in the year ended December 31, 2007.

The decrease in the cost of revenue of approximately $45.5 million was mainly attributable to the sale of our business to HP and the cessation of our wide format printing business at the end of February 2008. As for the increase in the cost percentage compared with the year ended December 31, 2007, please see our discussion under “Gross Profit” below.

Cost of revenues-products. Total cost of revenues-products was approximately $8.1 million (or 71.2% of total revenues) in the year ended December 31, 2008, compared to $47.7 million (or 55.7% of total revenues) in the year ended December 31, 2007. The cost of revenue in 2008 included approximately $0.2 million of inventory write off compared with approximately $1.2 million of inventory write off in 2007. The decrease in the cost of revenues-products of approximately $39.6 million was mainly attributable to the sale of our business to HP and the cessation of our wide-format printing business at the end of February 2008.

Cost of revenues-services. Cost of revenues-services was approximately $2.9 million (or 25% of total revenues) in the year ended December 31, 2008, compared to $8.8 million (or 10.2% of total revenues) in the year ended December 31, 2007. The decrease in the cost of revenues-services of approximately $5.9 million was mainly attributable to the sale of our business to HP and the cessation of our wide format printing business at the end of February 2008.

Gross Profit. Gross Profit was approximately $0.4 million (or 3.8% of total revenues) in the year ended December 31, 2008, compared to $29.1 million (or 34% of total revenues) in the year ended December 31, 2007.

The reduction in the gross margin is mainly attributable to the fact that only two months of activity are reflected in the report for 2008. Based on our experience in the years prior to the consummation of the HP Transaction, a large portion of our revenue was generated during the third month of each quarter, while the expenses were more evenly spread throughout the quarter. Accordingly, as we only operated our business during the first two months of 2008, a higher percentage of expenses and a lower gross margin compared with a full quarter (or year) of activity are reflected. Employee compensation costs related to the HP Transaction also reduced the gross margin.

Expenses. Net research and development costs were approximately $1.9 million in the year ended December 31, 2008, compared to $7.0 million ($7.4 million less $0.4 million of grants received) in the year ended December 31, 2007. The decrease in research and development costs was mainly attributable to the sale of our business to HP and the cessation of our wide format printing business at the end of February 2008.

Selling and marketing expenses were approximately $3.1 million in the year ended December 31, 2008, compared to approximately $13.8 million in the year ended December 31, 2007. The decrease in sales and marketing expenses was mainly attributable to the sale of our business to HP and the cessation of our wide format printing business at the end of February 2008.

General and administrative expenses were approximately $9.8 million for the year ended December 31, 2008, compared to approximately $11.1 million for the year ended December 31, 2007. The decrease in general and administrative expenses of approximately $1.3 million was mainly attributable to the sale of our business to HP and the cessation of our wide format printing business at the end of February 2008 offset by compensation expenses attributable to such sale, including the acceleration of the remaining unrecognized compensation costs of outstanding options in the approximate amount of $2.2 million and an approximate amount of $1.6 million paid in excess of the fair value of the options repurchased.

Doubtful accounts expenses were $0.4 million for the year ended December 31, 2008, compared to $0.9 million for the year ended December 31, 2007. The decrease in doubtful accounts expenses was mainly attributable to the sale of our business to HP and the cessation of our wide format printing business at the end of February 2008.

Amortization of other intangible assets was $0 million for the year ended December 31, 2008, compared to $0.04 million for the year ended December 31, 2007. The decrease in amortization expenses is due the fact that the intangible assets were fully depreciated as of December 31, 2007.

Financial income was $7.6 million in the year ended December 31, 2008, compared to $1.7 million financial expenses in the year ended December 31, 2007. The change in financial income (expenses) was primarily due to the amortization of the deferred interest following the full repayment of our loans in accordance with the provisions of SFAS No. 15 “Accounting by Debtors and Creditors for Troubled Debt Restructuring” (“SFAS 15”). In addition, interest payments in the amounts of $0.5 million and $1.5 million for 2008 and 2007, respectively, were recorded as a reduction of the carrying amount of the debt (accrued interest) instead of interest expenses in the statement of operations in accordance with the provisions of SFAS 15 (see Note 9 to our consolidated financial statements, which are included as a part of this annual report).

Taxes. Taxes on income were $1.0 million in the year ended December 31, 2008, as compared to taxes on income of $0.8 million in the year ended December 31, 2007. The increase was not significant.

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

Revenues. Revenues from product sales and services were approximately $85.6 million in the year ended December 31, 2007, compared to approximately $78.0 million in the year ended December 31, 2006.

The increase in revenues of $7.6 million was primarily due to the increased demand for our UV-inks following the increase in our install base of UV based systems and the enhanced usage of our systems by our customers. We also saw increased sales of systems in Japan as UV based systems gained more recognition in that market and in the Middle East and Africa region as we increased sales and marketing efforts in that region.

Revenues-products. Revenues from sales of products were approximately $80.2 million (or 93.7% or total revenues) in the year ended December 31, 2007, compared to approximately $72.6 million (or 93% of total revenues) in the year ended December 31, 2006.

The increase in revenues from products of approximately $7.6 million was mainly attributable to the increase of ink sales by $4.2 million and the increase in equipment sales in Japan, the Middle East and, Africa.

Revenues-services. Revenues from services rendered were approximately $5.4 million (or 6.3% of total revenues) in the year ended December 31, 2007, compared to approximately $5.4 million (or 7% of total revenues) in the year ended December 31, 2006.

Revenues from services remained flat mainly due to the decommissioning of older solvent- based printing systems, some of which were replaced with the newer UV based systems, which were supported by warranty provided with every new purchase.

Cost of revenues. The cost of revenues was approximately $56.5 million (or 66% of total revenues) in the year ended December 31, 2007, compared to $51.2 million (or 65.7% of total revenues) in the year ended December 31, 2006.

The increase in the cost of revenue of approximately $5.2 million while maintaining a similar cost percentage of revenue was mainly attributed to the increase in the cost of raw materials for equipment manufacturing and spare parts combined with an increase in freight expenses. This increase was offset by a reduction in the cost of materials for ink manufacturing. We wrote off $1.2 million of inventory in 2007 compared with $0.8 million in 2006.

Cost of revenues-products. Total cost of revenues-products was approximately $47.7 million (or 55.7% of total revenues) in the year ended December 31, 2007, compared to $43.9 million (or 56.2% of total revenues) in the year ended December 31, 2006. The cost of revenue in 2007 included $1.2 million of inventory write off compared to $0.8 million of inventory write off in 2006. The need to increase the level of production due to increased customer demand for our UV systems, combined with limited working capital resources did not allow us to negotiate favorable prices as we were forced to concentrate on extending payment terms and flexibility in deliveries in order to hold minimum levels of inventory. This situation also increased our freight charges as many times we preferred to airship lower quantities of materials at a higher cost instead of shipping larger quantities by sea. On the other hand, we continued to increase the quantities of UV-inks we manufactured in our plant and reduce the quantities purchased from third parties, thereby reducing the overall cost per liter and the cost as a percentage of revenue.

Cost of revenues-services. Cost of revenues-services was approximately $8.8 million (or 10.2% of total revenues) in the year ended December 31, 2007, compared to $7.4 million (or 9.5% of total revenues) in the year ended December 31, 2006. The increase in the cost of revenues-services was mainly attributable to the increase in the cost of spare parts for the same reasons as described above.

Gross Profit. Gross Profit was approximately $29.1 million in the year ended December 31, 2007, compared to $26.7 million in the year ended December 31, 2006. The gross profit as a percentage of revenues remained practically flat at 34.0% in the year ended December 31, 2007 compared with 34.3% in the year ended December 31, 2006.

In the second half of 2007 we needed to increase our working capital in order to allow for the increased manufacturing requirements. At the same time we started discussions with potential buyers for the business and therefore delayed the plans for additional capital raise. This placed us in very difficult situation with our suppliers of raw materials. While on the one hand we were increasing purchases, on the other hand we were delaying payments and increasing the perceived risk of those suppliers. Under those circumstances it was very difficult to achieve significant price reductions. In many cases we also had to reduce inventories and use the more expensive airfreight in order to deliver raw materials to the production floor on time. At the same time, our ink business continued to grow and allowed us some more leverage. This, combined with the continued decrease of ink purchases from third parties, resulted in an improvement of the gross margin percentage of our ink sales.

Expenses. Net research and development costs were approximately $7.0 million in the year ended December 31, 2007 ($7.4 million less $0.4 million of grants received), compared to $5.8 million in the year ended December 31, 2006. The increase in research and development costs was mainly attributable to the additional labor and contractors hired to increase the pace and number of new products and features developed.

Selling and marketing expenses were approximately $13.8 million in the year ended December 31, 2007, compared to approximately $11.7 million in the year ended December 31, 2006. The increase in sales and marketing expenses is mostly attributable to the opening of the new Middle East and Africa region, guaranteed commissions paid to newly hired sales representatives and increased marketing staff and resources at the corporate level in support of the introduction of new products.

General and administrative expenses were approximately $11.1 million for the year ended December 31, 2007, compared to approximately $9.8 million for the year ended December 31, 2006. The increase in general and administrative expenses was mainly attributable to our recording of reductions in legal contingencies in 2006 in contrast to 2007 during which no comparable reductions were recorded and we experienced an increase in legal expenses due to the transaction with HP and additional litigations.

Doubtful accounts expenses were $0.9 million for the year ended December 31, 2007, compared to an income of $0.3 million for the year ended December 31, 2006. During 2006 we placed a significant effort on collecting old balances, including such balances that were previously reserved for, thus generating income from this activity. By 2007, most of those older balances had already been collected. Also, the finance staff at the end of 2007 was largely focused on issues related to the transaction with HP and correspondingly invested less effort in collections, resulting in an increase in the overall accounts receivable balance and the related estimated allowance for doubtful accounts.

Amortization of other intangible assets was $0.04 million for the year ended December 31, 2007, compared to $0.2 million for the year ended December 31, 2006.

Financial expenses increased to $1.7 million in the year ended December 31, 2007, compared to $1.3 million in the year ended December 31, 2006. This increase was primarily due to exchange rate differences driven primarily by the appreciation of the New Israeli Shekel compared with the US Dollar. In addition, interest payments in the amounts of $1.5 million and $1.3 million for 2007 and 2006, respectively, were recorded as a reduction of the carrying amount of the debt (accrued interest) instead of interest expenses in the statement of operations in accordance with the provisions of SFAS 15 (see Note 9 to our consolidated financial statements, which are included as a part of this annual report).

Taxes. Taxes on income were $0.8 million in the year ended December 31, 2007, as compared to taxes on income of $0.1 million in the year ended December 31, 2006, with the increase due to the adoption of FIN 48.

Impact of Inflation, Devaluation and Fluctuation of Currencies

Prior to the consummation of the HP Transaction, most of our sales were in U.S. dollars and in Euro. In addition, a substantial portion of costs were incurred outside of Israel in U.S. dollars or were paid in U.S. dollars, Euro or in New Israeli Shekels ("NIS") linked to the exchange rate of the U.S. dollar. Costs not effectively denominated in U.S. dollars are translated to U.S. dollars when recorded, at prevailing exchange rates for the purposes of our consolidated financial statements, and will increase if the rate of inflation in Israel exceeds the devaluation of the Israeli currency against the U.S. dollar, if the timing of such devaluations were to lag considerably behind inflation or if there is a devaluation of the U.S. dollar against the Israeli currency not fully offset by price deflation. Consequently, we were affected by changes in the prevailing NIS/U.S. dollar exchange rate.

In addition, our sales of products and services in Europe, as well as purchases of components, were dominated by the Euro. The existence of a balance of Euro based assets which are mostly derived from sale of products and service over Euro based liabilities which are mostly related to purchase of components, exposed us to financial losses deriving from a potential devaluation of the U.S. dollar against the Euro. In order to reduce such exposure to the Euro, we offset balances of Euro based assets by taking loans in Euro.

The consideration received from HP upon consummation of the HP Transaction was denominated in U.S. dollars and has since been deposited in U.S. dollar denominated accounts. Some of the liabilities we retained were denominated in other currencies (most notably severance payments in Israel). As a result of the devaluation of the U.S. dollar against the New Israeli Shekel, the value of those liabilities increased. We currently conduct our business in Israel and a significant portion of our expenses are in NIS. We therefore expect to continue to be affected by changes in the prevailing NIS/U.S. dollar exchange rate in the future. We may also be affected by the U.S. dollar exchange rate to the Euro. As we are exploring business opportunities around the world, our investment in prospective businesses may be denominated in non U.S. dollar currencies, and due to the fluctuations in the exchange rates in recent years, we cannot at this time anticipate what impact the prevailing exchange rate will have on our future investments.

The Euro was revaluated against the U.S. dollar by approximately 11.3% in 2006, revaluated by approximately 11.7% in 2007 and devaluated by approximately 5.3% in 2008.

The annual rate of inflation in Israel was (0.1)% in the year ended December 31, 2006, increased to 3.4% in the year ended December 31, 2007 and increased to 3.8% in the year ended December 31, 2008. The New Israeli Shekel was evaluated by approximately 8.2% against the U.S. dollar in 2006, evaluated by approximately 9.0% in 2007 and evaluated by approximately 1.1% in 2008. We cannot predict the rate of revaluation/devaluation of the New Israeli Shekel against the U.S. dollar in the future and whether these changes will have a material adverse effect on us.

The representative dollar exchange rate for converting the New Israeli Shekel to U.S. dollars, as reported by the Bank of Israel, was NIS 3.802 for one-dollar U.S. on December 31, 2008. The representative dollar exchange rate was NIS 3.846 for one-dollar U.S. on December 31, 2007 and NIS 4.225 on December 31, 2006.

Prior to the consummation of the HP Transaction, certain transactions and certain of our balances and the balances of certain of our subsidiaries were denominated in U.S. dollars and are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars in accordance with Statement of Financial Accounting Standards No. 52, “Foreign Currency Translation.” All transaction gains and losses from the remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statements of income (operations) as financial income or expenses, as appropriate. Prior the HP transaction, for certain subsidiaries whose functional currency has been determined to be their local currency, assets and liabilities are translated at year-end exchange rates and statement of operations items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component of accumulated other comprehensive loss in shareholders’ equity (deficiency).

The average exchange rates for converting the New Israeli Shekel to U.S. dollars during the years ended December 31, 2006, 2007 and 2008 were 4.456, 4.1081 and 3.5878 NIS for one U.S. dollar, respectively. The exchange rate as of March 15, 2009 was NIS 4.171 for one U.S. dollar.

B. Liquidity and Capital Resources

We have incurred operating losses during the last five years. Following the consummation of the HP Transaction and the payment of some related liabilities (including repayment of our short and long-term debt), as of March 15, 2009, we hold approximately $76.3 million in cash and cash equivalents. Our current plan of operation is to identify and evaluate suitable business opportunities and strategic alternatives, including through the acquisition of all or part of an existing business, pursuing business combinations or otherwise. Although we now hold the consideration received from HP in connection with the sale of our business, 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 assure you that additional financing will be available on commercially reasonable terms or at all. We currently have no commitments for additional financing.

Prior to the consummation of the HP Transaction, our capital requirements and level of expenses depended upon numerous factors, including the scope and success of our marketing and customer service efforts, and of our research and development activities, as well as the demand for our products and services. As discussed previously, due to the increase in demand for our products and the need to increase our working capital, we would have been required to raise more equity or debt in order to support our growth. Now that the HP Transaction has been consummated, we conduct limited activities and we believe our working capital is sufficient for our present requirements.

We have historically funded our operations primarily through the private sale of our equity securities and commercial bank loans. At December 31, 2008 we had approximately $76 million of cash, cash equivalents and short term deposits compared with $4.3 at December 31, 2007 and $4.9 million at December 31, 2006. We currently invest our excess cash in cash and cash equivalents that are highly liquid.

As of December 31, 2008, we did not have material commitments for capital expenditures.

Operating activities

In the year ended December 31, 2008, we had a net income of $87 million. Net cash used in operating activities was approximately $9.2 million. Following the consummation of the HP Transaction, most of our assets were sold to HP and the cash generated from the sale is reflected in our net cash provided from investment activities.

In the year ended December 31, 2007, we had a net loss of $6.4 million. Net cash used in operating activities was approximately $4.1 million. The main changes in our working capital were: (i) an increase of approximately $4.7 million in trade accounts receivable due mainly to increased level of sales towards the end of the year and reduced focus on collections as our finance personnel world-wide were engaged in the transaction with HP; (ii) an increase of approximately $1.8 million in other accounts receivable, mainly VAT receivable due to the increased level of materials purchasing; (iii) an increase of approximately $4.5 million in inventories due to the increased production levels; and (iv) an increase of approximately $9.8 million in trade payables due mainly to increased production levels and delays in payments beyond the agreed-upon payment terms.

In the year ended December 31, 2006, we had a net loss of $1.9 million. Net cash used in operating activities was approximately $6.5 million. The main changes in our working capital were: (i) an increase of approximately $2.4 million in trade accounts receivable due to the increased level of sales in Q4 compared with the sales in Q4 of 2005 when the company had limited financial resources to fund its working capital; (ii) a decrease of approximately $2.6 million in deferred revenues which represents additional revenue recognized in 2006 for which payments were made by the customers already in prior periods; and (iii) an increase of approximately $4.4 million in inventories due to the increased level of production activity following the increased demand for our products compared with the previous year.

Following the consummation of the HP Transaction, we have ceased conducting any operating activity and currently substantially all of our assets consist of cash and cash equivalents. We now only conduct activities relating to attempting to locate business opportunities and strategic alternatives, activities relating to the investment of our funds and activities relating to the winding up of the operations that were not transferred to HP and the remaining aspects relating to the transfer of the business to HP. We cannot at this point predict whether following the consummation of a business transaction we will have sufficient working capital in order to fund our operations.

Investing activities

Net cash provided by investing activities was approximately $54.6 million in the year ended December 31, 2008, primarily due to proceeds from the HP Transaction.

Net cash used in investing activities was approximately $1.2 million in the year ended December 31, 2007, primarily due to investments in our IT infrastructure and in equipment for our ink plant to support the increased quantities manufactured.

Net cash used in investing activities was approximately $1.6 million in the year ended December 31, 2006, primarily due to investment in leasehold improvements and the purchase of property and equipment in the amount of $1.6 million.

Financing activities

Net cash used in financing activities in the year ended December 31, 2008 was approximately $22.2 million, deriving primarily from the repayment of short and long-term loans and the repurchase of employee stock options.

Net cash provided by financing activities in the year ended December 31, 2007 was approximately $4.6 million, deriving primarily from the issuance of shares and warrants in the aggregate net amount of $6.1 million offset by the payment of long-term debt, including interest on restructured debt, in the amount of $1.6 million.

Net cash provided by financing activities in the year ended December 31, 2006 was approximately $3.6 million, deriving primarily from the issuance of shares and warrants in the aggregate net amount of $7.0 million, offset by a $1.8 million decrease in short-term bank credit and short-term bank loans and payment of long-term debt, including interest on restructured debt, in the amount of $1.6 million.

In the beginning of 2007 we raised $6.3 million through the private placement of 11,734,950 of our ordinary shares to various investors at a price of $0.54 per share. The investors also received warrants to purchase additional 3,520,485 ordinary shares at an exercise price of $0.65 per share, exercisable for a period of five years following the closing of the private placement. The private placement included two stages, an initial closing resulting in gross proceeds in the amount of $3.8 million in January 2007 and a follow-on investment resulting in gross proceeds of $2.5 million in February 2007. In connection with the private placement, we paid our adviser, Meitav Underwriting Ltd., a cash fee of $0.25 million.

Prior to the consummation of the HP Transaction, we maintained long and short-term credit facilities, excluding accrued interest on restructured debt and a note from a related party, in an aggregate amount of approximately $22.0 million as of December 31, 2007. During 2006 and 2007, we did not make any principal payments on our long-term loans. As previously noted, interest payments in the amounts of $1.3 million and $1.5 million for 2006 and 2007, respectively, were recorded as a reduction of the carrying amount of the accrued interest in accordance with the provisions of SFAS No. 15 “Accounting by Debtors and Creditors for Troubled Debt Restructuring” (see Note 9 to the consolidated financial statements included in this report).

Upon consummation of the HP Transaction, we repaid our short-term debt to banks in the amount of $9.8 million and, in early April 2008, we fully repaid our long-term debt to banks in the amount of $12.1 million. We were released from all outstanding guarantees during the period following the consummation of the HP Transaction. Following the repayment of the loans and the release from the guarantees, the Banks terminated the floating liens and the securities given by our subsidiaries were terminated. In addition, in May 2008 the subordinated notes that were assigned by the Banks to Fortissimo were cancelled effective March 30, 2008. As a result of the repayment of our long-term and short-term loans, as of December 31, 2008, we had no outstanding debt to any bank or other lending financial institution.

As of December 31, 2008, our total current assets amounted to approximately $78 million, out of which $76 million was in cash, cash equivalents and short-term deposits, compared with total current liabilities of approximately $2 million.

As of December 31, 2007, our total current assets amounted to approximately $44.6 million, out of which $4.3 million was in cash and cash equivalents, compared with total current liabilities of approximately $49.4 million. The main reason for the difference between the current liabilities and the current assets is the classification of the note to related parties in the short-term liabilities. The note was valid through November 2008 and it was due to expire without payment unless we entered into liquidation procedures prior to the termination of the note. As stated above, the note was cancelled in May 2008, effective as of March 30, 2008.

As of December 31, 2006, our total current assets amounted to approximately $34.0 million, out of which $4.9 million was in cash and cash equivalents, compared with total current liabilities of approximately $33.6 million. The decrease in cash was used to finance the increase in accounts receivable and inventory driven by the growth of our business and to repay a short-term loan.

The increase in our cash balance is due to the sale of our business to HP and the cessation of our wide-format printing business at the end of February 2008.

Outstanding Warrants

As of March 15, 2009, we had outstanding warrants to purchase a total of 41,173,526 ordinary shares, all of which are currently exercisable. Of such warrants (i) 50,000 were issued to Bank Leumi as part of the rescheduling of our long-term debt and are exercisable at $5.00 per share no later than August 2009, (ii) 112,903 (of which an aggregate of 79,145 are currently held, in equal parts, by Kanir and Mr. Nehama) were originally issued to the placement agent in connection with our October 2003 credit line commitment and are exercisable at $0.62 per share no later than March 31, 2009, (iii) 646,542 (of which an aggregate of 20,474 are currently held, in equal parts, by Kanir and Mr. Nehama) were originally issued to the investors participating in our private placement in March 2004 and are exercisable at $1.54 per share no later than March 31, 2009, (iv) 129,310 (all of which are currently held, in equal parts, by Kanir and Mr. Nehama) were originally issued to Duncan Capital Group, LLC as placement agent in connection with our private placement of March 2004 and are exercisable at $1.16 per share no later than March 31, 2009, (v) 3,000,000 (all of which are currently held, in equal parts, by Kanir and Mr. Nehama) were originally issued to Dan Purjes in connection with a voting trust agreement and voting agreement and are exercisable at $0.75 per share no later than April 2010; (vi) 25,714,286 (of which 11,462,157 are currently held by Kanir and 10,067,172 are currently held by Nechama Investments) were originally issued to investors participating in our private placement in August 2005 and are exercisable at $0.40 per share no later than October 2010, (vii) 8,000,000 (of which 846,905 are currently held by Bonstar Investments Ltd. (“Bonstar”), a limited partner in Kanir, and 4,236,766 are currently held by Mr. Nehama) were originally issued to Bank Hapoalim, Bank Leumi and Discount Bank in September 2005 in connection with a debt restructuring agreement discussed in “Item 5.B: Liquidity and Capital Resources” and are exercisable at $0.35 per share no later than December 2010, and (viii) 3,520,485 were granted to the investors participating in our private placement in January and February 2007 discussed in “Item 10.C: Material Contracts” and are exercisable at $0.65 per share no later than January or February 2012.

C. Research and Development, Patents and Licenses, Etc.

Our research and development center, which prior to the consummation of the HP Transaction engaged 54 employees, was focused on developing new products, enhancing the quality and performance relative to price of our existing products, reducing manufacturing costs, upgrading and expanding our product line through the development of additional features and improving functionality in response to market demand.

All of our research and development activities were conducted at our headquarters facility in Lod, Israel.

Net research and development expenses were approximately $5.8 million, $7.0 million and $1.9 million in the years ended December 31, 2006, 2007 and 2008, respectively. We did not receive royalty-bearing grants in 2006, 2007 and 2008. We received non royalty bearing grants in the amount of $0.5 million in 2007. We did not receive non royalty bearing grants in 2008.

Following the consummation of the HP Transaction, we do not currently engage in any research and development activities.

D. Trend Information

Following the consummation of the sale of our business to HP, we are no longer active in the wide-format printing industry and are subject to certain restrictions with respect to future operations in this field. Our current plan of operation is to identify and evaluate suitable business opportunities and strategic alternatives, including through the acquisition of all or part of an existing business, pursuing business combinations or otherwise. While we are actively exploring strategic transactions and opportunities, we have not targeted any particular industry or specific business within an industry in which to pursue such opportunities. There is no assurance that any of these alternatives will be pursued or, if one is pursued, the timing thereof, the terms on which it would occur, the type of industry that will be involved and the success of such activity. Therefore, our financial data reported in this Annual Report is not necessarily indicative of our future operating results or financial position.

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. Contractual obligations

Prior to the HP Transaction, the Company and most of its subsidiaries rented their facilities under various operating lease agreements.

As of the HP Transaction Closing Date, most of the operating and capital lease commitments were assumed by HP (see Note 12a to our consolidated financial statements included as a part of this annual report on Form 20-F). We have retained a lease of premises of our US subsidiary, NUR America, which is fully sub-leased to a third party.

The following table of our material contractual obligations as of December 31, 2008, 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**
Long-term rent obligations(1)	$ 756	$ 363	$ 393	-	-
Accrued severance pay(2)	59	-	-	-	$ 59
Uncertain tax positions (3)	4,584	-	-	-	4,584
Other long-term liabilities(4)	695	-	-	-	695
Total	6,094	363	393	-	5,338

(1) Reflects lease agreement of our subsidiary NUR America, which was not assumed by HP in connection with the HP transaction. The premises are being sub leased.

(2) Accrued severance pay relates to obligations to our Israeli employees as required under Israeli labor law. These obligations are payable, among others, upon termination, retirement or death of the respective employee.

(3) Uncertain income tax position under FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") are due upon settlement and we are unable to reasonably estimate the ultimate amount or timing of settlement. See Note 15c of the accompanying Notes to Consolidated Financial Statements for further information regarding the Company's liability under FIN 48.

(4) Consists of (i) additional compensation to former employees in connection with the HP Transaction in the amount of $450 and (ii) our undertaking to HP in connection with the amounts required to fully-fund the severance pay to our former employees who have transferred to HP in the amount of $245 (we will only be required to pay these severance pay related funds if and when the employment of such employees with HP entities is terminated by the HP entities).

ITEM 6: Directors, Senior Management and Employees

A. Directors and Senior Management

As previously reported in our annual report for the fiscal year ending on December 31, 2007, following the consummation of the HP Transaction, a majority of the members of our senior management ceased to be employed by us and, following the change of control of the Company in March 2008, three of our directors, including the Chairman of our Board of Directors, resigned from our Board. These departing directors and members of senior management are:

Name	Age	Former Position with Ellomay
Yuval Cohen	46	Chairman of the Board of Directors
Eli Blatt	46	Director
Shmoulik Barashi	46	Director
David Reis	48	President and Chief Executive Officer
Assaf Eyal	48	Executive Vice President
Shuky Garibi	51	Vice President of Research and Development
Itzik Arbesfeld	42	Vice President of Human Resources
Eran Cohen	50	Vice President of Operation
Menashe Ben Chaim	46	Vice President of Consumables
Igal Zeitoun	39	Vice President of Customer Support
Mark Packman	54	President, NUR America, Inc.
Jean Marc Blum	43	Managing Director, Middle East and Africa
Andrew Middleton	46	Managing Director, NUR Europe S.A.
Roni Klein	48	Managing Director, NUR Asia Pacific Limited

In addition, Mr. Yosef Zylberberg, our former Interim Chief Executive Officer and Chief Financial Officer, ceased serving in such positions on December 31, 2008.

The current directors and senior management of Ellomay are as follows:

Name	Age	Position with Ellomay
Shlomo Nehama(1)(2)	53	Chairman of the Board of Directors
Hemi Raphael(2)	57	Director
Anita Leviant(2)	53	Director
Ran Fridrich(1)(2)	56	Director and Interim Chief Executive Officer
Oded Akselrod(3)	62	Director
Lauri A. Hanover (1)(3)(4)	49	Director
Alon Lumbroso(3)(4)	52	Director
Kalia Weintraub	30	Chief Financial Officer
Eran Zupnik	40	EVP of Business Development

(1) Member of Ellomay's Stock Option and Compensation Committee.
(2) 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.
(3) Member of Ellomay's Audit Committee.
(4) External Director.

The address of each of our executive officers and directors is c/o Ellomay Capital Ltd., Ackerstein Towers, 11 Hamenofim Street, P.O.Box 2148, Herzliya 46120, 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 Israel's largest 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. 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.

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. Prior thereto, from 1984 to 1994, Mr. Raphael was a 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 consulting and leading global and financial projects and cross border transactions. For a period of twenty years, until 2005, 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 serves as Deputy Chairman of the Israel-British Chamber of Commerce, chairman of the Capital Markets Committee and as a member of the advisory board of Private Courts to Israel Ltd.

Ran Fridrich has served as a director of Ellomay since March 2008 and as our interim chief executive officer since January 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 addition, Mr. Fridrich is a consultant to Capstone Investments, CDO Repackage Program, since January 2005. In January 2001 Mr. Fridrich founded the Proprietary Investment Advisory in Israel, 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. Mr. Fridrich is a graduate of the Senior Executive Program of Tel Aviv University.

Oded Akselrod has served as a director of Ellomay since February 2002. Mr. Akselrod serves a business advisor to corporations and investment funds in Israel. Mr. Akselrod was the general manager of the Investment Corp. of United Mizrahi Bank Ltd., a wholly owned subsidiary of United Mizrahi Bank Ltd. that was merged into United Mizrahi Bank Ltd. on October 2004. Prior to joining the Investment Corp. of United Mizrahi Bank, from 1994 to 1997, Mr. Akselrod held the position of general manager of Apex-Leumi Partners Ltd. as well as Investment Advisor of Israel Growth Fund. Prior thereto, from 1991 to 1994, Mr. Akselrod served as general manager of Leumi & Co. Investment Bankers Ltd. Mr. Akselrod began his career in various managerial positions in the Bank Leumi Group including: member of the management team of Bank Leumi, deputy head of the international division, head of the commercial lending department of the banking division, member of all credit committees at the Bank, assistant to Bank Leumi's CEO and head of the international lending division of Bank Leumi Trust Company of New York. Mr. Akselrod holds a Bachelor's degree in Agriculture Economics from Hebrew University, Jerusalem and an MBA degree from Tel Aviv University. Mr. Akselrod is also a director of Gadish Global Ltd., Gadish Investments in Provident Funds Ltd., Gadish Global Financial Services (2007) Ltd., Geva Dor Investments Ltd., Shalag Industries Ltd., Psagot Investment House Ltd. and Psagot Securities Ltd.

Lauri A. Hanover has served as an external director of Ellomay since November 2003. Ms. Hanover serves as Chief Executive Officer of Gross, Kleinhendler, Hodak, Halevy and Greenberg & Co. since January 2008. Prior to that, she served as senior vice president and chief financial officer of Lumenis Ltd. from 2004 through 2007 and as the corporate vice president and chief financial officer of NICE Systems Ltd. from 2000 to 2004. She previously served as executive vice president and chief financial officer of Sapiens International Corporation N.V., from 1997 to 2000. From 1984 to 1997, Ms. Hanover served in a variety of financial management positions, including corporate controller, at Scitex Corporation Ltd. and from 1981 to 1984 as financial analyst at Philip Morris Inc. (Altria). Ms. Hanover holds a Bachelor's degree in finance from the Wharton School of Business and a Bachelor-of-Arts degree from the College of Arts and Sciences, both of the University of Pennsylvania. Ms. Hanover also holds a Master's degree in business administration from New York University. Ms. Hanover qualifies as an external director according to the Companies Law.

Alon Lumbroso has served as an external director of Ellomay since November 2006. Mr. Lumbroso serves as the Chief Executive Officer of Larotec Ltd. since the end of 2005. Mr. Lumbroso previously served as Chief Executive Officer of Mindguard Ltd., from 2003 to 2004. From 2000 to 2003, Mr. Lumbroso served as the managing director of the European subsidiary of Creo, Inc. Prior to that, Mr. Lumbroso served in a various executive positions, including VP Operations, VP Marketing and managing director of the Asian Pacific subsidiary of Scitex Corporation. In his positions with Scitex Corporation and Creo, Mr. Lumbroso was responsible for sales, marketing and service of prepress and digital printing equipment, including wide format digital printers. Mr. Lumbroso serves as the Chairman of Bioexplorers Ltd. and as a director of Larotec Ltd. Mr. Lumbroso holds an MBA from Bar Ilan University and a B.Sc. in Industrial Engineering from Tel-Aviv University. Mr. Lumbroso qualifies as an external director according to the Companies Law.

Kalia Weintraub has served as our chief financial officer since January 2009. Prior to her appointment as our chief financial officer, Ms. Weintraub served as our corporate controller from January 2007 and was responsible, among her other duties, for the preparation of all financial reports. Prior to joining Ellomay, she worked as a certified public accountant in the AABS High-Tech practice division of the Israeli accounting firm of Kost Forer Gabbay & Kasierer, an affiliate of the international public accounting firm Ernst & Young, from 2005 through 2007 and in the audit division of the Israeli accounting firm of Brightman Almagor Zohar, an affiliate of the international public accounting firm Deloitte, from 2003 to 2004. Ms. Weintraub holds a B.A. in Economics and Accounting and an M.B.A. from the Tel Aviv University and is licensed as a CPA in Israel.

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

As previously mentioned, *Yosef Zylberberg* has served as our interim chief executive officer since March 2008 and as our chief operating officer and chief financial officer since February 2006, all until December 2008. Prior to joining Ellomay, Mr. Zylberberg served as chief financial officer and chief operating officer of several private and public companies. In his most recent position, Mr. Zylberberg served as chief operating officer of Kodak Versamark, a wholly owned subsidiary of Eastman Kodak Company (formerly Scitex Digital Printing). Previously, Mr. Zylberberg served in various senior positions in Scitex Corporation Ltd., a corporation traded on both Nasdaq and the Tel Aviv Stock Exchange, including as chief operating officer of Scitex Digital Printing, Inc., as corporate vice president and chief financial officer of Scitex Corporation Ltd., and as CFO and VP operations at Scitex America, Inc. Mr. Zylberberg holds a B.A. in Accounting and Economics and an MBA from Tel Aviv University.

B. Compensation

Salaries, fees, commissions and bonuses paid with respect to all of our directors and senior management as a group (including the members of our senior management who left during 2008) in the fiscal year ended December 31, 2008 was approximately $7.4 million, out of which an amount of approximately $3.1 million was paid as consideration in connection with the repurchase of employee stock options, an amount of approximately $2.8 million was related to pension, retirement and other similar benefits (including termination of employees in connection with the consummation of the HP Transaction) and an amount of approximately $0.7 million was paid as transaction bonuses to members of our senior management in connection with, and following, the consummation of the HP Transaction.

Our senior management is entitled to receive part of its compensation under our Management by Objectives (MBO) Compensation Plan. The MBO sets annual goals to be achieved by the executive officers throughout the year. The percentage of achievement determines the percent of the MBO bonus paid to each member of our senior management. The MBO plan for the benefit of our chief executive officer is administered by the Stock Option and Compensation Committee. The MBO plan for the benefit of the other executive and senior officers is administered by the chief executive officer. A portion of the bonus amounts are paid in cash in the year for which they are awarded and the balance is paid in cash in the year following the financial year for which they are awarded. In 2008, our senior management members received payments with respect to their achievements in 2007 in the amount of approximately $0.04 million.

Other than options granted to members of our Board of Directors, we did not grant any options to purchase ordinary shares in 2008. We currently have a contractual undertaking to one of our senior employees to grant options to purchase approximately 1.125% of our shares, on a fully diluted basis, subject to a vesting schedule and at an exercise price determined based on our economic value.

In connection with the HP Transaction, our Board approved the acceleration of the vesting of all outstanding employee stock options, including all stock options held by members of senior management and the repurchase, subject to the fulfillment of regulatory requirements, of currently outstanding employee stock options to purchase approximately 9.9 million ordinary shares of the Company. The aggregate consideration for such employee stock options is expected to be up to $3.8 million. Of the total, approximately $3.1 million were paid during July 2008 and an additional payment, up to the aggregate amount, will be calculated after all HP Transaction related issues and other financial aspects of the Company are known and verified and will be paid following the release to the Company of the funds deposited in the indemnity escrow account in connection with the HP Transaction. This resolution does not apply to options held by our non-employee directors. Following the payment of $3.1 million, all repurchased stock options were cancelled and the number of shares reserved for issuance under our 2000 stock option plan was reduced accordingly. Any outstanding employee stock option that was not repurchased, was terminated pursuant to its terms following the termination of employment of the vast majority of our employees in connection with the consummation of the HP Transaction.

In connection with the HP Transaction, our Board also approved the payment of transaction bonuses to certain employees, including members of senior management, in the aggregate amount of approximately $0.7 million and established that, subject to the aforementioned determination and verification of all HP Transaction related issues and other financial aspects of the Company, additional bonuses may be paid to certain employees, based on criteria, amounts and percentages pre-determined by our Board.

In December 2008, following the approval of our Audit Committee, Board of Directors and shareholders, we entered into a management services agreement with Kanir and with Meisaf Blue & White Holdings Ltd. (“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 payments, an aggregate annual services fee in the amount of $250,000 plus value added tax pursuant to applicable law. For more information see “Item 10.C: Material Contracts.”

As approved by our shareholders, we pay our directors (Anita Leviant, Oded Akselrod, Lauri Hanover and Alon Lumbroso) remuneration for their services as directors. This remuneration includes an annual payment of $8,000 and additional payments of $500 per meeting and $250 per committee meeting. In our annual general meeting of shareholders held on December 30, 2008, our shareholders approved payment of these fees to our current and future directors.

Each of these directors (Anita Leviant, Oded Akselrod, Lauri Hanover and Alon Lumbroso) also receives an annual grant of options to purchase 10,000 ordinary shares under the terms and conditions set forth in Ellomay’s 1998 Non-Employee Director Share Option Plan as more fully described below.

In 1998, we adopted the 1998 Non-Employee Director Share Option Plan (the “1998 Plan”) to provide for grants of options to purchase ordinary shares to non-employee directors of Ellomay. The 1998 Plan, as amended, is administered, subject to Board approval, by the Non-Employee Director Share Option Committee. An aggregate amount of not more than 750,000 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 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 the 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 10,000 ordinary shares on such Grant Date and will receive an option to purchase an additional 10,000 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 10,000 ordinary shares prorated 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, as of each subsequent Grant Date, an option to purchase 10,000 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 the 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 the Board of Directors of Ellomay, 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. All options granted vest immediately upon the date of grant.

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

In connection with the management services agreement entered into effective as of March 31, 2008, Messrs. Nehama, Fridrich and Raphael waived any right to additional remuneration for their service as members of our board of directors, including the right to receive the fees set forth above and the right to receive options under the 1998 Plan. For more information concerning the management services agreement see “Item 10.C: Material Contracts.”

Following the departure of Yossy Zylberberg, our former Interim Chief Executive officer and Chief Financial Officer on December 31, 2008, Mr. Ran Fridrich was appointed as our Interim Chief Executive Officer, effective as of January 1, 2009, for a period of one year. Mr. Fridrich has agreed to serve as our Interim Chief Executive Officer without compensation or other benefits.

C. Board Practices

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

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

Terms of Directors

Our Board currently consists of seven members, including two external directors. Unless otherwise prescribed by resolution adopted at a General Meeting of shareholders, the Board shall consist of not less than four (4) nor more than eight (8) directors (including the 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 last annual meeting was held on December 30, 2008. In addition, the Board may elect additional members to the Board, to serve until the next shareholders’ meeting, so long as the number of directors on the Board does not exceed the maximum number established according to the Articles.

On March 30, 2008, three members of our Board, Yuval Cohen, Shmoulik Barashi and Eli Blatt, resigned their position as directors of Ellomay following the sale of the ordinary shares and a majority of the warrants held by the Fortissimo entities. Pursuant to the Articles, the Board members appointed Shlomo Nehama, Anita Leviant and Ran Fridrich as directors, to serve until the next general meeting of our shareholders. Messrs. Nehama and Fridrich and Ms. Leviant were re-elected to serve on our Board at our annual shareholders’ meeting held on December 30, 2008. 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. 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. Until the lapse of two years from termination of office, a company may not engage an external director to serve as an office holder and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person. Regulations promulgated under Israeli law set the minimum and maximum compensation that may be paid to statutory external directors.

Under the Companies Law, external directors must be elected by a majority vote at a shareholders’ meeting, provided that either: (i) the majority of shares voted at the meeting, including at least one-third of the shares of non-controlling shareholders voted at the meeting, vote in favor of the election; or (ii) the total number of shares voted against the election of the external director does not exceed one percent of the aggregate voting rights in the company. The initial term of an external director is three years, which term may be extended for an additional three-year period. Each committee of a company’s board of directors must include at least one external director, and all external directors must serve on the audit committee. Our external directors are currently Lauri A. Hanover and Alon Lumbroso.

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.

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 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 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 of directors determined that Lauri A. Hanover is an accounting and financial expert and that Alon Lumbroso has professional competence.

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. Accordingly, our Board determined that Shlomo Nehama shall be designated as the additional accounting and financial expert.

Alternate Directors

The 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 Transactions Under the Israeli Companies Law

The Companies Law codifies the duty of care and fiduciary duties that an office holder has to our company. An "office holder" is defined under the Companies Law as a director, general manager, chief business manager, vice general manager, other manager directly subordinate to the general manager and any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title. 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. Each person identified as a director or member of our senior management in the first table in the section, other than employees of our subsidiaries, is an office holder.

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 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, certain members of his family, or a corporation in which he or any one of those family members is a 5% or greater shareholder or exercises or has the right to exercise control, has an interest in a transaction with the company. An "Extraordinary Transaction" is defined as a transaction – other than 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.

In the case of a transaction that is not an Extraordinary Transaction, after the Office Holder complies with the above disclosure requirements, only board approval is required. The transaction must not be adverse to the company's interests. In the case of an Extraordinary Transaction, the company's audit committee and board of directors, and, under certain circumstances, the shareholders of the company, must approve the transaction, in addition to any approval stipulated by the articles. An office holder 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, unless a majority of the members of the board of directors or audit committee, respectively, 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, the Audit Committee must be comprised of at least three members of the Board, including the external directors. Audit Committee members may not be employees or regular service providers of Ellomay, or controlling shareholders and their relatives.

Ellomay's Audit Committee, acting pursuant to a written charter, currently consists of Lauri A. Hanover, Alon Lumbroso and Oded Akselrod. Approval by the Audit Committee and thereafter by the Board is required for (i) proposed extraordinary transactions to which Ellomay intends 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 Ellomay, (iii) arrangements with directors as to their terms of office, compensation, compensation for other positions held with the company, including the provision of indemnification or an undertaking to indemnify and the procurement of insurance, (iv) indemnification and insurance of office holders, other than directors, (v) an 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, (vi) an arrangement with a controlling shareholder or its relative (if such a relative is also an office holder) concerning the terms of his or her employment with the company, (vii) certain private placements of the company's shares and (viii) compensation and scope of work of the independent auditor. Arrangements with directors as to the terms of their service or compensation also require shareholder approval. In certain circumstances, some of the matters referred to above may also require shareholder approval.

The Audit Committee may not approve an action or transaction with a controlling shareholder or with an office holder unless at the time of approval two external directors are serving as members of the Audit Committee and at least one participated in the meeting at which the action or transaction was approved.

The Audit Committee provides assistance to the Board of Directors 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. Under the Companies Law, the appointment of independent auditors requires the approval of the shareholders of the Company, accordingly, the appointment of the independent auditors is approved and recommended to the shareholders by the Audit Committee and ratified by the shareholders. Furthermore, pursuant to the Articles, the shareholders have the authority to determine the compensation of the independent auditors (or empower the Board to establish their remuneration), the compensation is approved following a recommendation of the Audit Committee. Under the Companies Law, the Audit Committee also is required to monitor deficiencies in the administration of a company, including by consulting with the internal auditor or independent accountants and suggesting methods of correction of such deficiencies to the Board, and to review and approve related party transactions.

The Audit Committee has discussed with the independent registered public accounting firm the matters covered by Statement on Auditing Standards No. 61, as well as their independence, and was satisfied as to the independent registered public accounting firm's compliance with said standards.

Stock Option and Compensation Committee

Under the Companies Law, the Board may appoint committees and delegate certain duties to such committees. At lease one of the members of such committees is required to be one of the external directors of the company.

The Companies Law provides that the Board is entitled to delegate to Board committees its power, among other things, to allocate shares or securities convertible into shares of Ellomay relating to employees incentive plans, and employment or salary agreements between Ellomay and its employees, provided, that any such grant is subject to a detailed plan approved by the Board. The Board is also entitled to delegate to the general manager or person recommended by the general manager the Board's authority to issue ordinary shares issuable upon exercise or conversion of Ellomay's securities.

In March 1998, Ellomay established a Stock Option and Compensation Committee to administer Ellomay's stock option plans, other than the 1998 Non-Employee Director Share Option Plan. The Stock Option and Compensation Committee is charged with administering and overseeing the allocation and distribution of stock options under the approved stock option plans of Ellomay and approval of Ellomay's executive officers' annual compensation. All arrangements as to compensation of office holders who are not directors also require the approval of the Board. The Stock Option and Compensation Committee is presently composed of three members: Shlomo Nehama, Ran Fridrich and Lauri A. Hanover.

Non-Employee Director Share Option Plan Committee

In February 1999, Ellomay established a committee to administer the Ellomay's 1998 Non-Employee Director Share Option Plan (the "NEDSOP Committee"). The NEDSOP Committee is charged with administering and overseeing the allocation and distribution of stock options under the 1998 Non-Employee Director Share Option Plan. The Companies Law provides that the Board is not entitled to delegate to Board committees its power, among other things, to allocate shares or securities convertible into shares of Ellomay, except for allocation of shares or securities convertible into shares of Ellomay relating to employees incentive plans, and employment or salary agreements between Ellomay and its employees. Additionally, pursuant to the Companies Law, the terms of service (including the grant of options) of all directors also require shareholder approval. Accordingly, the NEDSOP Committee recommendations are subject to the approval of the Board and the shareholders.

Indemnification and Exculpation of Executive Officers and Directors

Consistent with the provisions of the Companies Law, our Articles include provisions permitting us to procure insurance coverage for our directors and officers, exempt them from certain liabilities and indemnify them, to the maximum extent permitted by law.

Indemnification

The Companies Law provides that a company may indemnify an Office Holder against: (a) a financial liability imposed on him in favor of another person by any judgment concerning an act preformed in his capacity as an office holder; (b) reasonable litigation expenses, including attorneys' fees, expended by the office holder or charged to him by a court relating to an act preformed in his capacity as an office holder in connection with: (i) proceedings the company institutes against him or instituted on its behalf or by another person; (ii) a criminal charge from which he was acquitted; (iii) a criminal charge in which he was convicted for a criminal offence that does not require proof of criminal intent; and (iv) an investigation or a proceeding instituted against him by an authority competent to administrate such an investigation or proceeding that ended without the filing of an indictment against the office holder and, either without any financial obligation imposed on the office holder in lieu of criminal proceedings; or with financial obligation imposed on him in lieu of criminal proceedings, in a crime which does not require proof of criminal intent. The Companies Law also authorizes a company to undertake in advance to indemnify an office holder with respect to events specified above, provided that, with respect to indemnification under sub-section (a) above, the undertaking: (i) is limited to events which the board of directors determines can be anticipated, based on the activity of the company at the time the undertaking is given; (ii) is limited in amount or criteria determined by the board of directors to be reasonable for the circumstances; and (iii) specifies the abovementioned events, amounts or criteria.

At the annual shareholders meeting held on October 27, 2005, our shareholders authorized us to enter into indemnification agreements with each of our current and future directors and officers. Ellomay shall, subject to the provisions of the indemnification agreement, indemnify each director and officer for future obligations or expenses imposed on them in consequence of an act done in their capacity as directors or officers of Ellomay or of its subsidiaries, as follows:

- monetary liabilities imposed on, or incurred by, the director or officer for the benefit of another person pursuant to a judgment, including a judgment given in settlement or a court approved settlement of an arbitrator's award;

- reasonable legal fees, including attorney's fees, incurred by a director or officer in consequence of an investigation or proceeding filed against a director or officer by an authority that is authorized to conduct such investigation or proceeding, and that has ended without filing an indictment against, or imposing of a financial obligation in lieu of a criminal proceeding on, such director or officer, or that resulted without filing an indictment against such director or officer but with imposing a financial obligation on such director or officer as an alternative to a criminal proceeding in respect of an offense that does not require the proof of criminal intent; and

- reasonable litigation expenses, including attorney's fees, incurred by a director or officer or which a director or officer is ordered to pay by a court, in a proceedings filed against such director or officer by Ellomay or on its behalf or by another person, or in a criminal charge of which he or she is acquitted, or in a criminal charge of which such director or officer is convicted of an offence that does not require proof of criminal intent.

The indemnification undertaking is limited to certain categories of events and the aggregate indemnification amount that Ellomay shall pay may not exceed an amount equal to fifty percent (50%) of the net equity of Ellomay or to one time annual revenue of Ellomay in the year prior to the date of the claim with regard to judgment liability (the higher amount of the two) with regard to a final judgment by a competent court, and $3.0 million with regard to litigation expenses.

We have entered into indemnification agreements with directors and some officers providing for indemnification under certain circumstances for acts and omissions which may not be covered (or not be covered in full) by any directors' and officers' liability insurance. Such indemnification agreement appears in our current report on Form 6-K as filed with the SEC on October 14, 2005.

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 exculpate 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 the office holder 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 exculpate any director or officer from liability to us to the extent permitted by law.

The Companies Law provides that a company may not exculpate 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 against such breach if the office holder acted in good faith and had a reasonable basis to assume that the act would not harm the company); (b) a breach by the office holder of his or her duty of care if the breach was done intentionally or recklessly, unless made in negligence only; (c) any act of omission done with the intent to derive an illegal personal benefit; or (d) any fine or monetary penalty levied against the office holder.

At the annual shareholders meeting held on October 27, 2004, Ellomay's shareholders authorized the Company to exculpate its directors and officers in advance from liability to Ellomay, in whole or in part, for a breach of the duty of care. The form of exculpation letter was approved at the annual shareholders meeting held on October 27, 2005 and appears in our current report on Form 6-K as filed with the SEC on October 14, 2005.

Insurance

Under the Companies Law, a company may obtain insurance for any of its office holders for: (a) a breach of his duty of care to the company or to another person; (b) a breach of his duty of loyalty to the company provided that the office holder acted in good faith and had reasonable cause to assume that his act would not prejudice the company's interests; or (c) a financial liability imposed upon him in favor of another person concerning an act preformed by him or her in his/her capacity as an office holder.

We have obtained directors' and officers' liability insurance covering our directors and officers. In our January 2008 general meeting of shareholders, our shareholders also approved the procurement of a "run-off" directors' and officers' liability insurance policy covering our directors and officers for events that occurred prior and up to the closing of the HP Transaction.

Following the changes in composition of our Board on March 2008, our Audit Committee and Board approved the entering into indemnification agreements with, the provision of exculpation letter to, and the inclusion in our directors' and officers' liability insurance policy of, our new directors. The approval as it relates to Shlomo Nehama and Ran Fridrich, who are both considered to be "controlling shareholders," required further approval of our shareholders. In our December 30, 2008 annual shareholders meeting, our shareholders approved these resolutions.

Internal Auditor

Under the Companies Law, our Board is also 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 officer 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. Mr. Doron Cohen of Fahn, Kanne & Co., an Israeli accounting firm, serves as our internal auditor.

D. Employees

As of December 31, 2008, we had 9 employees and independent contractors compared to 330 employees and independent contractors as of December 31, 2007 and 312 as of December 31, 2006. All of our employees and independent contractors, as of December 31, 2008, were in management, finance and administration and all were located in Israel.

In connection with and following the consummation of the HP Transaction on February 29, 2008, approximately 80% of our employees world-wide have been rolled over to various HP related entities. We have terminated the employment of a majority of the other employees, including the majority of our senior management. The employees who were terminated were eligible to termination related severance and/or notice periods ranging between one and six months. In connection with such terminations, we recorded as of the HP Transaction closing date severance-related expenses in the approximate amount of $2.8 million.

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 law generally requires the payment of severance pay equal to one month's salary for each year of employment upon the termination of employment.

Our liability for future severance pay obligations is partially provided for by payments equal to 8.33% of an employee's salary each month made to various managers' insurance policies or similar financial instruments and by accrual. Our employees are usually provided with an additional contribution toward their retirement that amounts to 10% of wages, of which the employee and the employer each contribute half. Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, which is similar to the United States Social Security Administration, and additional sums towards compulsory health insurance.

E. Share Ownership

Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information regarding the beneficial ownership of Ellomay's ordinary shares as of March 15, 2009, of (i) each director of Ellomay and (ii) each member of senior management of Ellomay. All of the information with respect to beneficial ownership of the ordinary shares is given to the best of Ellomay's knowledge and has been furnished in part by the respective directors and member of senior management.

Name of Beneficial Owner	Number of Shares Beneficially Held(1)	Percent of Class
Shlomo Nehama (2)	41,782,886	45.17%
Hemi Raphael (3)	-	-
Anita Leviant	*	*
Ran Fridrich (3)	-	-
Lauri A. Hanover	*	*
Alon Lumbroso	*	*
Oded Akselrod	*	*
Kalia Weintraub	-	-
Eran Zupnik	-	-

* Less than one percent of the outstanding 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. 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, 2009 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 73,786,428 ordinary shares outstanding as of March 15, 2009.

(2) The 41,782,886 ordinary shares beneficially owned by Mr. Nehama consist of: (1) 22,661,551 ordinary shares , currently exercisable warrants to purchase 10,067,172 ordinary shares and a currently exercisable call option to purchase 2,789,971 currently exercisable warrants held by the Fortissimo Entities pursuant to the Fortissimo Call Option (both as hereinafter defined) held by Nechama Investments, which together constitute approximately 41.0% of the outstanding ordinary shares and (ii) 412,961 ordinary shares and currently exercisable warrants to purchase 5,851,231 ordinary shares held directly by Mr. Nehama, which together constitute approximately 7.9% of the 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 his shares and warrants) approximately 45.2% of the outstanding ordinary shares. By virtue of the 2008 Shareholders Agreement (as defined below), 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 45,735,389 ordinary shares and currently exercisable warrants to purchase 23,143,793 ordinary shares, as well as currently exercisable warrants to purchase 4,184,957 that may be acquired pursuant to the Fortissimo Call Option, which together constitute approximately 72.3% of the outstanding ordinary shares, and holds shared dispositive power with respect to 36,967,000 ordinary shares, which constitute 50.1% of the outstanding ordinary shares. Accordingly, Mr. Nehama may be deemed to beneficially own approximately 74.2% of the outstanding ordinary shares. Mr. Nehama and Nechama Investments both disclaim beneficial ownership of the ordinary shares beneficially owned by Kanir.

(3) By virtue of their positions as sole shareholders and directors of Kanir Investments Ltd. ("Kanir Ltd."), the general partner in Kanir, and limited partners in Kanir, Hemi Raphael and Ran Fridrich may be deemed to indirectly beneficially own the ordinary shares and ordinary shares underlying warrants beneficially owned by Kanir. Messrs. Raphael and Fridrich disclaim beneficial ownership of such shares.

Our directors hold, in the aggregate, options exercisable into 146,667 ordinary shares. The 146,667 options have a weighted average exercise price of approximately $0.65 per share and have expiration dates until 2019. Under the 1998 Plan, Oded Akselrod, one of the members of our Board, was granted options to purchase 10,000 ordinary shares on December 30, 2004, August 1, 2005, August 1, 2006, August 1, 2007 and August 1, 2008. Anita Leviant, one of the members of our Board, was granted options to purchase 13,333 shares on August 1, 2008. Lauri A. Hanover, one of our external directors, was granted options to purchase 6,667 shares on November 18, 2003 and was also granted options to purchase 10,000 ordinary shares on December 30, 2004, August 1, 2005, August 1, 2006, August 1, 2007 and August 1, 2008. Alon Lumbroso, our second external director, was granted 6,667 options on November 27, 2006 and was also granted options to purchase 10,000 ordinary shares on August 1, 2007 and August 1, 2008. The exercise price for the underlying shares of such options is the "Fair Market Value" (as defined in the 1998 Plan) of the ordinary shares of Ellomay at the date of grant.

Outstanding Options

Immediately prior to the consummation of the HP Transaction, there were outstanding options to purchase 10,079,400 of our ordinary shares that were granted to our employees. In connection with the HP Transaction, the vesting of all such employee options was accelerated and all became immediately exercisable upon consummation of the sale of our business to HP on February 29, 2008. As more fully described herein, 9,893,550 of such options were thereafter purchased by us and cancelled in July 2008. Any options not repurchased (due to their relatively high exercise price) were canceled during 2008 pursuant to their terms and the terms of the 2000 Stock Option Plan.

The options granted to directors under the 1998 Plan are not subject to vesting requirements and have an exercise price ranging from $0.31 to $1.86 per share, with various expiration dates. See Note 14 to our consolidated financial statements included as a part of this annual report on Form 20-F for more details.

1995 Israel Stock Option Plan

In 1995, we adopted the 1995 Israel Stock Option Plan (the “1995 Plan”), which provides for grants of stock options to our employees and consultants. Options to purchase an aggregate of 500,000 ordinary shares were originally available for grant under the 1995 Plan, as amended, including service options for future services, options for performance, and options to consultants for service or performance.

At the annual shareholders meeting held on November 18, 2003, our shareholders approved the Board’s resolution to terminate the 1995 Plan and to increase the number of ordinary shares authorized for issuance under our 2000 Stock Option Plan (as amended) in the aggregate amount that was outstanding for grant under the 1995 Plan as of July 15, 2003, thereby increasing the number of ordinary shares authorized for issuance under our 2000 Stock Option Plan by 33,261. At the annual shareholders meeting held on October 27, 2005, our shareholders approved an increase in the number of ordinary shares authorized for issuance under the 2000 Stock Option Plan by the number of ordinary shares underlying options cancelled under the 1995 Plan.

As of March 15, 2009, there are no outstanding options under the 1995 Plan.

1997 Stock Option Plan

In 1997, we adopted the 1997 Stock Option Plan (the “1997 Plan”), which provides for grants of stock options to our employees, directors and consultants. Options to purchase an aggregate of 2,200,000 ordinary shares were originally available for grant under the 1997 Stock Option Plan, as amended.

At the annual shareholders meeting held on November 18, 2003, our shareholders approved the Board’s resolution to terminate the 1997 Plan and to increase the number of ordinary shares authorized for issuance under our 2000 Stock Option Plan in the aggregate amount that was outstanding for grant under the 1997 Plan as of July 15, 2003, thereby increasing the number of ordinary shares authorized for issuance under our 2000 Stock Option Plan by 464,329. At the annual shareholders meeting held on October 27, 2005, our shareholders approved an increase in the number of ordinary shares authorized for issuance under the 2000 Stock Option Plan by the number of ordinary shares underlying options cancelled under the 1997 Plan.

As of March 15, 2009, there are no outstanding options under the 1997 Plan.

1998 Non-Employee Director Share Option Plan

For discussion of the 1998 Non-Employee Director Share Option Plan see “Item 6.B: Compensation.”

2000 Stock Option Plan

In 2000, we adopted the 2000 Stock Option Plan (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 the Stock Option and Compensation Committee subject to Board approval.

At the annual shareholders meetings held on November 18, 2003 and October 27, 2004, our shareholders approved increases in the number of ordinary shares authorized for issuance under the 2000 Plan (as amended) to 2,997,590. At the annual shareholders meeting held on October 27, 2005, our shareholders approved an additional increase in the number of ordinary shares authorized for issuance under the 2000 Plan (as amended) by 14,500,000, from 2,997,590 to 17,497,590 and by the number of ordinary shares underlying options surrendered (except in the case of surrender for the exercise into shares) or which cease to be exercisable under the 1995 Plan and the 1997 Plan. As of March 15, 2009, the additional number of ordinary shares underlying options cancelled under the 1995 Plan and the 1997 Plan increased the number of ordinary shares authorized for issuance under the 2000 Plan by 227,000 from 17,497,590 to 17,724,590. Section 12 of the 2000 Plan provided originally that the 2000 Plan will expire on August 31, 2008, unless previously terminated or extended by the Board. At our Board meeting held on June 23, 2008, our Board resolved to amend Section 12 of the 2000 Plan to extend its term until August 31, 2018.

Our Board has broad discretion to determine the persons entitled to receive options under the 2000 Plan, the terms and conditions on which options are granted, and the number of ordinary shares subject thereto. Our Board delegated to our management its authority to issue ordinary shares issuable upon exercise of options under the 2000 Plan. The exercise price of the options under the 2000 Plan is determined by our Stock Option and Compensation Committee, provided, however, that the exercise price of any option granted shall not be less than eighty percent (80%) of the stock value at the date of grant of such options. The stock value at any time is equal to the then current fair market value of our ordinary shares. For purposes of the 2000 Plan (as amended), the fair market value means, as of any date, the last reported closing price of the ordinary shares on such principal securities exchange on the most recent prior date on which a sale of the ordinary shares took place.

Our Stock Option and Compensation Committee 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. Upon termination of employment, all unvested options 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 its 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 (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.

Changes in Options Following Consummation of the HP Transaction

In connection with the HP Transaction, our Board of Directors approved the immediate acceleration of all outstanding employee stock options that were outstanding as of the date of execution of the Asset Purchase Agreement. Our Board of Directors further approved the offer to employees who hold outstanding stock options with exercise prices below $1.00 to repurchase their outstanding stock options, subject to and following the fulfillment of all regulatory requirements. The employees received offers from us, setting forth the consideration offered for such options. The employees were generally offered a choice between two methods of payment.

The first method entails receipt, subject to and following fulfillment of regulatory requirements, of 75% of the consideration and receipt of up to 25% of the consideration following release of the monies deposited in escrow in connection with the HP Transaction. The exact amount of the second payment, if any, will be determined based on the net cash generated by us from our remaining assets and liabilities based on the criteria set forth by our Board and such amount will bear interest equal to the interest rate applicable to the monies deposited in the escrow account in connection with the HP Transaction commencing March 1, 2008. The second method entails receipt, subject to and following fulfillment of regulatory requirements, of 90% of the consideration without entitlement to any additional payment in the future.

Under both payment methods, all outstanding options were to terminate immediately upon receipt of the first (or in the case of the second method, only) payment.

The offer to repurchase options was made to employees holding an aggregate of options to purchase approximately 9.9 million of our ordinary shares and the aggregate purchase price is up to approximately $3.8 million.

Based on the election of the employees between the two methods of payment described herein, on July 2008 we paid approximately $3.1 million in consideration for the options resulting in the immediate cancellation of options to repurchase 9,893,550 of our ordinary shares. The remainder, in the amount of up to $0.7 million, will be paid subject to the terms of the first method of payment set forth above.

Pursuant to the terms of our option plans, all options that were not repurchased expired 90 days following the termination of employment of the employees holding such options.

As a result of the purchase of the options and the cancellation of the options as set forth above, on March 15, 2009 the number of ordinary shares authorized for issuance under the 2000 Plan was 7,272,028. Currently, there are no options outstanding under the 2000 Plan.

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, 2009, by each person known by us to be the beneficial owner of more than 5% 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.

	Ordinary Shares Beneficially Owned(1)	Percentage of Ordinary Shares Beneficially Owned
Shlomo Nehama (2)	41,782,886	45.2%
Kanir Joint Investments (2005)Limited Partnership (3)(4)	37,545,445	42.5%
Zohar Zisapel (5)	5,359,708	7.3%
Old Lane Funds (6)	4,873,415	6.5%
Fortissimo Entities (7)	4,184,957	5.4%

(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, 2009 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 73,786,428 ordinary shares outstanding as of March 15, 2009.

(2) The 41,782,886 ordinary shares beneficially owned by Mr. Nehama consist of: (i) 22,661,551 ordinary shares, currently exercisable warrants to purchase 10,067,172 ordinary shares and a currently exercisable call option to purchase 2,789,971 currently exercisable warrants held by the Fortissimo Entities pursuant to the Fortissimo Call Option held by Nechama Investments, which together constitute approximately 41.0% of the outstanding ordinary shares and (ii) 412,961 ordinary shares and currently exercisable warrants to purchase 5,851,231 ordinary shares held directly by Mr. Nehama, which constitute approximately 7.9% of the 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 his shares and warrants) approximately 45.2% of the outstanding ordinary shares. 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 45,735,389 ordinary shares and currently exercisable warrants to purchase 23,143,793 ordinary shares, as well as currently exercisable warrants to purchase 4,184,957 that may be acquired pursuant to the Fortissimo Call Option, which together constitute approximately 72.3% of the outstanding ordinary shares, and holds shared dispositive power with respect to 36,967,000 ordinary shares, which constitute 50.1% of the outstanding ordinary shares. Accordingly, Mr. Nehama may be deemed to beneficially own approximately 74.2% of the outstanding ordinary shares. Each of Mr. Nehama and Nechama Investments disclaims beneficial ownership of the ordinary shares beneficially owned by Kanir.

(3) According to information provided by the holder, Kanir is an Israeli limited partnership. The holdings of Kanir include currently exercisable warrants to purchase 13,076,621 ordinary shares and a currently exercisable call option to purchase 1,394,986 currently exercisable warrants held by the Fortissimo Entities pursuant to the Fortissimo Call Option. Kanir Ltd., in its capacity as the general partner of Kanir LP, 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. Raphael and Fridrich are the sole shareholders and directors of Kanir Ltd. As a result, they may be deemed to indirectly beneficially own the ordinary shares beneficially owned by Kanir. Messrs. Raphael and Fridrich disclaim beneficial ownership of such ordinary shares. 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 45,735,389 ordinary shares and currently exercisable warrants to purchase 23,143,793 ordinary shares, as well as currently exercisable warrants to purchase 4,184,957 that may be acquired pursuant to the Fortissimo Call Option, which together constitute approximately 72.3% of the outstanding ordinary shares, and holds shared dispositive power with respect to 36,967,000 ordinary shares, which constitute 50.1% of the outstanding ordinary shares. Each of Kanir, Kanir Ltd. and Messrs. Raphael and Fridrich disclaims beneficial ownership of the ordinary shares beneficially owned by Nechama Investments.

(4) Bonstar, an Israeli company, currently holds warrants to purchase 846,906 ordinary shares, which constitute approximately 1.1% 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 also hold, through a company jointly held by them, 750,000 ordinary shares, which constitute approximately 1.0% 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 1,596,906 ordinary shares beneficially owned by Bonstar and by the other company, which constitute approximately 2.1% 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. The information provided in the foregoing paragraph is based on public filings made by Bonstar and Messrs. Joseph Mor and Ishay Mor.

(5) According to public filings and information provided by the holder, Zohar Zisapel is an Israeli citizen.

(6) According to information provided by the holders, the Old Lane Funds include Old Lane Luxemburg Master Fund S.a.r.l ("Old Lane"), a private company registered in Luxemburg, and its shareholders: Old Lane Cayman Master Fund L.P., a limited partnership registered in the Cayman Islands ("Old Lane Cayman"), Old Lane HMA Master Fund, L.P., a limited partnership registered in the Cayman Islands ("Old Lane HMA") and Old Lane U.S. Master Fund L.P., a limited partnership registered in Delaware, USA ("Old Lane US" and, together with Old Lane Cayman and Old Lane HMA, the "Old Lane Shareholders"). Old Lane currently beneficially holds 4,814,815 ordinary shares for the benefit of its shareholders as follows: (i) 2,207,408 ordinary shares and 662,222 ordinary shares underlying currently exercisable warrants held for the benefit of Old Lane Cayman, which also directly holds 34,522 ordinary shares, (ii) 625,926 ordinary shares and 187,778 ordinary shares underlying currently exercisable warrants held for the benefit of Old Lane HMA, which also directly holds 10,072 ordinary shares and (iii) 870,370 ordinary shares and 261,111 ordinary shares underlying currently exercisable warrants held for the benefit of Old Lane US, which also directly holds 14,006 ordinary shares. Old Lane disclaims beneficial ownership of the shares held for the benefit of the Old Lane Shareholders.

(7) According to information provided by the holders, the "Fortissimo Entities" consist of Fortissimo Capital Fund GP, LP ("FFC-GP"), Fortissimo Capital Fund (Israel), LP ("FFC-Israel"); Fortissimo Capital Fund (Israel-DP), LP ("FFC-Israel-DP"); and Fortissimo Capital Fund, LP ("FFC Cayman"). FFC-GP and FFC Cayman are limited partnerships incorporated in the Cayman Islands. FFC-Israel and FFC-Israel-DP are limited partnerships incorporated in Israel. FFC-GP is the general partner of each of FFC-Israel, FFC-Israel-DP and FFC Cayman, which invest together in the framework of parallel private equity funds. The holdings of the Fortissimo Entities consist of currently exercisable warrants to purchase 3,742,048 ordinary shares held directly by FFC-Israel, currently exercisable warrants to purchase 333,516 ordinary shares held directly by FFC-Israel-DP and currently exercisable warrants to purchase 109,393

ordinary shares held directly by FFC Cayman. The 2005 shareholders agreement between FFC-GP and Kanir was terminated in connection with the sale of all of the ordinary shares and a majority of the warrants to purchase ordinary shares held by the Fortissimo Entities to Kanir and Nechama Investments in March 2008. Based on public filings made by Kanir and Nechama Investments, among the transaction set forth in the documents governing the sale of our securities by the Fortissimo Entities to Kanir and Nechama Investments, Kanir and Nechama Investments granted the Fortissimo Entities a put option exercisable at $0.50 per warrant, and the Fortissimo Entities granted Kanir and Nechama Investments a call option (the "Fortissimo Call Option") exercisable at $0.80 per warrant, with respect to warrants to purchase 4,184,957 ordinary shares held by the Fortissimo Entities, in each case, subject to equitable adjustments in the event of customary capitalization events or dividend distributions. Said options are exercisable during the period commencing on March 27, 2009 and ending on the earlier to occur of (i) March 27, 2010 and (ii) the date on which such warrants have been listed for trade on a stock market.

Significant Changes in the Ownership of Major Shareholders

In January and February 2007, we closed a private placement with certain investors. As of March 15, 2009, Old Lane Luxemburg, who participated in the private placement, is the beneficial owners of 4,814,815 ordinary shares (including 1,111,111 ordinary shares issuable upon exercise of warrants), or 6.4% of our outstanding ordinary shares. As a result of the private placement in the beginning of 2007, Bank Leumi Le Israel B.M. ceased to be a major shareholder of Ellomay.

In February 2008, Kanir purchased, in a series of private transactions, additional Ellomay shares and warrants. The sellers in such private transactions included, among others, Dan and Edna Purjes, and entities they control or are affiliated with. Certain of the securities purchased by Kanir were subsequently transferred to Shlomo Nehama. The Purjes's beneficial ownership interest decreased from 16.51% to 12.51% as of May 2007 as a result of the private placement in early 2007 and, pursuant to information provided by Mr. Purjes, as a result of the sale of shares and warrants on February 2008, he and his affiliates no longer beneficially owned any Ellomay ordinary shares or warrants immediately following the sale.

In March and April 2008, Kanir, Shlomo Nehama and Nechama Investments purchased additional Ellomay shares and warrants in a series of private transactions, including all of the shares and a majority of the warrants held by the Fortissimo Entities, a majority of the warrants held by Bank Hapoalim, decreasing the percentage of ordinary shares beneficially owned by Bank Hapoalim from 6.3% to less than one percent, and shares held by certain of the entities affiliated with Meitav Investment House Ltd. (the "Meitav Entities"), decreasing the percentage of ordinary shares beneficially owned by the Meitav Entities from 6.34% to less than five percent.

In September 2008, warrants to purchase 240,000 ordinary shares, at an exercise price of $0.52 per share, were exercised. In October 2008, warrants to purchase 825,923 ordinary sharesat an exercise price of $0.34 per share, held equally by Kanir and Shlomo Nehama, were exercised. These exercises resulted in the receipt by us of aggregate consideration in the amount of $0.511 million.

Record Holders

Based on a review of the information provided to us by our transfer agent and major shareholders, as of March 15, 2009, there were 67* record holders of ordinary shares, of which 26 represented United States* record holders holding approximately 32.9% (of which approximately 32% are held by the Depository Trust Company) of our outstanding ordinary shares.

---

* 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 (the "2008 Shareholders Agreement") with respect to their holdings of Ellomay. 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.

The parties to the 2008 Shareholders Agreement agreed to vote all their Ellomay ordinary shares as provided in the 2008 Shareholders Agreement. Where the 2008 Shareholders Agreement is silent as to a matter brought before the shareholders of Ellomay, 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 will require the approval of a simple majority of the outstanding ordinary shares, such as related party transactions and any material change in Ellomay's scope of business. 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 10B: 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 other shareholders of Ellomay during the term of the 2008 Shareholders Agreement, which will be in effect so long as (i) the parties hold more than 50% of the outstanding ordinary shares of Ellomay or (ii) each of the parties holds all of its Restricted Shares (unless the lending bank of the parties to the agreement forecloses on its pledge on the Restricted Shares of either party, causing the immediate termination of the 2008 Shareholders Agreement).

Encumbrances Placed on Ellomay’s Securities

Pursuant to public filings made and information provided by Kanir and Nechama Investments and their affiliates, on March 27, 2007, each of Kanir and Nechama Investments entered into a separate five-year loan agreement with Israel Discount Bank Ltd. in order to finance the purchase of Ellomay ordinary shares and warrants to purchase ordinary shares. As collateral for the loans, Israel Discount Bank Ltd. received a first-priority pledge over 19,020,872 ordinary shares and warrants to purchase 2,027,426 ordinary shares, or, in the aggregate, 27.8% of the outstanding ordinary shares, held by Kanir and over 19,021,547 ordinary shares, or 25.8% of the outstanding ordinary shares, held by Nechama Investments. A default of either of Kanir and Nechama Investments under their agreements with Israel Discount Bank Ltd. could cause a foreclosure with respect to the ordinary shares of Ellomay subject to the pledge to such bank, which could result in a change of control of Ellomay.

B. Related Party Transactions

On December 30, 2008, following the approval of our Audit Committee, Board of Directors and shareholders, we entered into a management services agreement with Kanir and Meisaf, effective as of March 31, 2008, the date of appointment of Messrs. Fridrich and Nehama as members of our Board. In consideration of the performance of the management services and the board services under the terms of the management services agreement we agreed to pay Kanir and Meisaf, in equal parts in and quarterly payments, an aggregate annual services fee in the amount of $250,000 plus value added tax pursuant to applicable law.

For a further discussion of transactions and balances with related parties see “Item 10.C: Material Contracts” and Note 13 to our consolidated financial statements, which are included as a part of this annual report.

C. Interests of Experts and Counsel

Not Applicable.

ITEM 8: Financial Information

A. Consolidated Statements and Other Financial Information.

Consolidated Statements

For our audited consolidated financial statements for the year ended December 31, 2008, please see pages F-1 to F-44 of this report.

Export Sales

See “Item 5: Operating and Financial Review and Prospects” under the caption “Geographic Breakdown of Revenues” for certain details of export sales for the last three fiscal years.

Legal Proceedings

We are a party to various legal proceedings incident to our business. Pursuant to the terms of the Asset Purchase Agreement with HP, a majority of the litigation we are party to was not assumed by HP or any of its subsidiaries and we continue to be responsible for the management and outcome of such litigation. In addition, we undertook to continue to be responsible for the management and outcome of the outstanding litigation involving NUR Europe, one of our previously wholly-owned subsidiaries that was acquired by HP.

Except as noted below, there are no material legal proceedings pending or, to our knowledge, threatened against us or our subsidiaries, and we are not involved in any legal proceedings that our management believes, individually or in the aggregate, would have a material adverse effect on our business, financial condition or operating results.

The US dollar amounts presented below are based on applicable conversion rates in effect as of December 31, 2008.

In October 2001, Distrade SL, a client of NUR Europe, filed a suit against NUR Europe in the Commercial Court of Brussels, alleging technical defaults in a machine purchased by it. Distrade sought reimbursement of the purchase price it paid amounting to approximately $0.18 million, as well as damages of approximately €0.23 million (or $0.33 million). NUR Europe filed a counterclaim of $0.216 million in respect of unpaid invoices. In October 2007 the court ruled that Distrade was not entitled to any damages and NUR Europe should credit it for the unpaid balance. Distrade was ordered to return the product to NUR Europe. The ruling was deemed final in April 2008 when the official time for appeal passed.

During 2002, two end-users, Jiaxing Dapeng Advertising Limited Company and Guangzhou Junhao Printing Limited Company, filed separate lawsuits in China against subsidiaries of the Company alleging bad quality of products and seeking reimbursement in aggregate amount of $0.584 million. The local court ruled that the subsidiaries should reimburse the clients with the aggregate amounts of $0.472 million. One of subsidiaries is in the process of liquidation and has no assets in China and the other is no longer active in China and based on advice received from legal counsel the judgment against it cannot be enforced in Hong Kong. The clients may file a suit in Hong Kong but have not done so to date. Based on the management's estimate and the opinion of our legal counsel, it is less than likely that the subsidiaries will be required to pay the amount claimed.

During 2003, Julius Heywinkel GmbH, a former supplier and manufacturer of NUR Media Solutions filed suit against NUR Media Solutions in the Court of Osnabrück, Germany, claiming that NUR Media Solutions owed penalties as a result of NUR Media Solutions' alleged failure to purchase certain minimum quantities prescribed under an agreement between NUR Media Solutions and Heywinkel. Heywinkel was seeking damages in approximately the amount of €0.93 million (or $ 1.388 million). In February 2006, the Court of Osnabrück ordered NUR Media Solutions to pay Heywinkel an aggregate amount of €1.2 million (or $1.76 million) representing penalties and accrued interest. NUR Media Solutions filed an appeal, which was rejected by the High Regional Court in Oldenburg, Germany in July 2006. During 2007, NUR Media Solutions reached an agreement with Heywinkel to pay the amount due over a period of 40 months and, pursuant to the terms of the payment arrangement, Ellomay provided a guarantee for the debt of NUR Media Solutions to Heywinkel. Following the consummation of the HP Transaction a second settlement agreement was reached by which the full amount was paid in a lump sum during August 2008.

In September 2003, we filed a suit in the Magistrate Court of Tel Aviv, Israel against R.R. Graphics Ltd., a former distributor in Israel, for the collection of unpaid invoices totaling approximately $0.42 million. In February 2004, R.R. Graphics filed a statement of defense denying our claims and it also filed a counter-claim for alleged damages caused to it by us in the amount of approximately $0.21 million. We believe that the counter-claim that was filed by R.R. Graphics is without merit and that a loss in not probable.

In December 2003, Imagens Digitais Ltda., a client of NUR Do Brazil Ltda., filed a suit against NUR Do Brazil Ltda. and NUR America in Brazil, alleging that a machine purchased by it failed to perform. Imagens is seeking reimbursement of the purchase price paid by it in the amount of approximately $0.29 million. We believe that the claim is without merit.

In February 2005, the OCS initiated administrative proceedings for the confiscation of certain of our assets to secure our alleged liability to the OCS of approximately $0.8 million in unpaid royalties related to the sale of equipment. On February 21, 2005, we filed a suit with the District Court in Jerusalem against the OCS and the Marketing Fund requesting a declaratory judgment denying the OCS claim for royalties and for the recovery of approximately $0.27 million that was previously paid to the OCS. We also filed a motion requesting the court to direct the OCS to cease and cancel the confiscations procedures. In February 2006, the court approved a settlement between Ellomay and the OCS. Under the terms of the approved settlement, we were required to make aggregate payments of approximately $0.6 million to the OCS and approximately $0.78 million to the Marketing Fund over a three-year period. As of December 31, 2008, the debt to the OCS and the debt to the Marketing Fund have been fully repaid.

In October 2005, Dan Purjes, our former chairman and a former beneficial owner of approximately 16.51% of our ordinary shares, filed a complaint against us in the Supreme Court, New York County seeking to recover the right to vote his ordinary shares. The right to vote Mr. Purjes's ordinary shares had been transferred to us pursuant to a voting agreement dated January 23, 2005 by and between Mr. Purjes and us. The complaint filed by Mr. Purjes sought to have the voting agreement declared unenforceable. On March 14, 2008, following the sale of Mr. Purjes's shares and warrants, the parties filed a stipulation of discontinuance with prejudice.

In February 2007 a claim was filed against us and one of our former officers by a person claiming to have been an agent of the company in West Africa for commissions on sales of printers. The claim is for NIS 3,000 ($0.79 million). We filed a statement of defense denying all claims, both with respect to the causes of action and with respect to the factual allegations in the claim. Based on management estimation and the opinion of its legal counsel no provision was recorded with respect to this claim.

In May 2007, a former managing director of NUR Europe filed a lawsuit against the Company and two of its subsidiaries claiming his resignation was for just cause due to demotion and therefore should be deemed as a termination of his employment by the subsidiary. The Company denied all the claims made by the former employee. The ruling in favor of the company was deemed final in March 2009 when the official time for appeal passed.

In January 2008, a former distributor of NUR Asia Pacific filed a lawsuit against the subsidiary claiming his distribution agreement was terminated in violation of its terms and seeking damages in the amount of $AUD 5.562 million. The subsidiary filed a statement of defense denying the claims and filed a counterclaim against the former distributor for non-payment and other damages in the amount of $0.882 million. The parties reached a settlement agreement by which the subsidiary paid the former distributor an amount of $0.175 million in October 2008.

During 2008, a former employee of a subsidiary filed a lawsuit against the Company in the amount of approximately $ 0.32 million alleging the Company did not provide him with the appropriate amount of time to exercise his stock options following the termination of the applicable blackout period. The Company and the former employee are negotiating a settlement proposal by which the Company undertakes to pay an amount of approximately $0.03 million and this amount shall be considered as the gross, exhaustive and final consideration paid to the former employee.

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

Dividends

We do not anticipate that we will pay any cash dividend on our ordinary shares in the foreseeable future. Dividends, if any, will be paid in New Israeli Shekel. Dividends paid to shareholders outside Israel will be converted to U.S. dollars, on the basis of the exchange rate prevailing at the date of payment.

B. Significant Changes

Except as otherwise disclosed in this annual report, no significant changes have occurred since December 31, 2008.

ITEM 9: The Offer and Listing

A. Offer and Listing Details

Not applicable other than Item 9.A.4.

Stock Price History

The prices set forth below are high and low closing market prices for the ordinary shares of Ellomay as reported by the Nasdaq Capital Market or the Pink Sheets, 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 six-month period ending February 28, 2009. Such quotations reflect inter-dealer prices, without retail markup, markdown, or commission and may not necessarily represent actual transactions. Our ordinary shares are currently quoted in the over-the-counter market in the "Pink Sheets" under the symbol "EMYCF.PK."

Year	High (US)	Low (US)
2004	$ 2.14	$ 0.66
2005	0.83	0.18
2006	0.84	0.50
2007	0.84	0.43
2008	0.75	0.47
2007		
First Quarter	$ 0.65	$ 0.43
Second Quarter	0.56	0.46
Third Quarter	0.62	0.44
Fourth Quarter	0.84	0.462
2008		
First Quarter	$ 0.75	$ 0.60
Second Quarter	0.71	0.53
Third Quarter	0.65	0.47
Fourth Quarter	0.70	0.50
Most Recent Six Months		
February 2009	$ 0.64	$ 0.46
January 2009	0.58	0.52
December 2008	0.64	0.51
November 2008	0.69	0.51
October 2008	0.70	0.50
September 2008	0.64	0.55

As a result of the removal of our ordinary shares from quotation on the Nasdaq Capital Market, our ordinary shares are not 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. Additionally, certain investors will not purchase securities that are quoted on the pink sheets, which could materially impair our ability to raise funds through the issuance of our ordinary shares in the securities markets.

B. Plan of Distribution

Not Applicable.

C. Markets

Our ordinary shares are currently quoted in the over-the-counter market in the "Pink Sheets" under the symbol "EMYCF.PK."

Our ordinary shares were traded on the Nasdaq National Market between October 1995 and July 2003. Our ordinary shares were traded on the Nasdaq Capital Market between July 2003 and May 2005.

D. Dilution

Not Applicable.

E. Expenses of the Issue

Not Applicable.

ITEM 10: Additional Information

A. Share Capital

Not applicable.

B. Memorandum of Association and Second Amended and Restated Articles

Set forth below is a brief description of certain provisions contained in the Memorandum of Association, the Second Amended and Restated Articles, adopted by our shareholders at our general meeting held on December 30, 2008, as 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.

Authorized Share Capital

The authorized share capital of Ellomay is one hundred seventy million (170,000,000) New Israeli Shekels, divided into one hundred and seventy million ordinary shares, NIS 1.00 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 required in order to amend our Memorandum, which includes changes to our capital structure, such as an increase in our authorized capital.

At our general meeting held on December 30, 2008, our shareholders resolved to effect a reverse share split of our ordinary shares (on the effective date to be determined by our Board) where each ten ordinary shares will be consolidated into one single ordinary share of NIS 10.00 nominal value, such that our registered share capital will be divided into 17,000,000 ordinary shares. Our shareholders further resolved that all fractional shares which are one-half share or more will be increased to the next higher whole number of shares and all fractional shares which are less than one-half share will be decreased to the next lower whole number of shares and to authorize our Board to determine the timing of the reverse share split and also to determine not to implement the reverse share split, all based on our Board's judgment of our best interests.

As more fully described in the proxy statement sent to our shareholders prior to the December 30, 2008 meeting, the purpose of the reverse share split is to enable us to meet the minimum bid price initial listing requirement of the NASDAQ Global Market. As we cannot currently attempt to list our shares on the NASDAQ Global Market due, among other things, to our lack of operations, our current intention is to implement the reverse share split prior to the closing of a business combination and to attempt to list our shares on the NASDAQ Global Market in conjunction with the closing of such business combination. Subsequently to the publication of our proxy statement, the NASDAQ issued new listing requirements, reducing the minimum bid price from $5.00 to $4.00 in all NASDAQ markets. We cannot predict if and when our ordinary shares will begin trading on the NASDAQ Global Market or any other NASDAQ market and cannot assure you that following the reverse share split the market price per each of our ordinary shares will either exceed or remain in excess of the $4.00 per share minimum bid price as required to meet the initial listing requirements for the NASDAQ Global Market. In addition, we cannot predict whether, or assure you that, we will otherwise meet the initial listing requirements and thereafter the continued listing requirements of the NASDAQ Global Market.

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, the Board is authorized to set 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, the 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).

The directors are elected annually at a general meeting of shareholders and remain in office until the next annual meeting at which time they retire, unless their office is previously vacated as provided in the Articles. A retiring director may be reelected. If no directors are elected at the annual meeting, all of the retiring directors remain in office pending their replacement at a general meeting. Holders of the ordinary shares do not have cumulative voting rights in the election of directors. Consequently, the holders of ordinary shares in the aggregate conferring more than 50% of the voting power, represented in person or by proxy, will have the power to elect all the directors. 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.”

Under the Companies Law, all arrangements with regard to the compensation of office holders who are not directors require the approval of the board of directors. Arrangements regarding the compensation of directors require audit committee, board and shareholder approval. Borrowing powers exercisable by the directors are not specifically outlined in the Company’s Articles.

No person shall be disqualified to serve as a director by reason of his not holding shares in Ellomay. Additionally, there is no age limit for the retirement of directors.

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 the Board (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 Section 6 of 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) directors of our 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 the 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.

Rights of Shareholders

No preemptive rights are granted to holders of 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. Non-residents of Israel may freely hold and trade the ordinary shares pursuant to general and specific permits issued under Israel’s Currency Control Law, 1978. Neither the Memorandum of Association nor the Articles make any distinction between residents and non-residents of Israel with respect to the ownership of ordinary shares. The Memorandum of Association, the Articles and Israeli law do not make any distinction between residents and non-residents of Israel with respect to the voting rights related thereto.

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 last preceding annual meeting) and at such place as may be determined by the Board. The Board may, at any time, convene Extraordinary General Meetings of shareholders, and shall be obligated to do so upon receipt of a requisition in writing of (i) two directors or one quarter of the directors holding office; and/or (ii) one or more shareholders holding at least 5% of the issued capital and at least 1% of the voting rights in the Company; and/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. Where the Board of Directors is required to convene a special meeting, it shall do so within 21 days of the requisition being submitted. Prior to any general meeting a written notice thereof shall be made public as required by Israeli law. The Articles provided 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 (and provided that it was not convened due to the requisition of certain shareholders), 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.

On March 24, 2008, in connection with the purchase of a controlling interest of our ordinary shares, Nechama Investments and Kanir entered into a shareholders agreement. Under the agreement, both parties agreed to vote all the Company's 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 the Company's shareholders. In addition, the agreement provides that in the event the parties do not reach an agreement regarding certain resolution proposed to the Company's shareholders meeting, the parties shall vote all of their shares against such proposed resolution. For further information with respect to the shareholders agreement, see "Item 7.A.: Major Shareholders" under the caption "2008 Shareholders Agreement."

Following the adoption of the Second Amended and Restated Articles at our general meeting of shareholders held on December 30, 2008, Article 25.5 provide 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.

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 with a majority of the voting power participating in such meeting. 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.

Dividends and Profits

Our Board may from time to time, subject to the provisions of Companies Law, declare and order the payment of a dividend from our accrued profits at the rate it may deem, provided that there is no reasonable concern that payment of such dividend may prevent us from meeting our current and expected liabilities when 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 and/or by the distribution of shares and/or debentures of Ellomay and/or 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 the Board. In the event of the winding up of Ellomay, then, 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.

Redemption Provisions

We may, subject to any applicable law, issue redeemable securities and then redeem 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 Holder as described in "Item 6.C: Board Practices," to a controlling shareholder in a public company. The Companies Law defines a controlling shareholder the shareholder who can direct the activities of the company, including a person who holds 25% or more of the voting rights at the company's general meeting, provided there is no other person that holds more than 50% of the voting rights in the company. If two or more shareholders are interested parties in the same transaction, their shareholdings are combined for the purposes of calculating percentages. 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 between a public company and a controlling shareholder or a controlling shareholder's relative, extraordinary transactions in which a controlling shareholder has a personal interest but which are between a public company and another entity, and the entering into agreements with the controlling shareholder, or his relative if such relative is an Office Holder, in connection with their terms of compensation, all require the approval of the audit committee, the board of directors and the shareholders. If required, shareholder approval must include at least one-third of the shareholders who have no personal interest in the transaction and are present and voting at the meeting. Alternatively, the total shareholdings of the disinterested shareholders who vote against the transaction must not represent more than one percent of the voting rights in the company.

Under the Companies Regulations (Relief from Related Party Transactions), 2000, promulgated under the Companies Law (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 of the company may be approved, if the conditions set forth in such regulations are met, without the requirement to obtain shareholder approval. The Relief Regulations require that the company's audit committee and board of directors determine that the conditions set forth in the Relief Regulations are met. One of the alternative conditions for approving an extraordinary transaction with a controlling shareholder is that such transaction only benefits the company. Another available condition is that the transaction is in the ordinary course of business, on market terms, and does not harm the company. The foregoing relief will not apply if one or more shareholders holding at least 1% of the issued and outstanding share capital of the company or of the company's voting rights objects to the use by the company of such relief, provided that such objection is submitted to the company in writing not later than fourteen (14) days from the date in which companies such as our company reported the adoption of the resolution pursuant to the Relief Regulations to its shareholders. If such objection is duly and timely submitted, then the transaction or compensation arrangement will require shareholders' approval as detailed above.

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. Under a recent amendment to the Companies Law, a merger with a wholly owned subsidiary does not require approval of the surviving company's shareholders. A merger does not require approval of the surviving company's shareholders if (i) the merger does not require amending 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 pursuant to the issuance no shareholder would become a controlling shareholder. 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.

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, (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. If less than 5% of the outstanding shares are not tendered in the tender offer, all the shares that the acquiror offered to purchase will be transferred to the acquirer. The Companies Law provides for appraisal rights if any shareholder files a request in court within three months following the consummation of a full tender offer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquiror may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

Regulations under the Companies Law provide that the Companies Law's tender offer rules do not apply to a company whose shares are publicly traded outside of Israel, if pursuant to the applicable foreign securities laws and stock exchange rules there is a restriction on the acquisition of any level of control of the company, or if the acquisition of any level of control of the company requires the purchaser to make a tender offer to the public shareholders.

Duties of 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 has a general duty to refrain from depriving any other shareholder of their rights as a shareholder. In addition, any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or prevent the appointment of an office holder in the company is under a duty to act with fairness towards the company. The Companies Law does not describe the substance of this duty of loyalty.

C. Material Contracts

2007 Private Placement

In the beginning of 2007 we raised $6.3 million through the private placement of 11,734,950 of our ordinary shares to various investors at a price of $0.54 per share. The investors also received warrants to purchase additional 3,520,485 ordinary shares at an exercise price of $0.65 per share, exercisable for a period of five years following the closing of the private placement. The private placement included two stages, an initial closing resulting in gross proceeds in the amount of $3.8 million in January 2007 and a follow-on investment resulting in gross proceeds of $2.5 million in February 2007. In connection with the private placement, we paid our adviser, Meitav Underwriting Ltd., a cash fee of $0.25 million.

Under the subscription agreement entered into between us and each of the investors, we were required, on a best efforts basis, to file a registration statement registering the ordinary shares and ordinary shares underlying warrants for resale within six months following the private placement. The investors in the private placement were provided with the same registration rights as those provided to the Fortissimo Entities in connection with their investment in Ellomay in late 2005 (as were reflected in a registration rights agreement executed among us and the Fortissimo Entities) and were also provided with the right to receive partial liquidated damages in the event the Company did not meet certain target dates set forth in the agreement in connection with the registration of the shares. The partial liquidated damages are in an amount equal to 1.0% of the aggregate purchase price paid by each investor per month of default, subject to an overall limit of up to 24 months of partial liquidated damages. On June 29, 2007, we filed a registration statement for the resale of certain ordinary shares and ordinary shares underlying warrants held by several of our shareholders, including the shares and shares underlying warrants issued in January and February 2007. The registration statement became effective on August 3, 2007 and temporarily lost its effectiveness on October 1, 2007, as it was not in compliance with financial disclosure requirements, but regained its effective status on June 30, 2008.

Asset Purchase Agreement with Hewlett-Packard Company

On December 9, 2007, we entered into an Asset Purchase Agreement with HP, whereby HP agreed to acquire, directly or through its subsidiaries, substantially all of our assets and business for a cash consideration of $117.5 million and to assume substantially all our business related liabilities. The shares of three of our wholly-owned subsidiaries, NUR Europe, NUR Japan and NUR Do Brazil were also included in the assets HP agreed to acquire. The purchase price was subject to upward or downward adjustment based on the net debt (bank debt less cash balances) of us and our subsidiaries as of the closing date.

The Asset Purchase Agreement includes representations and warranties made by us for the benefit of HP, with respect to our structure and various aspects of the business (including environmental and intellectual property issues), which generally survive for a period of eighteen months following the closing of the transaction or, with respect to representations and warranties made by us as to authorization and enforceability, the expiration of the applicable statute of limitations.

The assets and liabilities connected to our business that were not assumed by HP include, among other things, cash balances held by us and our subsidiaries that were not purchased by HP, short and long term bank credit and loans, all costs incurred in respect to the HP Transaction including severance liabilities, rights and obligations in respect to employees not transferred to HP, rights and obligations related to outstanding litigation, claims and disputes; intercompany balances, all tax benefits and obligations with the exception of such benefits and obligations relating to continuing operations from the closing date, assets and obligations in respect of certain government-supported research and development projects and obligations due to or from shareholders.

We agreed to indemnify HP against damages or losses arising from, among others, any breach or inaccuracy of the representations and warranties, any assets or liabilities that were not assumed by HP and certain environmental matters. Our indemnification liability pursuant to the Asset Purchase Agreement is subject to certain customary minimal amount limitations and is also generally limited to amounts deposited in an indemnity escrow ($9.5 million deposited for a period of 18 months and $5 million deposited for a period of 24 months). However, we agreed that claims for indemnity relating to certain liabilities, including, among others, fraud, willing and intentional breach of warranties, liabilities arising in connection with assets or liabilities that were not purchased by HP, failure to comply with certain restrictive covenants, and environmental issues, will not be limited to the amounts deposited in escrow.

The Asset Purchase Agreement also contains ongoing covenants on our part, such as undertakings with respect to confidential information and non-solicitation and non-compete restrictions.

On the APA Closing Date (February 29, 2008), the sale of our business to HP was finalized. The base purchase price pursuant to the Asset Purchase Agreement is $117.5 million. The purchase price was subject to upward or downward adjustment based on the net debt (bank debt less cash balances) of the Company and its subsidiaries that were not purchased by HP as of the APA Closing Date. The purchase price adjustment on such date was approximately $4 million, increasing the total consideration under the Asset Purchase Agreement from $117.5 million to $121.5 million. Following the APA Closing Date, the parties reached a mutual resolution to assign NUR Europe’s facilities and related capital lease to a third party. Therefore, we were entitled to additional net proceeds (after deduction of HP’s expenses in connection with such capital lease and other expenses that were to be borne by us pursuant to the Asset Purchase Agreement) in the amount of $1.1 million as additional consideration for NUR Europe’s shares, increasing the aggregate consideration in connection with the HP Transaction to $122.6 million.

Of the total consideration:

- $103.9 million was transferred to us on the APA Closing Date.

- $1.6 million was withheld by HP until final calculation of the net debt as of the APA Closing Date. Based on the final net debt calculation we were entitled only to an amount of $1.504 million, which was transferred to us on July 30, 2008.

- $1.5 million was withheld by HP until the resolution of NUR Europe’s obligations with respect to its capital lease and Government grants. Of the $1.5 million withheld, an amount of $1 million was transferred to us on December 2, 2008 as a result of the assignment of NUR Europe’s facilities and related capital lease to a third party. The $0.5 million withheld in connection with NUR Europe’s obligations with respect to the government grants is still being held by HP.

- Of the additional proceeds in the amount of $1.1 million related to NUR Europe’s facilities, a total amount of $0.4 million was transferred to us on December 18, 2008 and an additional amount of approximately $0.7 million was transferred to us on March 13, 2009.

- The remaining $14.5 million was deposited into an escrow account to secure the indemnity obligations of the Company and its remaining subsidiaries. The escrow funds, net of amounts distributed to HP in satisfaction of indemnity obligations, are to be distributed to us in two installments: $9.5 million is to be distributed eighteen months following the APA Closing Date and $5 million is to be distributed to us twenty-four months following the APA Closing Date.

The foregoing description of the Asset Purchase Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the Asset Purchase Agreement filed by us as Exhibit 4.7 in Item 19.

For details with respect to additional consequences of the HP Transaction see "Item 6.B: Compensation," "Item 6.D: Employees" and "Item 5.B: Liquidity and Capital Resources."

Management Services Agreement with Kanir and Meisaf

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

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

In consideration of the performance of the management services and the Board services, we have agreed to pay to Meisaf and Kanir, in equal parts, an aggregate annual fee in the amount of $250,000, to be paid on a quarterly basis. Meisaf and Kanir will also be entitled to receive reimbursement for reasonable out-of-pocket business expenses borne by them in connection with the provision of the services, as customary in the Company. In connection with the Management 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 of Directors.

The Management Agreement will remain in effect until the earlier of: (i) the second anniversary of the effective date of the Agreement or (ii) the termination of service of either of the Kanir and Nechama Investments affiliates on our Board of Directors. Any revision or amendment of the Management Agreement, or extension of its term, will require the approvals set forth under applicable law and our Articles.

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.

E. Taxation

Israeli Taxation and Investment Programs

The following is a summary of the material Israeli tax consequences, Israeli foreign exchange regulations and certain Israeli government programs 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 applicable rate is 31% in 2006, 29% in 2007, 27% in 2008, 26% in 2009 and is scheduled to decline to 25% in 2010 and thereafter. However, the effective tax rate payable by a company which derives income from an approved enterprise may be considerably less, as further discussed below.

Special Provisions Relating to Taxation under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments), 5745-1985, or the Inflationary Adjustments Law, represents an attempt to overcome the problems presented to a traditional tax system by an economy undergoing rapid inflation. The Inflationary Adjustments Law is highly complex. Its features, which are material to us, can be described as follows:

- there is a special tax adjustment for the preservation of equity which classifies corporate assets into fixed assets and non-fixed assets. Where a company’s equity, as defined in the law, exceeds the depreciated cost of fixed assets, a deduction from taxable income that takes into account the effect of the applicable annual rate of inflation on the excess is allowed up to a ceiling of 70% of taxable income in any single tax year, with the unused portion permitted to be carried forward on a linked basis. If the depreciated cost of fixed assets exceeds a company’s equity, then the excess multiplied by the applicable annual rate of inflation is added to taxable income;

- subject to specified limitations, depreciation deductions on fixed assets and losses carried forward are adjusted for inflation based on the increase in the consumer price index; and

- in specified circumstances, gains on traded securities, which might otherwise be eligible for reduced rates of tax, will be liable to company tax rates, as mentioned above.

In February 2008, the inflation adjustment law was cancelled.

Law for the Encouragement of Industry (Taxes), 5729-1969

The Law for the Encouragement of Industry (Taxes), 5729-1969, or the Industry Encouragement Law, provides several tax benefits for industrial companies. An industrial company is defined as a company resident in Israel, at least 90% of the income of which in a given tax year (determined in Israeli currency, exclusive of income from specified government loans, capital gains, interest and dividends) is derived from an industrial enterprise owned by it. An industrial enterprise is defined as an enterprise whose major activity in a given tax year is industrial production activity.

Under the Industry Encouragement Law, industrial companies are entitled to a number of corporate tax benefits, including:

- deduction of purchase of know-how and patents over an eight-year period for tax purposes; and
- the right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli industrial companies and an industrial holding company.

Under some tax laws and regulations, an industrial enterprise may be eligible for special depreciation rates for machinery, equipment and buildings. These rates differ based on various factors, including the date the operations begin and the number of work shifts. An industrial company owning an approved enterprise may choose between these special depreciation rates and the depreciation rates available to the approved enterprise.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

Before the transaction with HP, the we were qualified as an industrial company within the definition of the Industry Encouragement Law.

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 20% 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 25%. 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 25%. Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of shares, unless such companies were not subject to the Adjustments Law (or certain regulations) at the time of publication of the aforementioned amendment to the Tax Ordinance, in which case the applicable tax rate is 25%. However, different tax rates may apply to dealers in securities and shareholders who acquired their shares prior to an initial public offering.

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.

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 shares as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"). The summary is based on the tax laws of the United States, and existing final, temporary and proposed Treasury Regulations, Revenue Rulings and judicial decisions, as in effect on the date hereof, all of which are subject to prospective and retroactive changes, and to differing interpretations. The summary does not purport to address all federal income tax consequences that may be relevant to particular investors, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks and financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, investors liable for alternative minimum tax, investors that own or are treated as owning 10% or more of our voting stock, investors that hold ordinary shares as part of a straddle, hedge, conversion transaction or other integrated transaction, U.S. expatriates and investors whose functional currency is not the U.S. dollar) may be subject to special tax rules. ACCORDINGLY, PERSONS CONSIDERING THE PURCHASE OF ORDINARY SHARES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE APPLICATION OF UNITED STATES FEDERAL INCOME TAX LAWS, AS WELL AS THE LAWS OF ANY STATE, LOCAL OR FOREIGN TAXING JURISDICTION, TO THEIR PARTICULAR SITUATIONS.

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

(1) an individual citizen or resident of the United States,

(2) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes 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 shares 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 shares 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 shares 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.

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 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 in taxable years beginning before January 1, 2011, will be taxable to you at a maximum rate of 15% provided that you hold ordinary shares for more than 60 days during the 120-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 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 shares sold (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.

Passive Foreign Investment Company. A foreign corporation generally will be treated as a "passive foreign investment company" ("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.

Following the consummation of the HP Transaction, our assets mainly consist of cash and cash equivalents producing passive income. We believe that for fiscal year 2008 we met the requirements set forth in Section 1298(b)(3) of the Internal Revenue Code, providing an exception from the PFIC status for a "change of business" situation. We cannot assure you, however, that the Internal Revenue Service or the courts would agree with our conclusion if they were to consider our situation. Therefore, we cannot assure you that we will not be treated as a PFIC for fiscal year 2008. Furthermore, the exception does not apply unless we don't expect to be, and we in fact are not, a PFIC for the following two years. Therefore, in the event we meet the definition of a PFIC for fiscal year 2009, and as we cannot use the "change of business" exception for two years in succession, we will be treated as a PFIC for fiscal year 2008 as well. Our status as a PFIC in fiscal year 2009 (and, as a result, in fiscal year 2008 as well) depends on the type of activity we conduct, the assets we hold and the income we generate during 2009.

If we are classified as a PFIC, U.S. Holders who own our ordinary shares during the taxable year in which we become 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.

If we are a PFIC, 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. Our ordinary shares are currently quoted on the over-the-counter market in the "Pink Sheets." As a result of our shares trading on the over-the-counter-market, the mark-to-market election may not be available to you if we were to become a PFIC.

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.

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

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 will be subject to United States withholding tax only if 25% or more of our gross income (from all sources for the three-year period ending with the close of the taxable year preceding the declaration of the distribution) was effectively connected with our conduct of a trade or business in the United States. We do not anticipate engaging in the conduct of a trade or business within the United States, except through subsidiaries. However, if the 25% threshold for such period is exceeded, a portion of any distribution paid by us to a non-U.S. Holder could be subject to federal income tax withholding at the rate of 30%; the portion of the distribution that could be subject to withholding would correspond to the portion of our gross income for the period that is effectively connected to its conduct of a trade or business within the United States.

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, 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 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 IRS Form W-8BEN.

F. Dividends and paying agents

Not Applicable.

G. Statement by experts

Not Applicable.

H. Documents on display

Any statement in this annual 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 or other 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 annual report. You must review the exhibits themselves for a complete description of the contract or document.

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 1024, Judiciary Plaza, 450 Fifth Street, N.W, Washington, D.C. 20549. You may also obtain copies of such materials from the Public Reference Room of the SEC, Room 1580, 100 Street, N.E., Washington, D.C. 20549, at proscribed rates. 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 file electronically with the SEC.

These SEC filings are also available to the public from commercial document retrieval services.

I. Subsidiary Information

Not applicable.

ITEM 11: Quantitative and Qualitative Disclosures About Market Risk

Market risks relating to our operations result primarily from weak economic conditions in the markets in which we sell our products and from changes in exchange rates or in interest rates.

Inflation, Deflation and Fluctuation of Currencies

See "Item 5.A: Impact of Inflation, Deflation and Fluctuation of Currencies."

Interest Rate

As we did not have any outstanding long-term or short-term bank loans as of December 31, 2008, we are not exposed to interest rate variation on liabilities.

Following the consummation of the HP Transaction in February 29, 2008, most of our assets are cash and short-term U.S. dollar-denominated deposits with a U.S. bank. We carefully monitor the banking institutions that we use with respect to their exposure to the current financial market situation. Other than that, the major market risk is currently the potential decline in the U.S. monetary interest rate that would impact our results of operations.

We do not otherwise believe the disclosure required by Item 11 of this annual report to be material to us.

ITEM 12: Description of Securities Other Than Equity Securities

Not Applicable.

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

For the current terms of our Articles, following the adoption of our Second Amended and Restated Articles at our annual general meeting held on December 30, 2008, see "Item 10.B: Memorandum of Association and Second Amended and Restated Articles." This Item is otherwise not applicable to us.

ITEM 15: Controls and Procedures

(a) Disclosure Controls and Procedures

Our principal executive officer and principal financial officer evaluated 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. Such disclosure controls and procedures are designed to ensure that information required to be disclosed by us is accumulated and communicated to the appropriate management, including the principal executive officer and principal financial officer, on a basis that permits timely decisions regarding timely disclosure. Based on that evaluation, such principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

In order to provide reasonable assurance that the information required to be disclosed by the Company in reports filed 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 our chief executive officer and chief financial officer preformed several actions intended to assure the correctness of the information disclosed, including personal discussions with employees involved in the recording, processing and summarizing of information required to be disclosed.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, 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 and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely protection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements. 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.

During 2008 management carried out an evaluation of our internal control over financial reporting using the criteria in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In connection with such evaluation, our management assessed the risk and mapped all processes over major classes of transactions that are applicable to our business and situation following the consummation of the HP Transaction. Our management documented these processes and controls and tested and evaluated the design and operating effectiveness of our internal controls over financial reporting.

Based on this assessment, our Interim Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2008, our internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the SEC that permit the company to provide only management's report in this annual report.

(c) Changes in Internal Control over Financial Reporting

Other than as set forth above, there were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2008 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 March 2004, 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. Lauri A. Hanover has been designated as the Audit Committee financial expert and was also determined to be "independent" under the applicable SEC and Nasdaq regulations. For additional information regarding Lauri A. Hanover's financial experience, see "Item 6: Directors and Senior Management."

ITEM 16B: Code of Ethics

Our Audit Committee and Board have adopted a code of ethics, as defined in Item 16B of Form 20-F, that applies to our chief executive officer, chief financial officer and any other person bearing the title of vice president or higher in the Finance Department of Ellomay and its subsidiaries. A copy of the code of ethics has been filed as an exhibit to our annual report on Form 20-F for the year ended December 31, 2003.

There are no material modifications to, or waivers from, the provisions of the code of ethics that are required to be disclosed.

ITEM 16C: Principal Accountant Fees and Services

Fees paid to the Independent Registered Public Accounting Firm

Our principal accountants for the years 2007 and 2008 were Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.

The following table sets forth, for each of the years indicated, the fees paid to our independent registered public accounting firm.

	2007	2008
	(in thousands of U.S. Dollars)	
Audit Fees(1)	$ 242	$ 79
Audit-Related Fees	-	-
Tax Fees(2)	$ 157	$ 177
All Other Fees	-	-
Total	$ 399	$ 256

---

(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 rendered by our independent registered public accounting firm for international and local tax compliance and tax advice services.

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 annually a catalog of specific audit and non-audit services in the categories audit service, audit-related service and tax services that may be performed by our auditors.

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

Not Applicable.

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

Not Applicable.

ITEM 16F: Change in Registrant's Certifying Accountants

Not Applicable.

ITEM 16G: Corporate Governance

Not Applicable.

PART III

ITEM 17: Financial Statements

Not Applicable.

ITEM 18: Financial Statements

See Financial Statements included at the end of this report.

ITEM 19: Exhibits

Number	Description
1.1	Memorandum of Association of the Registrant (translated from Hebrew)(1)
1.2	Second Amended and Restated Articles of the Registrant
2.1	Specimen Certificate for ordinary shares(2)
2.2	Form of Warrant Agreement, dated February 12, 2002, between the Registrant and Bank Leumi le-Israel B.M.(3)
2.3	Form of Registration Rights Agreement, dated February 12, 2002, between the Registrant and Bank Leumi le-Israel B.M.(3)
2.4	Form of Warrant Agreement, dated April 17, 2005 between the Registrant and Dan Purjes(4)
2.5	Form of Registration Rights Agreement, dated March 7, 2005, between the Registrant and Dan Purjes(5)

Number	Description
2.6	Form of Warrant Agreement, dated October 31, 2005, among the Registrant and certain investors(6)
2.7	Form of Registration Rights Agreement, dated September 12, 2005, among the Registrant, certain investors, Bank Hapoalim, Bank Leumi and Israel Discount Bank(6)
2.8	Form of Warrant Agreement, dated December 8, 2005, between the Registrant and Bank Hapoalim B.M.(6)

2.9	Form of Warrant Agreement, dated December 8, 2005, between the Registrant and Bank Leumi le-Israel B.M.(6)
2.10	Form of Warrant Agreement, dated December 8, 2005, between the Registrant and Israel Discount Bank Ltd.(6)
2.11	Form of Subscription Agreement, dated January 25, 2007, between the Registrant and certain investors(7)
2.12	Form of Warrant Agreement, dated January 25, 2007, between the Registrant and certain investors(7)
4.1	1995 Israel Stock Option Plan (previously referred to in Company filings as the 1995 Flexible Stock Incentive Plan or the 1995 Stock Option / Stock Purchase Plan)(2)
4.2	Amendment to the 1995 Israel Stock Option Plan(8)
4.3	1997 Stock Option Plan(9)
4.4	1998 Non-Employee Directors Share Option Plan(7)
4.5	2000 Stock Option Plan(7)
4.6	Form of Indemnification Agreement between the Registrant and its officers and directors(6)
4.7	Asset Purchase Agreement, dated December 9, 2007, between the Registrant and Hewlett-Packard Company(10)
4.8	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(11)
4.9	Form of Offer to Repurchase Employee Stock Options, dated April 2, 2008(12)
8	List of Subsidiaries of the Registrant (Not Applicable)
11	Code of Ethics(13)
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)
14.1	Consent of Kost Forer Gabbay & Kasierer
14.2	Consent of BDO McCabe Lo Limited

(1) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2007 and incorporated by reference herein.
(2) Previously filed with the Registrant's F-1 (File No. 33-93160) and incorporated by reference herein.
(3) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2001 and incorporated by reference herein.
(4) Previously filed with the Registrant's Form 6-K dated February 6, 2005 and incorporated by reference herein.
(5) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2004 and incorporated by reference herein.
(6) Previously filed with the Registrant's Form 6-K dated October 14, 2005 and incorporated by reference herein.
(7) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2006 and incorporated by reference herein.
(8) Previously filed with the Registrant's Form F-1 (File No. 333-66103) and incorporated by reference herein.
(9) Previously filed with the Registrant's Form 6-K dated October 14, 1997 and incorporated by reference herein.
(10) Previously filed with the Registrant's Form 6-K dated January 3, 2008 and incorporated by reference herein.
(11) Previously filed with the Registrant's Form 6-K dated December 1, 2008 and incorporated by reference herein.
(12) Previously filed with the Registrant's Form CB dated April 3, 2008 and incorporated by reference herein.
(13) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2003 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
Interim Chief Executive Officer

Dated: March 31, 2009

ELLOMAY CAPITAL LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008

IN U. S. DOLLARS

INDEX

ERNST & YOUNG

REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
ELLOMAY CAPITAL LTD.

We have audited the accompanying consolidated balance sheets of Ellomay Capital Ltd. ("the Company") and its subsidiaries as of December 31, 2007 and 2008 and the related consolidated statements of income (operations), changes in shareholders' equity (deficiency) and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of a consolidated subsidiary, whose assets constitute 7% of total consolidated assets as of December 31, 2007 and whose revenues constitute 8% and 8% of total consolidated revenues for the years ended December 31, 2006 and 2007, respectively. Those financial statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to amounts included for this subsidiary, is based solely on the report of the other auditor.

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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 2007 and 2008 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2o to the consolidated financial statements, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", on January 1, 2007.

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Tel-Aviv, Israel
March 31, 2009

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2007	**2008**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,302	$ 26,979
Short term deposits	–	49,000
Restricted cash	146	–
Trade receivables (net of allowance for doubtful accounts of $ 4,851 and $ 0 at December 31, 2007, 2008, respectively)	15,670	–
Other accounts receivable and prepaid expenses (Note 3)	4,425	2,151
Inventories (Note 5)	20,091	–
Total current assets	44,634	78,130
LONG-TERM ASSETS:		
Severance pay fund	1,275	54
Other assets	474	94
Total long-term assets	1,749	148
PROPERTY, PLANT AND EQUIPMENT, NET (Note 6)	5,944	–
Total assets	$ 52,327	$ 78,278

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

	December 31,	
	2007	2008
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:		
Short-term bank credit and loans (including subordinated notes issued to related parties of $ 5,000 at December 31, 2007) (Note 8)	$ 13,962	$ –
Current maturities of long-term loans (Note 9)	649	–
Trade payables	21,388	37
Deferred revenues	2,434	–
Other accounts payable and accrued expenses (Note 10)	10,983	1,974
Total current liabilities	49,416	2,011
LONG-TERM LIABILITIES:		
Long-term loans, net of current maturities (including accrued interest on restructured debt of $ 7,567 at December 31, 2007) (Note 9)	19,835	–
Other long-term liabilities (Note 11, Note 15c)	3,618	5,279
Accrued severance pay	1,637	59
Total long-term liabilities	25,090	5,338
COMMITMENTS AND CONTINGENT LIABILITIES (Note 12)		
SHAREHOLDERS' EQUITY (DEFICIENCY) (Note 14):		
Share capital -		
Ordinary shares of NIS 1 par value:		
Authorized: 170,000,000 at December 31, 2007 and 2008; Issued and outstanding: 72,710,505 and 73,786,428 shares at December 31, 2007 and 2008, respectively	16,522	16,820
Additional paid-in capital	66,328	72,289
Accumulated other comprehensive income	127	–
Accumulated deficit	(105,156)	(18,180)
Total shareholders' equity (deficiency)	(22,179)	70,929
Total liabilities and shareholders' equity (deficiency)	$ 52,327	$ 78,278

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

CONSOLIDATED STATEMENTS OF INCOME (OPERATIONS)

U.S. dollars in thousands (except share and per share data)

	Year ended December 31,		
	2006	2007	2008
Revenues (Note 17):			
Products	$ 72,576	$ 80,228	$ 10,568
Services	5,392	5,379	842
Total revenues	77,968	85,607	11,410
Cost of revenues:			
Products (a)	43,060	46,549	7,927
Inventory write-off	806	1,169	197
	43,866	47,718	8,124
Services	7,379	8,759	2,862
Total cost of revenues	51,245	56,477	10,986
Gross profit	26,723	29,130	424
Operating expenses:			
Research and development, net (Note 18a)	5,827	7,046	1,942
Selling and marketing	11,747	13,815	3,075
Doubtful accounts expenses (income)	(314)	942	368
General and administrative	9,803	11,129	9,830
Amortization of other intangible assets	167	42	–
Total operating expenses	27,230	32,974	15,215
Operating loss	(507)	(3,844)	(14,791)
Gain on sale of Company’s business, net	–	–	95,137
Financial income (expenses), net (Note 18b)	(1,316)	(1,738)	7,596
Income (loss) before taxes on income	(1,823)	(5,582)	87,942
Taxes on income (Note 15e)	98	838	966
Net income (loss)	$ (1,921)	$ (6,420)	$ 86,976
Basic earnings (loss) per share	$ (0.03)	$ (0.09)	$ 1.19
Diluted earnings (loss) per share	$ (0.03)	$ (0.09)	$ 1.01

Weighted average number of shares used for computing basic earnings (loss) per share	60,506,854	71,537,501	72,972,565
Weighted average number of shares used for computing diluted earnings (loss) per share	60,506,854	71,537,501	86,102,748

(a) Includes rent expenses charged by a related party totaling $ 248, $ 372 and $ 62 for the years ended December 31, 2006, 2007 and 2008, respectively.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands (except share data)

	Number of Ordinary shares outstanding	Share capital	Additional paid-in capital	Receivables on account of shares	Receipts on account of shares	Accumulated other comprehensive loss	Accumulated deficit	Total comprehensive loss	Total shareholders' deficiency
Balance as of January 1, 2006	60,498,062	$ 13,629	$ 60,582	$ (7,000)	$ (77)	$ (490)	$ (94,198)		$ (27,554)
Issuance of shares and warrants held by trustee	–	–	–	7,000	–	–	–		7,000
Stock - based compensation	–	–	1,426	–	–	–	–		1,426
Reclassification of deferred compensation to additional paid in capital upon adoption of SFAS 123R	–	–	(77)	–	77	–	–		–
Compensation in connection with modifications of option	–	–	23	–	–	–	–		23
Exercise of stock options	25,824	6	2	–	–	–	–		8
Comprehensive loss:						–			
Net loss	–	–	–	–	–	–	(1,921)	$ (1,921)	(1,921)
Foreign currency translation adjustments	–	–	–	–	–	15	–	15	15
Total comprehensive loss								$ (1,906)	
Balance as of December 31, 2006	60,523,886	13,635	61,956	–	–	(475)	(96,119)		(21,003)

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands (except share data)

	Number of Ordinary Shares outstanding	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total comprehensive income (loss)	Total shareholders' equity (deficiency)

Balance as of January 1, 2007	60,523,886	13,635	61,956	(475)	(96,119)	–	(21,003)
Issuance of shares and warrants, net	11,734,950	2,774	3,303	–	–	–	6,077
Stock - based compensation	–	–	1,003	–	–	–	1,003
Exercise of stock options	451,669	113	66	–	–	–	179
Cumulative effect adjustment upon adoption of FIN 48	–	–	–	–	(2,617)	–	(2,617)
Comprehensive loss:							
Net loss	–	–	–	–	(6,420)	$ (6,420)	(6,420)
Foreign currency translation adjustments	–	–	–	602	–	602	602
Total comprehensive loss						$ (5,818)	
Balance as of December 31, 2007	72,710,505	16,522	66,328	127	(105,156)		(22,179)
Stock - based compensation	–	–	2,196	–	–	–	2,196
Exercise of warrants	1,065,923	295	215	–	–	–	510
Exercise of stock options	10,000	3	1	–	--	–	4
Repurchase of employee stock options	–	–	(1,451)	–	–	–	(1,451)
Cancellation of a subordinated note to related parties	–	–	5,000	–	–	–	5,000
Comprehensive income:							
Net income	–	–	–	–	86,976	$ 86,976	86,976
Realization of foreign currency translation, net				(127)		(127)	(127)
Total comprehensive income						$ 86,849	
Balance as of December 31, 2008	73,786,428	$ 16,820	$ 72,289	$ –	$ (18,180)		$ 70,929

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2006	2007	2008
Cash flows used in operating activities:			
Net income (loss)	$ (1,921)	$ (6,420)	$ 86,976
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Gain from sale of Company's business	–	–	(95,137)
Depreciation and amortization	1,341	1,387	256
Amortization of other intangible assets	167	42	–
Compensation in connection with modifications of options	23	–	–
Stock – based compensation	1,426	1,003	2,196
Foreign currency translation loss (gain) on inter company balances with foreign subsidiaries	(499)	(453)	109

Currency fluctuation of long-term debt	212	115	24
Amortization of accrued interest on restructured debt	–	–	(7,335)
Accrued severance pay, net	16	14	(405)
Decrease (increase) in trade receivables, net	(2,442)	(4,661)	4,812
Decrease (increase) in other accounts receivable and prepaid expenses	1,470	(1,831)	1,103
Increase in inventories	(4,347)	(4,478)	(2,768)
Write-off of inventories	806	1,169	197
Increase in other assets	(23)	(111)	(26)
Increase in trade payables	1,494	9,833	2,192
Increase (decrease) in deferred revenues	(2,628)	170	718
Decrease in other accounts payable and accrued expenses	(1,592)	(726)	(3,735)
Increase in other long-term liability	–	811	1,661
Net cash used in operating activities	(6,497)	(4,136)	(9,162)
Cash flows used in investing activities:			
Proceeds from (investment in) restricted cash	41	(29)	146
Investment in short-term bank deposit	–	–	(49,000)
Purchase of property and equipment	(1,648)	(1,170)	(148)
Proceeds from sale of the Company's business, net (Note 1b)	–	–	103,554
Net cash provided by (used in) investing activities	(1,607)	(1,199)	54,552

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2006	**2007**	**2008**
Cash flows from financing activities:			
Proceeds from issuance of shares and warrants, net	7,000	6,077	–
Proceeds from exercise of options and warrants	8	179	514
Repurchase of employee stock option	–	–	(1,451)
Short-term bank credit and short-term loans, net	(1,810)	(66)	(8,960)
Payment of long-term loans, including interest on restructured debt	(1,561)	(1,608)	(12,344)
Net cash provided by (used in) financing activities	3,637	4,582	(22,241)
Effect of exchange rate changes on cash and cash equivalents	39	187	(472)
Increase (decrease) in cash and cash equivalents	(4,428)	(566)	22,677
Cash and cash equivalents at the beginning of the year	9,296	4,868	4,302

U.S. dollars in thousands (except share and per share data)

Cash and cash equivalents at the end of the year	$ 4,868	$ 4,302	$ 26,979

(1) Supplemental disclosure of cash flows activities:

Cash paid during the year for:			
Interest	$ 1,407	$ 1,524	$ 527
Taxes	$ –	$ 96	$ –

(2) Supplemental disclosure of non-cash investing activities:

Transfer of equipment from inventory to property, plant and equipment	$ 687	$ 227	$ 443
Proceeds to be received from HP (see Note 1b)	$ –	$ –	$ 1,183

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

NOTE 1:- GENERAL

a. Ellomay Capital Ltd. (the "Company") (formerly: NUR Macroprinters Ltd.), an Israeli Company, is a shell company whose current plan of operations is to identify and evaluate suitable business opportunities and strategic alternatives, including through the acquisition of all or part of an existing business, pursuing business combinations or otherwise. Until February 29, 2008, the Company and its subsidiaries (collectively, the "Group") developed, manufactured, sold and provided support services for digital wide format and super-wide format printing systems for on-demand, short-run printing as well as related consumable products.

Until February 29, 2008, the Company operated through wholly-owned subsidiaries for sales, support services and marketing of the Company's products in their country or region of domicile, some of which were sold to HP and some of which have been dissolved during 2008. Such entities include NUR Europe S.A. ("NUR Europe") in Belgium (sold to HP), NUR America, Inc. ("NUR America") in the U.S. (dissolved in 2008), NUR Asia Pacific Limited ("NUR Asia Pacific") in Hong Kong, NUR Do Brazil Ltda. ("NUR Brazil") in Brazil (sold to HP) and NUR Japan Ltd. ("NUR Japan") in Japan (sold to HP).

b. On December 9, 2007, the Company entered into an Asset Purchase Agreement ("the Agreement") with Hewlett-Packard Company ("HP") for the sale of its business to HP (the "HP Transaction"). The Agreement contemplated the sale of substantially all of the assets and liabilities relating to the business with the exception of specific assets and liabilities as defined in the Agreement. In connection with the Agreement, HP also agreed to acquire three of the Company's subsidiaries, NUR Europe S.A., a company organized pursuant to the laws of Belgium, NUR Japan Ltd., a company organized pursuant to the laws of Japan and NUR Do Brazil Ltda., a company organized pursuant to the laws of Brazil. In addition to the transfer of the assets, liabilities and the shares of the aforementioned subsidiaries, one of the conditions to the consummation of the HP Transaction was the transfer of approximately 80% of the Company's employees to HP and HP's subsidiaries. The HP Transaction was completed and all included assets, liabilities and employees were transferred from the Company and its subsidiaries to HP and several of its subsidiaries on February 29, 2008 (the "Closing Date"). As of the Closing Date, the carrying value of assets and liabilities sold to HP was as follows:

	February 29, 2008 (*)
Cash	$ 2,883
Trade receivables, net	11,207
Other accounts receivable and prepaid expenses	2,569
Inventories	22,454
Severance pay fund	1,073

U.S. dollars in thousands (except share and per share data)

Other assets		406
Property, plant and equipment, net		6,258
Realization of foreign currency translation adjustments		(237)
Total assets		46,613
Trade payables		23,589
Other accounts payable and accrued expenses		5,406
Deferred revenues		3,204
Accrued severance pay		1,025
Long term loans, including current maturities		831
Total liabilities		34,055
Net assets sold	$	12,558

(*) Reflects the amendment following the Closing Date with respect to NUR Europe's facilities and related capital lease.

NOTE 1:- GENERAL (Cont.)

On February 29, 2008, the sale of our business to HP was finalized. The base purchase price pursuant to the agreement is $ 117,500. The purchase price was subject to upward or downward adjustment based on the net debt (bank debt less cash balances) of the Company and its subsidiaries that were not purchased by HP as of the Closing Date. The purchase price adjustment on such date was approximately $ 4,000, increasing the total consideration under the Asset Purchase Agreement from $ 117,500 to $ 121,500. Following the Closing Date, the parties reached a mutual resolution to assign NUR Europe's facilities and related capital lease to a third party. Therefore, the Company was entitled to additional net proceeds (after deduction of HP's expenses in connection with such capital lease and other expenses that were to be borne by the Company pursuant to the Asset Purchase Agreement) in the amount of $ 1,100 as additional consideration for NUR Europe's shares, increasing the aggregate consideration in connection with the HP Transaction to $ 122,600. Of the total consideration:

1. $ 103,900 was transferred to the Company on the Closing Date.

2. $ 1,600 was withheld by HP until final calculation of the net debt at closing. Based on the final net debt calculation the Company was entitled only to an amount of $ 1,504, which was transferred to the Company on July 30, 2008.

3. $ 1,500 was withheld by HP until the resolution of NUR Europe's obligations with respect to its capital lease and Government grants. Of the $ 1,500 withheld, an amount of $ 1,000 was transferred to the Company on December 2, 2008 as a result of the assignment of NUR Europe's facilities and related capital lease to a third party. The $ 500 withheld in connection with NUR Europe's obligations with respect to the government grants is still being held by HP.

4. Of the additional proceeds in the amount of $ 1,100 related to NUR Europe's facilities, a total amount of $ 400 was transferred to the Company on December 18, 2008 and an additional amount of approximately $ 700 was transferred to the Company on March 13, 2009.

5. The remaining $ 14,500 was deposited into an escrow account to secure the indemnity obligations of the Company and its remaining subsidiaries. The escrow funds, net of amounts distributed to HP in satisfaction of indemnity obligations, are to be distributed to the Company in two installments: $ 9,500 is to be distributed eighteen months following the Closing Date and $ 5,000 is to be distributed twenty-four months following the Closing Date. Due to the lack of clarity as to the outcome and scope of indemnification to be requested by HP, the escrow funds were not recorded as a receivable and were excluded from the calculation of the capital gain.

In 2008, the Company recorded a gain (before taxes) of $ 95,137 with respect to the HP Transaction.

Assets and liabilities excluded from the Agreement, as amended, included, but were not limited to: cash balances held by the Company and subsidiaries that were not purchased by HP, short and long term bank credit and loans, all costs incurred in respect to the HP Transaction including severance liabilities, rights and obligations in respect to employees not transferred to HP, rights and obligations related to outstanding litigation, claims and disputes, intercompany balances, all tax benefits and obligations with the exception of such benefits and obligations relating to continuing operations from the Closing Date, assets and obligations in respect of certain government-supported research and development projects and obligations due to or from shareholders.

NOTE 1:- GENERAL (Cont.)

As part of the Agreement, the Company agreed to change its corporate name. The Company's name was changed to Ellomay Capital Ltd. in April 2008. In addition, the Company agreed not to solicit any former employees who were transferred to HP or to engage in any business engaged directly in the same business as conducted by the Company at closing, both for a period of three years following the Closing Date.

In connection with the HP Transaction, the Company's Board of Directors approved the acceleration of the vesting of all outstanding employee stock options following the Closing Date and the repurchase, subject to the fulfillment of regulatory requirements, of the then outstanding employee stock options, representing, in the aggregate, rights to purchase approximately 9.9 million ordinary shares of the Company. The aggregate consideration for such employee stock options was approximately $ 3,800. Of the total aggregate consideration, approximately $ 3,100 was paid in July 2008 and an additional payment, up to the aggregate amount, will be calculated after all HP Transaction related issues and other financial aspects of the Company are known and verified and will be paid following the release of the funds deposited in escrow. The Company recorded an accrual in the amount of $ 414 with respect to its future liability, which is included within other accounts payable and accrued expenses.

Upon closing of the HP Transaction, the acceleration resulted in full recognition of the remaining unrecognized compensation costs of $ 2,187. The repurchase was accounted for as a settlement in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment" and the amount paid in excess of the fair value of the options repurchased was recognized as additional compensation cost of $1,610 in the statements of operations.

In connection with the HP Transaction, the Company's Board of Directors also approved the payment of transaction bonuses to certain employees in the aggregate amount of approximately $ 700 and established that, subject to the aforementioned determination and verification of all transaction related issues and other financial aspects of the Company, additional bonuses may be paid to certain employees, based on criteria, amounts and percentages pre-determined by the Board. The amount of $ 700 was paid during 2008 and was recorded as expense. In addition, the Company recorded a liability for the additional transaction bonuses in the amount of $ 35.

As a result of the HP Transaction and the cessation of virtually all operations, a majority of the Company's employees that have not transferred to HP, including the majority of the Company's senior management, have been terminated by the Company. In connection with such terminations, the Company recorded severance-related expenses in the approximate amount of $ 2,800.

In March 2008, following the consummation of the HP Transaction, the Company fully repaid its short-term debt to its lender banks (the "Banks") in the amount of $9,800. In April 2008, it fully repaid outstanding long-term debt to its banks in the amount of $12,100. In May 2008, a $ 5,000 subordinated note due to a related party was cancelled effective as of March 30, 2008. In connection with the cancellation of the subordinated note, the Company recognized a capital contribution of $ 5,000. Upon full repayment of the loans, the Company recognized the remaining balance of accrued interest on restructured debt as financial income of approximately $ 7,335.

As the Company did not acquire a new operating business during the year ended December 31, 2008, the results of operations prior to the consummation of the sale of the business to HP are not reported as "discontinued operations" in the consolidated financial statements in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

NOTE 1:- GENERAL (Cont.)

Following the consummation of the HP Transaction, the Company's primary asset is cash deposited in short term deposits and therefore, the sole source of income is the interest that such deposits earn.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared according to United States generally accepted accounting principles, as follows:

a. Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

b. Financial statements in U.S. dollars:

Following the HP Transaction, the Company's management believes that the currency of the primary economic environment in which the Company and its remaining subsidiaries operate is the U.S. dollar ("dollar"). Thus, the dollar is the reporting and functional currency of the Company and its remaining subsidiaries.

Therefore, transactions and balances that are denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars in accordance with Statement of Financial Accounting Standard ("SFAS") No. 52, "Foreign Currency Translation". All foreign currency transaction gains and losses are reflected in the statements of operations as financial income or expenses, as appropriate.

Prior to the HP Transaction, for certain subsidiaries the functional currency was determined to be their local currency. For those subsidiaries, assets and liabilities were translated at year-end exchange rates and statement of operations items were translated at average exchange rates prevailing during the year. Such translation adjustments were recorded as a separate component of accumulated other comprehensive loss in shareholders' equity (deficiency).

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly- owned subsidiaries. Intercompany transactions and balances, including profit from intercompany sales not yet realized outside the Group, have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less at the date acquired.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Short-term deposits:

Bank deposits with maturities of more than three months but less than one year are included in short-term deposits. Such short-term deposits are stated at cost which approximates market values.

f. Restricted cash:

Restricted cash was primarily invested in highly liquid deposits, which were used as security for certain of the Company's liabilities and obligations.

U.S. dollars in thousands (except share and per share data)

g. Reclassifications:

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

h. Inventories:

Inventories were stated at the lower of cost or market value.

The Company reviewed its inventory quantities based primarily on its estimated forecast of product demand, production requirements and servicing commitments. Inventory write-offs were provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, discontinued products and for market prices lower than cost.

During 2006, 2007 and 2008, as a result of the demand for printers of older models, the Company began utilizing related inventories that were written-off in prior years. In 2006, 2007 and 2008, inventory previously written-off with a cost of $ 310, $ 803 and $ 908, respectively, was used as components for products in the Company's regular line of production and was sold as finished goods. The sales of these related manufactured products were reflected in the Company's revenues without an associated additional cost to the cost of revenues in the period in which the inventory was utilized.

Cost was determined as follows:

Raw materials - using the average cost method.

Work-in-progress and finished products - raw materials as above with the addition of direct manufacturing costs and indirect manufacturing costs allocated on an average basis.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Changes in the Group's inventory provision were as follows:

	Provision for slow-moving inventory
Balance as of January 1, 2006	$ 3,738
Charge to cost	806
Deduction	(1,570)
Balance as of December 31, 2006	2,974
Charge to cost	1,169
Deduction	(803)
Balance as of December 31, 2007	3,340
Charge to cost	197
Deduction	(908)
Assumed by HP (See Note 1b)	(2,629)
Balance as of December 31, 2008	$ –

i. Property, plant and equipment, net:

U.S. dollars in thousands (except share and per share data)

Property, plant and equipment were stated at cost, net of accumulated depreciation. Depreciation was calculated using the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Machinery and equipment	10 - 33
Motor vehicles	15
Office furniture and equipment	6 - 10
Buildings	3
Leasehold improvements	Over the shorter of the term of the lease or the useful life

j. Impairment of long-lived assets:

The Group's long-lived assets were reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held for use is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. During 2006, 2007 and 2008, no impairment losses were identified.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Revenue recognition:

Prior to the consummation of the HP Transaction, the Company generated revenues from the sale of its printers, inks and consumable products and from services to its products. The Company generated revenues from sale of its products directly to end-users and indirectly through independent distributors.

Revenues from printer sales were recognized in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements" upon installation, provided that the collection of the resulting receivable was probable, there was persuasive evidence of an arrangement, no significant obligations in respect of installation remained and the price was fixed or determinable. The Company did not grant a right of return.

Revenues from selling these products to independent distributors were deferred until the Company's products were installed in their customers' premises, provided that all other revenue recognition criteria were met.

When a sale involved multiple elements, such as sales of printers that include a right to receive specified upgrades or an extended warranty agreement, the entire fee from the arrangement was evaluated under Emerging Issues Task Force ("EITF") 00-21, "Revenue Arrangements with Multiple Deliverables". In such arrangements, the Company accounted for the separate elements as different units of accounting, provided that the delivered element had value to the customer on a standalone basis and there was objective and reliable evidence of the fair value of the undelivered element. In cases where there was no objective and reliable evidence of the fair value of the undelivered element, the Company accounted for the total arrangement as one unit of accounting. As such, the Company recognized revenue for the arrangement only when all revenue recognition criteria were met for the undelivered element.

The Company considered all arrangements with payment terms extending beyond the standard payment terms not to be fixed or determinable. If the fee was not fixed or determinable, revenue was recognized as payments become due from the customer, provided that all other revenue recognition criteria have been met.

Revenues from ink and other consumable products were generally recognized upon shipment assuming all other revenue recognition criteria were met.

Revenues from services were comprised of maintenance and support arrangements. Revenues from maintenance and support arrangements were recognized on a straight-line basis over the term of the arrangement.

U.S. dollars in thousands (except share and per share data)

In cases where the Company traded-in old printers as part of sales of new printers, the fair value of the old printer was recorded as revenue, provided that such value could be determined. If such value could not be determined the old printers were recorded at zero value. The amount of revenues recognized for the transaction equaled the fair value of the old printer plus any monetary consideration received.

Deferred revenues included amounts received from customers for which revenue has not yet been recognized.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Warranty costs:

The Group generally provided a warranty period of six to twelve months, at no extra charge. The Group estimated the costs that may be incurred under its standard limited warranty and recorded a liability in the amount of such costs at the time installation of the product was completed. Factors that affected the Group’s warranty liability included the number of installed units and historical warranty cost. The Group periodically assessed the adequacy of its recorded warranty liabilities and adjusted the amounts as necessary.

Changes in the Group’s liability during the year were as follows:

	December 31,	
	2007	2008
Balance at the beginning of the year	$ 1,505	$ 1,593
Utilization of warranties	(1,945)	(226)
Changes in liability for warranty during the year	2,033	260
Assumed by HP (See Note 1b)	–	(1,627)
Balance at the end of the year	$ 1,593	$ –

m. Research and development costs, net:

Research and development costs were charged to the statement of operations as incurred, net of grants received.

n. Government grants:

Royalty-bearing grants from the local authorities in Belgium and Israel for funding approved research and development projects were recognized at the time the Group was entitled to such grants, and were included as a reduction of the research and development costs. Related royalty obligations were recognized on an accrual basis, as the Group became liable. No royalty expenses were accrued or paid during 2006, 2007 and 2008, other than an amount of € 390 paid according to a settlement with the Belgian authorities (see Note 12b).

o. Income taxes:

The Company accounts for income taxes in accordance with FASB Statement No. 109 “Accounting for Income Taxes” (“SFAS 109”). SFAS 109 prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized. Deferred tax liabilities and assets are classified as current or non current based on the classification of the related asset or liability for financial reporting, or according to the expected reversal dates of the specific temporary differences if not related to an asset or liability for financial reporting.

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

On January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS 109. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income tax.

As a result of the adoption of FIN 48 on January 1, 2007, the Group recorded $ 2,617 to accumulated deficit for uncertain tax positions which, if recognized, would affect the effective tax rate. This amount includes accrued interest expenses and penalties related to the unrecognized tax benefit as of that date.

p. Concentrations of credit risk:

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents and short-term deposits.

The majority of the Group's cash and cash equivalents and short-term deposits are invested in U.S. dollar and Euro instruments with major banks in Israel and United States. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. However, management believes that such financial institutions are financially sound, and accordingly, low credit risk exists with respect to these investments.

Prior to the HP Transaction, the trade receivables of the Group were derived mainly from sales to customers located primarily in Europe, America and Asia. Management believed that credit risks were moderated by the diversity of its end-customers and geographic sales areas. The Group performed ongoing credit evaluations of its customers' financial condition. The Group did not require collateral from its customers. Management of the Company periodically performed an evaluation of its composition of accounts receivable and expected credit trends and established an allowance for doubtful accounts with respect to those amounts that were determined to be doubtful of collections and in accordance with aging key and charge off receivables where they deemed uncollectible. The past-due status of accounts receivable was determined primarily based upon contractual terms.

The Group has no off-balance-sheet concentration of credit risk.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Changes in the Group's allowance for doubtful accounts were as follows:

	Allowance for doubtful accounts
Balance as of January 1, 2006	$ 5,510
Provision, net of recoveries	(314)
Write-off and other	(302)

U.S. dollars in thousands (except share and per share data)

Balance as of December 31, 2006		4,894
Provision, net of recoveries		942
Write-off and other		(985)
Balance as of December 31, 2007		4,851
Provision, net of recoveries		368
Write-off and other		–
Assumed by HP (See Note 1b)		(5,219)
Balance as of December 31, 2008	$	–

q. Severance pay:

The Company's liability for severance pay is calculated pursuant to Israel's Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. The Company records as expenses the increase in the severance liability, net of the earnings (losses) from the related investment fund. Employees are entitled to one month's salary for each year of employment, or a portion thereof. The Company's liability for all of employees is fully provided by monthly deposits with severance pay funds and insurance policies and by an accrual. The value of these policies is recorded as an asset in the Company's consolidated balance sheet.

The deposited funds include profits (losses) accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements.

Severance expenses for the years ended December 31, 2006, 2007 and 2008 amounted to approximately $ 907, $ 905 and $ 2,900 respectively. The severance expenses for the year ended December 31, 2008 are mainly attributed to the termination of certain of our employees and of a majority of our senior management in connection with the HP Transaction.

r. Employee benefit plan:

The Company had a 401(K) defined contribution plan covering all employees in the U.S. All eligible employees could have elected to contribute up to 15%, but generally not in excess of $ 15 per year, of their annual compensation through salary deferrals, subject to IRS limits. The Company's 401(K) contribution plan included a fixed matching contribution program of 50% of employee contributions to the plan up to a limit of 3% of their eligible compensation. During 2006, 2007 and 2008, the Company matched contributions in the amount of $ 23, $19 and $ 7, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term deposits, restricted cash, trade receivables and other accounts receivable, short-term bank credit and loans, current maturities of long-term loans, trade payables and other accounts payable approximate their fair value, due to the short-term maturity of such instruments.

The carrying amount of the Company's long-term loans (less accrued interest on restructured debt as described in Note 9) approximates their fair value. Book values of long-term loans bearing variable interest approximate fair values due to the variable interest rates on these loans. Book values of long-term loans bearing fixed interest approximate fair values as it is not materially different from the market rate for similar loans.

t. Advertising expenses:

Advertising expenses were expensed as incurred. Advertising expenses for the years ended December 31, 2006, 2007 and 2008 amounted to $ 287, $ 442 and $ 50, respectively.

u. Basic and diluted earnings (loss) per share:

U.S. dollars in thousands (except share and per share data)

Basic earnings (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted earnings (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during the year plus dilutive potential Ordinary shares considered outstanding during the year, in accordance with SFAS No. 128, “Earnings Per Share”.

The total weighted average number of options and warrants excluded from the calculations of diluted earnings (loss) per share was 50,163,084, 54,749,478 and 7,393,004 for the years ended December 31, 2006, 2007 and 2008, respectively.

v. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS No. 123(R)”). SFAS No. 123(R) requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company’s consolidated income statements.

The Company recognizes compensation expenses for the value of its awards granted based on the straight line method over the requisite service period of each of the awards, net of estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

The Company selected the Black-Scholes-Merton option pricing model as the most appropriate fair value method for its stock-options awards and values restricted stock based on the market value of the underlying shares at the date of grant. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Expected volatility was calculated based upon actual historical stock price movements. The expected term of options granted is based upon historical experience and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

The fair value for options granted in 2006, 2007 and 2008 is estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31,		
	2006	2007	2008
Dividend yield	0%	0%	0%
Expected volatility	1.12	1.07	0.8
Risk-free interest	4.67%	4.41%	2.76%
Expected life (in years)	3.5	3.5	2

The Company applies SFAS No. 123 “Accounting for Stock-Based Compensation” and EITF No. 96-18, “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services,” with respect to options and warrants issued to non-employees. SFAS No. 123 requires the use of option valuation models to measure the fair value of the options and warrants at the measurement date as defined in EITF No. 96-18.

w. Comprehensive loss:

The Company accounts for comprehensive loss in accordance with SFAS No. 130, “Reporting Comprehensive Income”. This Statement establishes standards for the reporting and display of comprehensive loss and its components in a full set of general purpose financial statements. Comprehensive loss generally represents all changes in shareholders’ equity during the period except those resulting from investments by, or distributions to shareholders. The Company determined that its only item of other comprehensive loss related to foreign currency translation adjustments.

U.S. dollars in thousands (except share and per share data)

x. Impact of recently issued accounting standards:

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. The impact of SFAS 141R on the Company's consolidated results of operations and financial condition will depend on the nature and size of acquisitions, if any, subsequent to the effective date.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In February 2008, the FASB issued FSP No. FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13", and FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP No. FAS 157-2"). Collectively, the Staff Positions defer the effective date of Statement 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value on a recurring basis at least annually, and amend the scope of Statement 157. As described in Note 7, the Company adopted Statement 157 and the related FASB staff positions except for those items specifically deferred under FSP No. FAS 157-2. The Company does not expect the adoption of Statement 157, with respect to nonfinancial assets and liabilities under the scope of the FSP No. FAS 157-2, will have an impact on its consolidated financial statements.

NOTE 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2007	2008
Government authorities	$ 2,752	$ 311
Employees	317	–
Advances to suppliers	629	–
Interest receivable	–	567
Proceeds to be received from HP	–	1,183
Prepaid expenses	595	33
Office of the Chief Scientist (See Note 4)	79	–
Other	53	57
	$ 4,425	$ 2,151

NOTE 4:- OFFICE OF CHIEF SCIENTIST

a. During 1998-2003, the Company participated in a research and development consortium of industrial companies and academic institutions within the framework of the MAGNET program of the Office of Chief Scientist of the Ministry of Industry, Trade and Labor ("OCS"). No royalties were payable to the OCS with respect to this funding.

During 2005-2007, the Company participated in an ink technology project with the Technion - The Israel Institute of Technology (the "Technion"), which received the approval of the Mini-MAGNET (or Magneton) committee of the OCS. No royalties were payable to the OCS with respect to this funding; however, the terms of the agreement with the Technion required the Company to pay royalties to the Technion on the proceeds from sales of products resulting from this project when such sales commence. Sales of products had not commenced and therefore no royalties were due. Grants relating to the Magneton project in the amount of $ 379 were recorded during 2007. The agreement with the Techinion was assumed by HP in connection with the HP Transaction.

U.S. dollars in thousands (except share and per share data)

NOTE 4:- OFFICE OF CHIEF SCIENTIST (Cont.)

b. The Company entered into several project plans with the OCS in prior years.

Following the settlement as described in (d) below, the full balance of commitments for amounts received in the past from the OCS was converted into and recorded as a settlement accrual. As of December 31, 2007, the liability of $ 79 was fully offset with the grant received from the Magneton project in accordance with the terms of the settlement. The liability to the OCS was fully paid during 2008.

c. Under the terms of grants awarded in prior years by the Fund for the Encouragement of Marketing Activities of the Ministry of Industry, Trade and Labor (“the Marketing Fund”) to the Company, the Company was obligated to pay royalties to the Marketing Fund at the rate of 3% - 4% of the increase in export sales of products for which the Company received grants for in support of its marketing activities, up to an amount equal to 100% - 150% of the grants received, linked to the U.S. dollar.

Following the settlement described in (d) below, all the contingent commitments for amounts received in the past from the Marketing Fund were converted into and recorded as a settlement accrual.

As of December 31, 2007, the liability of $ 221 was fully offset with the grant received from the Magneton project in accordance with the terms of the settlement. The liability to the Marketing Fund was fully paid during 2008.

d. In the first calendar quarter of 2006, the District Court in Jerusalem approved the settlement between the Company and the OCS and the Marketing Fund. The agreement settled the dispute between the Company, the OCS and the Marketing Fund regarding the Company’s outstanding obligation to pay royalties and provided for the repayment of the outstanding debt in 36 equal monthly installments commencing January 2006. The Company also agreed to accelerate the payment of the outstanding balance by advancing payments equal to 5% of operating income. It was further agreed that all future grants due to the Company from the OCS or the Marketing Fund would be applied to the settlement balance until the liability was paid in full.

e. According to the Encouragement of Industrial Research and Development Law, 1984, the Company’s technologies are subject to transfer of technology and manufacturing rights restrictions. The discretionary approval of the OCS committee is required for any transfer of technology developed with OCS funding (including Magnet and Magneton programs). OCS approval is not required for the export of any products resulting from the research or development, or for licensing of the technology in the ordinary course of business.

Following the HP Transaction (see Note 1b), all of the Company’s intellectual property that was used for its business was sold to HP, including intellectual property developed with the assistance of the OCS. The OCS approved the transfer of the technology developed with OCS funding prior to the closing of the HP Transaction, subject to an exclusive and irrevocable manufacturing license provided by HP to its Israeli subsidiary. HP has approached the OCS and requested to transfer the technology and manufacturing of products developed with the assistance of the OCS outside of Israel. The Company may be required to reimburse HP for payments made to the OCS in connection with such transfer of manufacturing. It is too early to determine what amounts will be paid by HP to the OCS or will be required to be paid by the Company to HP. In the event that any payments are required, amounts due are to be deducted from the escrow account (see Note 1b).

NOTE 4:- OFFICE OF CHIEF SCIENTIST (Cont.)

f. Composition:

	December 31, 2007
OCS Magneton grant receivable	$ 379

Debt to the OCS (i)	$ (79)
Debt to the Marketing Fund (ii)	(221)
	$ (300)
Net OCS grants receivable	$ 79

(i) The liability was linked to Israel's Consumer Price Index ("CPI") and bore an annual interest according to applicable laws.

(ii) The balance was linked to the U.S. dollar and bore interest at a rate of six-month LIBOR.

NOTE 5:- INVENTORIES

	December 31, 2007
Raw materials	$ 4,651
Work in-progress	2,020
Finished products	*) 13,420
	$ 20,091

*) Includes an amount of $ 2,329 with respect to inventory delivered to customers but for which no revenue was recognized.

As of February 29, 2008, the inventories were acquired by HP (see Note 1b).

NOTE 6:- PROPERTY, PLANT AND EQUIPMENT, NET

a. Composition of property, plant and equipment was as follows:

	December 31, 2007
Cost:	
Machinery and equipment	$ 3,998
Motor vehicles	26
Office furniture and equipment	9,507
Buildings (b)	1,626
Leasehold improvements	5,717
	20,874
Accumulated depreciation	14,930
Property, plant and equipment, net	$ 5,944

As of February 29, 2008, the property, plant and equipment were acquired by HP (see Note 1b).

U.S. dollars in thousands (except share and per share data)

NOTE 6:- PROPERTY, PLANT AND EQUIPMENT, NET (Cont.)

b. Capital lease:

NUR Europe, one of the Company's subsidiaries that were was sold to HP, leased certain spaces under lease agreements which were recorded as capital leases. The related facilities were included in property, plant and equipment and depreciated accordingly. The cost and accumulated depreciation of facilities as of December 31, 2007 were $ 1,626 and $ 499, respectively. Following the consummation of the HP Transaction, as a result of a mutual resolution of the parties, the facilities and relating capital lease were assigned to a third party (see note 1b).

NOTE 7:- FAIR VALUE MEASURMENTS

Effective January 1, 2008, the Company adopted SFAS 157, "Fair Value Measurements" and, effective October 10, 2008, adopted FSP No. SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active", except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP 157-2 "Effective Date of FASB Statement No. 157". SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Cash equivalents and short-term deposits are classified with level 2.

NOTE 8:- SHORT-TERM BANK CREDIT AND LOANS

	Linkage terms	Interest rate 2007	December 31, 2007
		%	
Short-term bank credit (a)	U.S. dollar	LIBOR + 0.25 - 0.75	$ 8,801
Short-term bank credit (a)	NIS	Prime + 2%	161
Note from related parties (b)			5,000
			$ 13,962
Weighted average interest rates at the end of the year			5.66%

ELLOMAY CAPITAL LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 8:- SHORT-TERM BANK CREDIT AND LOANS (Cont.)

a. Short-term bank credit:

In 2005 the Banks provided the Company with a credit facility that could have been utilized in U.S. dollars, NIS, GBP or Euro. The credit facility was renewable, at the request of the Company, on an annual basis through December 2011. The credit facility bore interest at a rate of LIBOR + a range between 0.25% - 0.75% or Prime + 2% for borrowings denominated in NIS and was payable on a quarterly basis.

As of December 31, 2007, $ 8,962 was utilized in the form of a short-term loan, $ 944 was utilized in guarantees, and $ 1,040 was utilized in the form of long-term loans. The total utilization of a $ 10,002 credit line exceeded the approved line of $ 9,850 (excluding guarantees) by $ 152 due to the increase in the Euro exchange rate in respect to the Euro-denominated long-term loan. The Banks did not request an immediate reduction in the short-term bank credit or the long-term loan balance. The credit facility was subject to immediate repayment upon the occurrence of certain events as defined in the agreement with the Banks.

During January and February 2008, an additional amount of approximately $ 800 was utilized by the Company in the form of a short-term loan. In March 2008, in connection with the HP Transaction, the credit facility was cancelled and all open balances were paid-in-full (see Note 1b).

b. The note from related parties of $ 5,000 bore no interest and was scheduled to expire on December 8, 2008. Prior to that date, the note was repayable only in the event of either bankruptcy, insolvency or reorganization proceeding under any bankruptcy, whether voluntary or involuntary, which proceedings were not lifted or stayed within 90 days. The note was assigned to Fortissimo by the Banks as part of the Debt Restructuring Agreement (see Note 9).

In May 2008, in connection with the sale of the Company's securities by the Fortissimo entities, the note was cancelled and recognized as a capital contribution (see Note 1b).

NOTE 9:- LONG-TERM LOANS

On September 12, 2005, the Company entered into a debt restructuring agreement (the "Debt Restructuring Agreement") with the Banks. The Debt Restructuring Agreement, which was consummated on December 8, 2005, called for the conversion and refinancing of the then outstanding bank debt in the amount of $ 41,018 to the Banks. Out of the amount of $ 41,018, an amount equal to $ 14,513 was converted into warrants to purchase up to 8,000,000 Ordinary shares, $ 5,000 was converted into subordinated notes, which were assigned by the Banks to Fortissimo ("Note from related parties") and the remaining $ 21,505 was refinanced under new short and long term loan agreements. Following the HP Transaction, the Company used its right for early termination of the long-term loans, and in April 2008 fully repaid the long-term loans.

NOTE 9:- LONG-TERM LOANS (Cont.)

a. Composed as follows:

	Linkage terms	Interest rate 2007	December 31, 2007
		%	
From banks (b)	U.S. dollar	LIBOR + 2.50	$ 11,000
From banks (b)	Euro	LIBOR + 0.75	1,040
Capital leases	Euro	4.95-6.30	877

U.S. dollars in thousands (except share and per share data)

		12,917
Less - current maturities		649
		12,268
Accrued interest on restructured debt (c)		7,567
	$	19,835
Weighted average interest rates at the end of the year		7.115%

b. The long-term loans of $ 11,000 were repayable by the end of 2015. The Company was granted a 28-month grace period on the quarterly payments on account of principal. The revolving loan of $ 1,040 was renewable on an annual basis as long as the Company continued to meet the covenants mentioned in Note 9.e. The long-term loans bear interest at a rate of LIBOR+2.5% and LIBOR +0.75% per annum, payable on a quarterly basis. The long-term loans were subject to immediate repayment upon the occurrence of certain events as defined in the agreement with the Banks.

c. The restructuring of the outstanding bank debt was accounted for in accordance with the provisions of SFAS 15 "Accounting by Debtors and Creditors for Troubled Debt Restructurings". According to the guidance of SFAS No. 15, as a result of variable interest rate on the restructured debt, no gain was recognized on the restructuring date and the carrying amount of the debt remained unchanged. Future interest on the restructured debt was recorded as a reduction of the carrying amount of the debt instead of interest expenses. Interest payments in the amounts of $ 500 and $ 1,500 for 2008 and 2007, respectively, were recorded as a reduction of the carrying amount of the debt (accrued interest) instead of interest expenses in the statement of operations in accordance with the provisions of SFAS No. 15.

Upon full repayment of the loans, the Company recognized the remaining balance of accrued interest on restructured debt as financial income of approximately $ 7,335 (see Note 1b).

NOTE 9:- LONG-TERM LOANS (Cont.)

d. The aggregate annual maturities of long-term loans were as follows:

		December 31, 2007
First year (current maturities)	$	649
Second year		658
Third year		1,167
Fourth year		2,217
Fifth year		1,726
Sixth year and thereafter		6,500
		12,268
	$	12,917

U.S. dollars in thousands (except share and per share data)

e. Covenants:

Under the Debt Restructuring Agreement, the Company agreed to maintain the following ratios of (1) the total amounts owed to the Banks plus available credit under the new short-term loans plus debts of subsidiaries to outside lenders incurred above an aggregate of $ 2,048 to (2) EBITDA as defined in the Debt Restructuring Agreement.

Period	Ratio of debt to EBITDA
Fiscal year ended December 31, 2008	13:1
Fiscal year ended December 31, 2009	10:1
Fiscal year ended December 31, 2010	8:1
Fiscal year ended December 31, 2011 and thereafter	6:1

The first measurement of the financial covenants was scheduled to take place following the end of the third quarter of 2008 based on the Company's financial results during the first three quarters of 2008 and was to be measured on a quarterly basis thereafter, which measurement was to take into account the previous four calendar quarters.

In any case of certain breaches by the Company; (i) the Company might have been required by the Banks to repay all amounts then owed under any or all documentation between the Company and the Banks, to the Banks, and (ii) the Banks were to be entitled to exercise any and all rights set forth in any or all documentation between the Banks and the Company.

NOTE 10:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2007	2008
Employees and payroll accruals	$ 3,690	$ 532
Government authorities	340	82
Royalties payable	152	–
Warranty provision	1,593	–
Professional services	588	107
Advance from customers	964	–
Provision for legal claims	2,103	180
Accrued expenses	1,553	1,073
	$ 10,983	$ 1,974

NOTE 11:- OTHER LONG-TERM LIABILITIES

Unrecognized tax benefits (refer to Note 15c)	$ 3,618	$ 4,584
Other long-term liabilities	–	695
	$ 3,618	$ 5,279

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES

U.S. dollars in thousands (except share and per share data)

a. Operating and capital lease commitments:

Prior to the HP Transaction, the Company and most of its subsidiaries rented their facilities under various operating lease agreements.

Total rental lease expenses, net for the years ended December 31, 2006, 2007 and 2008 were $ 1,501, $ 1,691 and $ 282, respectively.

Following the HP Transaction, most of the operating and capital lease commitments were assumed by HP (see Note 1b).

The following table summarizes the remaining annual rental commitments as of the periods indicated under 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, 2008:

Year ended December 31,	Operating lease	Sub-lease	Total
2009	$ 363	$ (428)	$ (65)
2010	363	(428)	(65)
2011	30	(35)	(5)
Total minimum lease payments (proceeds)	$ 756	$ (891)	$ (135)

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Total sub-lease income for the years ended December 31, 2006, 2007 and 2008 was $ 361, $ 378 and $ 416, respectively.

Total vehicle lease expenses for the years ended December 31, 2006, 2007 and 2008 were $ 1,359, $ 1, 524 and $ 254, respectively.

b. Royalty commitments:

During the period 1998-2003, the Company’s European subsidiary received research and development grants totaling € 2,435 ($ 3,583 at December 31, 2007) from the local authorities in Belgium. Under the terms of the grants, the Company’s European subsidiary had an obligation to pay royalties at the higher of a certain minimum annual amount or at a rate of 4% of the sales derived from the applicable products developed within the framework of such research and development projects, up to an amount equal to the research and development grants received in connection with such products, linked to the Euro. The commencement of the royalty payments to the local authorities in Belgium was contingent upon the Company’s European subsidiary generating sales from products developed under these grants. The grants were not repayable in the event that the Company’s European subsidiary decides to cease the research and development activities, or the exploitation of the products developed under these grants and all know-how and results of the research and development are transferred to the local authorities. In the event that the Company’s European subsidiary decided to cease exploitation of the products developed under these grants, a notification thereof should have been given to the local authorities in Belgium.

The Company’s European subsidiary ceased the research and development activities and the exploitation of certain products for which grants were received. The Company’s European subsidiary did not submit notification of this cessation to the local authorities and, instead, continued to pay royalties with a total of € 659 ($ 970 at December 31, 2007) remitted through 2005. As of December 31, 2007, the aggregate amount of grants received from the Belgian authorities, which had not yet been repaid amounted to $ 2,613 (€ 1,776 as of December 31, 2007).

In respect to 2006 and 2007, the European subsidiary received notice from the Belgian authorities requesting the annual minimum royalty payments of $ 285 and $ 368, respectively.

The European subsidiary did not pay the amounts requested as it believes that the royalty payment for 2006 and 2007 should have been only $ 184 and $ 250, respectively and that it has overpaid its royalty obligations for prior years. During discussions held with the Belgian authorities in February 2008, the authorities confirmed the Company's position with respect to the amounts owed for 2006 and 2007. It was also agreed that the Company's European subsidiary will submit a proposal to the authorities with respect to the overall open balance as described above.

During November 2008 the Company's European subsidiary reached a settlement with the Belgian authorities by which the authorities waived the repayment of a portion of the grants and, in return, the Company paid back on December 2, 2008 a total of € 390 ($ 494) as full and final settlement.

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

c. Charges and guarantees:

As security for the Company's liabilities to the Banks, the Banks placed fixed charges on the Company's share capital, as well as a floating lien on all of the Company's assets. A second ranking floating lien was also placed on the Company's assets in connection with the Note from related parties.

Following the consummation of the HP Transaction, the Company used its right for early termination, fully repaid its loans and was released from all charges and guarantees.

d. Litigation:

1. During 2008, a former employee of a subsidiary filed a lawsuit against the Company in the amount of $ 322.5 alleging the Company did not provide him with the appropriate amount of time to exercise his stock options following the termination of the applicable blackout period. The Company and the former employee are negotiating a settlement proposal by which the Company undertakes to pay an amount of $ 33 and this amount shall be considered as the gross, exhaustive and final consideration paid to the former employee. A provision was recorded in the amount offered.

2. In January 2008, a former distributor of a subsidiary filed a lawsuit against the subsidiary claiming his distribution agreement was terminated in violation of its terms and seeking damages in the amount of $AUD 5,562 thousand. The subsidiary filed a statement of defense denying the claims and filed a counterclaim against the former distributor for non-payment and other damages in the amount of $ 882. The parties reached a settlement agreement by which the subsidiary paid the former distributor an amount of $ 175 in October 2008.

3. During 2003, a former supplier filed a lawsuit against a subsidiary, in the amount of € 943 thousand ($ 1,462), in connection with a disputed supply agreement. In February 2006, the court determined that the subsidiary is to pay the supplier an aggregate amount of € 1,246 thousand ($ 1,931), including penalties and accrued interest. The subsidiary filed an appeal, which was rejected by the court of appeals. During 2007, the Company reached an agreement with the supplier to pay the amount due plus interest on the principal amount over a period of 40 months. Following the consummation of the HP Transaction a second settlement agreement was reached by which the full amount was paid in a lump sum during August 2008.

4. During 2001, a client filed a lawsuit against a subsidiary in the amount of $ 450 alleging bad quality of products and damages. The subsidiary filed a counter claim of $ 216 in respect of unpaid invoices. In October 2007, the court ruled that the client is not entitled for any damages and the subsidiary should credit the client for the unpaid balance. The client was ordered to return the product to the Company's subsidiary. The ruling was deemed final in April 2008 when the official time for appeal passed.

5. During 2002, an end-user filed a lawsuit in China against a subsidiary alleging bad quality of products. The court ruled that the subsidiary should reimburse the client with the amount of $ 186. Following an appeal filed by the subsidiary, the court ruled in September 2003 in favor of the end-user. The subsidiary is in the process of liquidation and has no assets; therefore the plaintiff has no remedy against the subsidiary.

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

The customer may elect to start new proceedings against another subsidiary operating in Hong Kong. However, to date, the customer has not filed any claim in Hong Kong. Based on management's estimation and the opinion of its legal counsel, it is less than likely that the second subsidiary will be required to pay the amount ruled against the subsidiary in China. Therefore, no provision was recorded with respect to this claim.

6. During 2002, a client filed a lawsuit in China against a subsidiary seeking reimbursement in the amount of $ 400 alleging bad quality of products. In July 2005, the court ruled that the subsidiary is to reimburse the client an amount of $ 286. The subsidiary no longer operates in China and under current law the ruling in China is not enforceable in Hong Kong. The subsidiary notified the customer in March 2006 that it intends to vigorously defend its claims if submitted to court in Hong Kong. To date, the customer has not filed any claim in Hong Kong. Based on management's estimation and the opinion of its legal counsel, it is less than likely that the subsidiary will be required to pay the amount ruled against it in China. Therefore, no provision was recorded with respect to this claim.

7. In September 2003, the Company filed a lawsuit against a former distributor of the Company, for the collection of unpaid invoices in the amount of $ 420. In February 2004, the former distributor filed a statement of defense denying the Company's claims and it also filed a counter-claim for alleged damages caused to it by the Company in the amount of $ 210. Based on the opinion of its legal counsel, management believes that the counter-claim that was filed by the former distributor is without merit and that a loss is not probable. Therefore, a provision was not recorded with respect to this claim.

8. In December 2003, a client of a subsidiary filed a lawsuit alleging that a machine purchased by it failed to perform. The customer is seeking reimbursement of the purchase price paid by it in the amount of $ 290. Based on management's estimation and the opinion of its legal counsel, a provision of $ 145 was recorded with respect to this claim.

9. In May 2007, a former managing director of a subsidiary filed a lawsuit against the Company and two of its subsidiaries claiming his resignation was for just cause due to demotion and therefore should be deemed as a termination of his employment by the subsidiary. The Company denied all the claims made by the former employee. The ruling in favor of the Company was deemed final in March 2009 when the official time for appeal passed.

10. In February 2007, a claim was filed against the Company and one of its former officers by a person claiming to have been an agent of the Company in West Africa for commissions on sales of printers. The claim is for NIS 3,000 thousand ($ 789). The Company filed a statement of defense denying all claims, both with respect to the causes of action and with respect to the factual allegations in the claim. Based on management's estimation and the opinion of its legal counsel, no provision was recorded with respect to this claim.

11. In October 2005, the former chairman and controlling shareholder filed a complaint against the Company in the Supreme Court, New York County seeking to recover the right to vote his Ordinary shares. The right to vote such Ordinary shares had been transferred to the Company pursuant to a Voting Agreement between the Former Director and the Company. The complaint filed by the Former Director seeks to have the Voting Agreement declared unenforceable.

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

In 2006, the Court dismissed part of the case with prejudice and the rest of the case was dismissed with leave to re-file. In February 2008, all of the Former Director's shares and warrants were sold by him to another investor and the Company and the Former Director filed a stipulation of discontinuance with prejudice.

12. From time to time, the Company is party to other various legal proceedings, claims and litigation that arise in the normal course of business. It is the opinion of management that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

13. The Company has an outstanding indemnification obligation pursuant to the terms of the Asset Purchase Agreement with HP (see note 1b)

NOTE 13:- 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 Shlomo Nehama, the Company's chairman of the board and controlling shareholder, effective as of March 31, 2008 (the "Management Agreement"). According to the Management Agreement, Kanir and Meisaf, through their employees, officers and directors, provide assistance to the Company in all aspects of the new operations process, including but not limited to, any activities to be conducted in connection with identification and evaluation of the business opportunities, the negotiations and the integration and management of any new operations and including discussions with the Company's management to assist and advise them on such matters and on any matters concerning the Company's affairs and business. In consideration of the performance of the management services and the board services pursuant to the Management Agreement, the Company agreed to pay Kanir and Meisaf an aggregate annual management services fee in the amount $ 250.

b. On October 27, 2005, the Company's shareholders approved the terms of a management agreement entered into between the Company and Fortissimo on behalf of several private equity funds, which are managed by Fortissimo ("the "Fortissimo Management Agreement"). According to the Fortissimo Management Agreement, Fortissimo, through its employees, officers and directors, provided management services, advice and assistance to the Company's management concerning the Company's affairs and business.

The Management Agreement also gave Fortissimo the right to elect a majority of the Company's Board of Directors, including the chairman of the board of directors. In consideration of the performance of the management services and the board services pursuant to the Fortissimo Management Agreement, the Company agreed to pay Fortissimo an aggregate annual management services fee in the amount $ 250.

Pursuant to the Fortissimo Management Agreement, its terms were to remain in effect for so long as the position of chairman of the board of directors and another position of the Board of Directors are filled by Fortissimo directors.

NOTE 13:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont.)

In March 2008, all of the shares and a majority of the warrants held by Fortissimo were sold, all of the Fortissimo directors resigned from the Company's board of directors and the Fortissimo Management Agreement was terminated

c. On January 24, 2006, the Company entered into a lease agreement with Telrad Networks Ltd. the owner of an industrial park in Lod, Israel and a company controlled by the Company's then controlling shareholders, the Fortissimo entities. The lease is for industrial space commencing May 7, 2006 for a period of five years, with a renewal option to continue the lease for another five years. A monthly fee of $ 31 is to be paid in advance every three months. Notwithstanding, the first year of rent was to be paid in three equal installments of $ 124, amounting to a sum of $ 372. In 2006, 2007 and 2008 the Company paid a total of $ 287, $ 372 and $ 62, respectively, to Telrad for the use of the production area in the facility. This agreement was assumed by HP on February 29, 2008.

NOTE 14:- SHAREHOLDERS' EQUITY (DEFICIENCY)

a. 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".

On April 17, 2005, the Company's shareholders approved an increase of the Company's authorized Ordinary shares to 120,000,000 and an additional increase to 170,000,000 was approved on October 27, 2005.

b. Shareholders' rights:

Ordinary shares confer upon their holders voting rights, the right to receive dividends and the right to share in excess assets upon liquidation of the Company.

c. On January 30, 2007 and February 12, 2007, the Company, in connection with a private placement of its Ordinary shares, issued 7,105,320 and 4,629,630 of its Ordinary shares, respectively at $ 0.54 per share to various investors. The Company received from these investments proceeds in the amount of $ 6,100, net of issuance expenses in the amount of $ 250. The Company also issued to the investors warrants to purchase up to 2,131,596 and 1,388,889 Ordinary shares, respectively, of NIS 1 par value at an exercise price of $ 0.65 per share. The warrants are exercisable for five years from the closing date of the private placement. In accordance with EITF 00-19, the warrants are classified as permanent equity.

The securities offered in the private placement may not be offered or sold in the United States absent registration, or an applicable exemption from registration. The Company agreed to use its best efforts to file a registration statement registering all the private placement related Ordinary shares (both those purchased and those issuable upon exercise of the warrants) prior to July 1, 2007.

In the event that the Company either failed to file a registration statement prior to July 1, 2007, or if such registration statement loses its effectiveness thereafter, the Company is committed to the payment of partial damages in cash equal to 1% of the aggregate purchase price paid by the investors for each month of default, subject to an overall limit of up to 24 months of partial liquidated damages.

NOTE 14:- SHAREHOLDERS' EQUITY (DEFICIENCY) (Cont.)

On June 29, 2007, the Company filed a registration statement for the resale of certain Ordinary shares and Ordinary shares underlying warrants held by several of its shareholders, including the shares and shares underlying warrants issued in January and February 2007. The registration statement became effective on August 3, 2007, temporarily lost its effectiveness on October 1, 2007 and regained such effectiveness on June 30, 2008.

d. On March 31, 2008 the principal shareholders, the Fortissimo entities, completed the sale of all of the shares and a majority of the warrants held by them to Kanir Joint Investments (2005) Limited Partnership, which was also previously a controlling shareholder of the Company and to S. Nechama Investments (2008) Ltd., which became a controlling shareholder of the Company as a result of the purchase from the Fortissimo entities and from several other shareholders.

e. Stock Option Plans:

1. In December 1998, the Company's shareholders approved the non-employee director stock option plan (the "1998 plan") according to which 250,000 options are available for grant with an exercise price of the average of the closing bid and sale price at the issuance date. Each option granted 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.

In October 2005, the Company's shareholders approved to increase the number of options available for grant under the 1998 plan by 500,000.

In August 2000, the Company's board of directors adopted the 2000 Stock Option Plan (the "2000 Plan"). According to the 2000 Plan, 2,000,000 options may be granted to officers, directors, employees and consultants of the Company and its subsidiaries. The Options usually vest over a three or four-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. During 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. Generally, the Company granted options under the plan with an exercise price equal to the market price of the underlying shares on the date of grant.

In November 2003, the Company's shareholders approved the increase of the number of Ordinary shares authorized for issuance under the 2000 Plan by the number of Ordinary shares available for grant under the Company's 1995 and 1997 option plans, thereby terminating such plans (other than with respect to outstanding options under such plans) (representing an increase of 497,590 Ordinary shares).

In October 2004 and October 2005, the Company's shareholders approved the increase of the number of options available for grant under the 2000 Plan by 500,000 and 14,500,000, respectively.

In October 2005, the Company's shareholders also approved the increase of the available number of Ordinary shares authorized for issuance under the 2000 Plan by the number of Ordinary shares underlying options cancelled (except in the case of surrender for the exercise into shares) or which cease to be exercisable under the Company's previously terminated option plans, the 1995 and 1997 option plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

During 2008, in connection with the HP Transaction (see Note 1b), the Board of Directors approved the acceleration of the vesting of all outstanding employee stock options following the Closing Date and the repurchase, subject to the fulfillment of regulatory requirements, of the then outstanding employee stock options to purchase approximately 9.9 million Ordinary shares of the Company. The repurchase was completed in July 2008.

Any options not repurchased (due to their relatively high exercise price) were canceled during 2008 pursuant to their terms and the terms of the 2000 Plan).

During 2006, 2007 and 2008, the Company granted to directors 36,667, 30,000 and 43,333 options, respectively.

Following the increases in options reserved for issuance under the Company's 1998 and 2000 Plans, the Company reserved for issuance 750,000 and 17,724,590 Ordinary shares, respectively. As of December 31, 2008, 146,667 options are outstanding and 519,166 Ordinary shares are available for future grants under the 1998 Plan and no options are outstanding and 7,272,028 Ordinary shares are available for future grants under the 2000 Plan (the number of Ordinary shares available for issuance under the 2000 Plan was reduced by the number of Ordinary shares underlying options repurchased by the Company as more fully detailed above). Options that are cancelled or forfeited before expiration become available for future grant.

2. A summary of the Company's employee and director share option activity through December 31, 2008 for the Plans is as follows:

	Options outstanding and exercisable	
	Number of options	Weighted average exercise price
Balance as of January 1, 2006	6,697,281	$ 0.65
Options granted	5,821,667	$ 0.61
Options exercised	(25,824)	$ 0.32
Options forfeited or expired	(641,060)	$ 1.16
Balance as of December 31, 2006	11,852,064	$ 0.60
Options granted	1,490,000	$ 0.59
Options exercised	(451,669)	$ 0.40
Options forfeited or expired	(2,662,194)	$ 0.81
Balance as of December 31, 2007	10,228,201	$ 0.54
Options granted	43,333	$ 0.50
Options exercised	(10,000)	$ 0.31
Options Repurchased	(9,893,550)	$ 0.52
Options forfeited or expired	(221,317)	$ 1.50
Balance as of December 31, 2008	146,667	$ 0.65
Exercisable as of December 31, 2008	146,667	$ 0.65
Exercisable as of December 31, 2007	3,817,120	$ 0.57

As of December 31, 2008 all options outstanding were fully vested.

U.S. dollars in thousands (except share and per share data)

NOTE 14:- SHAREHOLDERS' EQUITY (DEFICIENCY) (Cont.)

	Year ended December 31, 2008		
	Options		Aggregate intrinsic value (in thousands)
Outstanding as of January 1, 2008	10,228,201	$	*)1,864
Granted	43,333	$	3
Exercised	(10,000)	$	3
Repurchased	(9,893,550)	$	731
Forfeiture or expired	(221,317)	$	N/A
Outstanding and exercisable as of December 31, 2008	146,667	$	**)9

*) Represents intrinsic value of 9,947,167 options that are in-the-money as of December 31, 2007. The remaining 281,034 options are out of the money as of December 31, 2007 and their intrinsic value was considered as zero.

**) Represents intrinsic value of 63,333 options that are in-the-money as of December 31, 2008. The remaining 83,334 options are out of the money as of December 31, 2008 and their intrinsic value was considered as zero.

Total intrinsic value of options exercised during 2006 and 2007 was $ 6 and $ 140, respectively.

3. The options outstanding as of December 31, 2008, all of them options granted to directors under the 1998 Plan, have been separated into ranges of exercise price, as follows:

Outstanding and excercisable				
Range of exercise price	Options outstanding	Weighted average remaining contractual life		Weighted average exercise price
		Years		
$0.31-0.40	20,000	6.59	$	0.31
$0.48-0.80	100,000	8.78	$	0.58
$0.92-1.17	20,000	6	$	0.92
$1.63-1.88	6,667	4.88	$	1.86
	146,667	7.92	$	0.65

4. All options granted during 2006, 2007 and 2008, were granted with exercise price equal to 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					
	2006		2007		2008	
Weighted average exercise prices	$	0.61	$	0.59	$	0.50

U.S. dollars in thousands (except share and per share data)

Weighted average fair value on grant date	$ 0.45	$ 0.41	$ 0.22

NOTE 14:- SHAREHOLDERS' EQUITY (DEFICIENCY) (Cont.)

g. The Company's outstanding warrants as of December 31, 2008, are as follows:

Issuance date	Number of warrants issued	Exercise price per share	Warrants exercisable	Expiration date
August 2003	953,000	$ 0.62	953,000	January 2009
March 2004	646,542	$ 1.54	646,542	March 2009
March 2004	112,903	$ 0.62	112,903	March 2009
March 2004	129,310	$ 1.16	129,310	March 2009
February 2002	50,000	$ 5.00	50,000	August 2009
April 2005	3,000,000	$ 0.75	3,000,000	April 2010
October 2005	25,714,286	$ 0.40	25,714,286	October 2010
December 2005	8,000,000	$ 0.35	8,000,000	December 2010
January 2007	2,131,596	$ 0.65	2,131,596	January 2012
February 2007	1,388,889	$ 0.65	1,388,889	February 2012
	42,126,526		42,126,526	

In September 2008, warrants to purchase 240,000 ordinary shares, at an exercise price of $ 0.52 per share, were exercised. In October 2008, warrants to purchase 825,923 ordinary shares at an exercise price of $0.34 per share, held equally by Kanir and Shlomo Nehama, were exercised. These exercises resulted in the receipt by us of aggregate consideration in the amount of $ 510.

h. Dividends:

In the event that cash dividends are declared in the future, such dividends will be paid in NIS. A dividend paid to shareholders outside Israel will be converted into dollars, on the basis of the exchange rate prevailing at the date of payment. The Company does not intend to pay cash dividends in the foreseeable future.

NOTE 15:- TAXES ON INCOME

a. Israeli taxation:

1. Corporate tax structure:

Taxable income of Israeli companies is subject to tax at the rate of 31% in 2006, 29% in 2007, 27% in 2008, 26% in 2009, 25% in 2010 and thereafter.

2. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985:

Results for tax purposes are measured in terms of earnings in NIS after certain adjustments for increases in Israel's Consumer Price Index ("CPI"). As explained in Note 2b, the financial statements are measured in U.S. dollars. The difference between the annual change in Israel's CPI and in the NIS/dollar exchange rate causes a difference between taxable income and the income before taxes shown in the financial statements. In accordance with paragraph 9(f) of SFAS No. 109, the Company has not provided deferred income taxes in respect of the difference between the functional currency and the tax bases of assets and liabilities. Subsequent to balance sheet date, in February 2008, the inflation adjustment law was cancelled.

U.S. dollars in thousands (except share and per share data)

NOTE 15:- TAXES ON INCOME (Cont.)

3. Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969:

Before the transaction with HP, the Company was an "industrial Company", as defined by this law and, as such, was entitled to certain tax benefits, including accelerated rates of depreciation, in accordance with regulations published under the inflationary adjustments law. The Company was also entitled to claim public issuance expenses and patent amortization costs from its taxable income in three and eight equal annual installments, respectively.

b. Income taxes on non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective country of residence.

Israeli income taxes and foreign withholding taxes were not provided for undistributed earnings of the Company's foreign subsidiaries. The Company's Board of Directors has determined that the Company will not distribute any amounts of its undistributed earnings as dividend. The Company intends to reinvest these earnings indefinitely in its foreign subsidiaries. Accordingly, no deferred income taxes have been provided. If these earnings were distributed to Israel in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. The determination of the deferred tax liability is not practicable.

c. Uncertain tax positions:

As of December 31, 2008, the total amount of unrecognized tax benefits was $ 4,584 which, if recognized, would affect the effective tax rates in future periods. Included in that amount are cumulative accrued interest and penalties in respect to uncertain tax positions of $ 966 at December 31, 2008, of which $ 318 for interest and penalties expenses were recorded during 2008.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2007	2008
Beginning balance	$ 2,617	$ 3,618
Additions for prior year tax positions	837	318
Additions for current year tax position	164	648
Ending balance	$ 3,618	$ 4,584

The amount of income taxes paid by the Group is subject to ongoing audit by federal, state and foreign tax authorities, which often results in proposed assessments. 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. Additionally, the jurisdictions in which earnings and/or deductions are realized may differ from current expectations used as a basis for the above estimates. The Company does not expect that any tax audit would be completed within the next twelve months; therefore, the Company does not anticipate any significant impact on its unrecognized tax benefit balance in 2009.

The Company has tax assessments that are considered to be final up to 2002.

U.S. dollars in thousands (except share and per share data)

NOTE 15:- TAXES ON INCOME (Cont.)

d. Theoretical tax expenses:

Statutory rate applied to corporations in Israel and the actual tax expense, is as follows:

	Year ended December 31,		
	2006	2007	2008
Income (loss) before taxes on income	$ (1,823)	$ (5,582)	$ 87,942
Statutory tax rate	31%	29%	27%
Theoretical tax expense (benefit)	$ (565)	$ (1,619)	$ 23,744
Increase (decrease) in taxes:			
Approved enterprise	734	1,225	490
Income subject to reduced tax rate	(27)	226	(920)
Permanent differences	105	1,168	(17,500)
Foreign exchange differences (see 2 above)	478	180	1,279
Utilization of carryforward losses for which valuation allowance was provided	(175)	(1,327)	(10,294)
Deferred taxes on losses, reserves and allowances for which a valuation allowance was provided	(452)	985	4,167
Actual tax expense	$ 98	$ 838	$ 966
Basic net Income (loss) per share amount of the tax benefit resulting from "Approved Enterprise" status	*) –	*) –	–
Diluted net Income (loss) per share amount of the tax benefit resulting from "Approved Enterprise" status	*) –	*) –	–

*) Less than $ 0.01

**) Carryforward losses of subsidiaries sold to HP were assumed by them.

e. Taxes on income included in the statements of income (operations):

	Year ended December 31,		
	2006	2007	2008
Current:			
Domestic	$ –	$ 434	$ 130
Foreign	98	404	836
	$ 98	$ 838	$ 966

U.S. dollars in thousands (except share and per share data)

NOTE 15:- TAXES ON INCOME (Cont.)

f. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Group's deferred tax assets are as follows:

	December 31,	
	2007	2008
Deferred tax asset:		
Net operating losses and deductions carryforward	$ 30,068	$ 24,853
Stock-based compensation	649	587
Others	1,247	158
Deferred tax assets before valuation allowance	31,964	25,598
Valuation allowance (1)	(31,725)	(25,598)
Net deferred tax assets (2)	$ 239	$ –

(1) The Group has provided valuation allowances in respect of deferred tax assets resulting from tax losses carryforward and other temporary differences. Management currently believes that since the Company has a history of losses it is more likely than not that the deferred tax regarding all loss carryforwards will not be utilized in the foreseeable future. The net change in the valuation allowance in the year ended 31 December, 2008 was approximately $ 6,127, which primarily relates to utilization of net operating losses in connection with the HP Transaction. Carryforward losses of subsidiaries sold to HP were assumed by them.

(2) As of December 31, 2007 deferred taxes are recorded in current other accounts receivable and other assets.

g. Carryforward tax losses and deductions:

As of December 31, 2008, Ellomay Capital Ltd. had available carryforward tax losses and deductions aggregating to approximately $ 35,000, which have no expiration date.

NUR Asia Pacific had available carryforward losses as of December 31, 2008 aggregating to approximately $ 2,000, which have no expiration date.

NUR Media Solutions had available carryforward losses as of December 31, 2008 aggregating to approximately $ 6,000, which have no expiration date.

Additional carryforward losses of NUR America and NUR Salsa, which are located in the U.S, amount to approximately $ 33,000. Utilization of U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership provision of the Internal Revenue Code of 1986" and similar state provisions. As NUR America and NUR Salsa were dissolved during 2008, upon submitting the final tax returns of these companies, the remaining unutilized carryforward losses will expire.

ELLOMAY CAPITAL LTD. AND ITS SUBSIDIARIES

U.S. dollars in thousands (except share and per share data)

NOTE 15:- TAXES ON INCOME (Cont.)

h. Income (loss) before taxes on income consists of the following:

	Year ended December 31,		
	2006	2007	2008
Domestic	$ (4,588)	$ (8,747)	$ 86,697
Foreign	2,765	3,165	1,245
	$ (1,823)	$ (5,582)	$ 87,942

NOTE 16:- EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Years ended December 31,		
	2006	2007	2008
Net income (loss)	$ (1,921)	$ (6,420)	$ 86,976
Weighted average Ordinary shares outstanding	60,506,854	71,537,501	72,972,565
Dilutive effect:			
Employee stock options and warrants	–	–	13,783,971
Diluted weighted average Ordinary shares outstanding	–	–	86,102,748
Basic earnings (loss) per share	$ (0.03)	$ (0.09)	$ 1.19
Diluted earnings (loss) per share	$ (0.03)	$ (0.09)	$ 1.01

NOTE 17:- MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION

a. Summary information about geographic areas:

The Company managed its business on the basis of one reportable segment. Refer to Note 1a for a description of the Company's business. The following data is presented in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". Total revenues were attributed to geographical areas based on location of end customers.

U.S. dollars in thousands (except share and per share data)

NOTE 17:- MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

The following table presents total revenues for the years ended December 31, 2006, 2007 and 2008 and long-lived assets as of December 31, 2007 and 2008:

	2006	2007		2008
	Total revenues	Total revenues	Long-lived assets	Total revenues
Asia	$ 8,740	$ 10,811	$ 327	$ 664
Europe and Middle East	42,391	48,344	5,398	7,589
America	26,837	26,452	219	3,157
	$ 77,968	$ 85,607	$ 5,944	$ 11,410

b. Product lines:

Total revenues from external customers distributed on the basis of the Company's product lines were as follows:

	Year ended December 31,		
	2006	2007	2008
Printers and spare parts	$ 50,120	$ 53,592	$ 6,606
Ink	22,456	26,636	3,962
Services	5,392	5,379	842
	$ 77,968	$ 85,607	$ 11,410

c. Major customer data as a percentage of total revenues:

The Group did not have any major customers that represented 10% or more of the consolidated revenues for 2006, 2007 and 2008.

NOTE 18:- SELECTED STATEMENTS OF INCOME (OPERATIONS) DATA

a. Research and development, net:

	Year ended December 31,		
	2006	2007	2008
Research and development expenses	$ 5,827	$ 7,425	$ 1,942
Less – participation of the government in research and development projects	–	379	–
	$ 5,827	$ 7,046	$ 1,942

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 18:- SELECTED STATEMENTS OF INCOME (OPERATIONS) DATA (Cont.)

b. Financial expenses, net:

	Year ended December 31,		
	2006	2007	2008
Expenses:			
Interest on short-term bank credit and other charges	$ (385)	$ (512)	$ (610)
Interest on long-term loans	(80)	(54)	–
Foreign currency loss	(6,423)	(9,329)	(3,278)
	(6,888)	(9,895)	(3,888)
Income:			
Interest on bank deposits and other	193	36	1,808
Interest on restructured debt (see Note 1b)	–	–	7,335
Foreign currency gain	5,379	8,121	2,341
	5,572	8,157	11,484
	$ (1,316)	$ (1,738)	$ 7,596

[BDO McCabe Lo Limited Letterhead]

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
NUR Asia Pacific Limited

We have audited the accompanying balance sheets of NUR Asia Pacific Limited (the "Company") as of December 31, 2007 and the related statements of operations, stockholders' deficit and cash flows the two years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of NUR Asia Pacific Limited as of December 31, 2007, and the results of its operations and cash flows for the two years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO McCabe Lo Limited

BDO McCabe Lo Limited
Certified Public Accountants

Hong Kong, 26 June 2008

THE COMPANIES LAW
A COMPANY LIMITED BY SHARES
SECOND AMENDED AND RESTATED ARTICLES OF
ELLOMAY CAPITAL LTD.

I PRELIMINARY

1. **Interpretation**

1.1. In these Articles the following terms shall bear the meaning ascribed to them below:

"**Affiliate**" is defined in Article 25.5.1 herein.

"**Alternate Director**" defined in Article 37.1 herein.

The "**Articles**" shall mean the articles of association contained in the Articles, as originally registered and as they may from time to time be amended.

The "**Board**" shall mean the Company's Board of Directors.

The "**Company**" shall mean the above named company.

"**Control**" is defined in Article 25.5.1 herein.

"**Determining Majority**" as defined in Article 6 herein.

"**External Director**" as defined in the Law.

"**Extraordinary Meetings**" as defined in Article 21.1 herein.

The "**Law**" shall mean the Companies Law, 5759 – 1999, as the same may be amended from time to time, and all the rules and regulations promulgated thereunder.

The "**Memorandum**" shall mean the Memorandum of Association of the Company, as originally registered and as it may from time to time be amended.

"**Obligation**" as defined in Article 13.1 herein.

"**Officer**" is defined in Article 25.5.1 herein.

The "**Ordinance**" shall mean the Companies Ordinance [New Version], 5743-1983, as the same may be amended from time to time.

The "**Register of Members**" shall mean the Company's Register of Members.

"**Registered Holder**" as defined in Article 10 herein.

"**Securities**" as defined in Article 18 herein.

"**Shareholders Agreement**" shall mean the Shareholders Agreement, dated as of March 24, 2008, between Kanir Joint Investments (2005) Limited Partnership ("**Kanir**") and S. Nechama Investments (2008) Ltd. ("**Nechama Investments**"), a copy of which is attached hereto as Exhibit A.

Terms and expressions used in the Articles and not defined herein, shall bear the same meaning as in the Law.

1.2. Sections 2, 3, 4, 5, 6, 7, 8 and 10 of the Interpretation Law, 5741-1981, shall apply, mutatis mutandis, to the interpretation of the Articles.

1.3. The captions in the Articles are for convenience only and shall not be deemed a part hereof or affect the interpretation of any provision hereof.

2. **Name**

The Name of the Company shall be Ellomay Capital Ltd., and in Hebrew: אלומיי קפיטל בע"מ

3. **Purpose and Objective**

3.1. The objective of the Company shall be to undertake any lawful activity, including any objective set forth in the Memorandum (for as long as it is in effect).

3.2. The purpose of the Company is to operate in accordance with commercial considerations with the intention of generating profits. Such considerations may take into account, amongst others, public interest and the interests of the Company's creditors and employees. In addition, the Company may contribute reasonable amounts for any suitable purpose even if such contributions do not fall within the business considerations of the Company. 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.

II SHARE CAPITAL

4. **Share Capital**

The Company's authorized share capital will be NIS 170,000,000 divided into 170,000,000 ordinary shares of the Company, nominal value NIS 1.00 each.

5. **Limited Liability**

The liability of the shareholders of the Company for the indebtedness of the Company shall be limited to payment of the nominal value of such shares.

6. **Alteration of Share Capital**

The Company may, from time to time, by a resolution approved at a General Meeting by such majority as is required to amend these Articles (as set forth in Article 25 below), or, if higher, such majority as shall be required to amend the Memorandum (for as long as it is still in force) (collectively, a "**Determining Majority**"):

6.1. Increase its share capital in an amount it considers expedient by the creation of new shares. The power to increase the share capital may be exercised by the Company whether or not all of the shares then authorized have been issued and whether or not all of the shares theretofore issued have been called up for payment. Such resolution shall set forth the amount of the increase, the number of the new shares created thereby, their nominal value and class, and may also provide for the rights, preferences of deferred rights that shall be attached to the newly created shares and the restrictions to which such shares shall be subject;

6.2. Consolidate all or any of its issued or unissued share capital and divide same into shares of nominal value larger than the one of its existing shares;

6.3. Subdivide all or any of its issued or unissued share capital, into shares of nominal value smaller than the one of its existing shares; provided, however, that the proportion between the amount paid and the amount unpaid on each share which is not fully paid-up shall be retained in the subdivision;

6.4. Cancel any shares which, as at the date of the adoption of the resolution, have not been issued or agreed to be issued, and thereby reduce the amount of its share capital by the aggregate nominal value of the shares so canceled;

III SHARES

7. **Rights Attached to Shares**

7.1. Subject to any contrary provisions of the Memorandum (for as long as it is in effect) or the Articles, same rights, obligations and restrictions shall be attached to all the shares of the Company regardless of their denomination or class.

7.2. If at any time the share capital is divided into different classes of shares, the rights attached to any class may be modified or abrogated by a resolution adopted by a Determining Majority at a General Meeting and by the adoption of a resolution, supported by a Determining Majority, approving same modification or abrogation at a General Meeting of the holders of the shares of such class.

The provisions of the Articles relating to General Meeting of the Company 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.

7.3. The creation of additional shares of a specific class, or the issuance of additional shares of a specific class, shall not be deemed, for purposes of article 7.2, a modification or abrogation of rights attached to shares of such class or of any other class.

8. **<u>Issuance of Shares</u>**

Issuance of shares of the Company shall be under the control of the Board, who shall have the authority to issue the Company's shares or grant options to acquire shares, to such persons and on such terms and conditions as the Board may think fit, or to delegate such authority in accordance with the Law.

9. **<u>Share Certificates</u>**

9.1. Each member shall be entitled, not later than 60 days from the date of issuance or the date of transfer, to receive from the Company one share certificate in respect of all the shares of any class registered in his name on the Register of Members or, if approved by the Company, several share certificates, each for one or more of such shares.

9.2. Each share certificate issued by the Company shall be numerated, denote the class of the shares represented thereby and the name of the owner, thereof as registered on the Register of Members, and may also specify the amount paid-up thereon. A share certificate shall be signed on behalf the Company by the person or persons authorized by the Board.

9.3. A share certificate denoting two or more persons as joint owners of the shares represented thereby shall be delivered to any one of the persons named on the Register of Members in respect of such joint ownership.

9.4. A share certificate defaced or defective, may be replaced upon being delivered to the Company and being canceled. A share certificate lost or destroyed may be replaced upon furnishing of evidence to the satisfaction of the Board proving such loss or destruction and subject to the submission to the Company of an indemnity letter and/or securities as the Board may think fit.

A member requesting the replacement of a share certificate shall bear all expenses incurred by the Company in connection with the provisions of this Article.

10. **<u>Owners of Shares</u>**

The Company shall be entitled to treat the person registered in the Register of Members as the holder of any share, as the absolute owner thereof (a "**Registered Holder**") and shall also treat any other person deemed as a holder of shares pursuant to the Law, as an owner of shares.

11. **<u>Calls on Shares</u>**

11.1. The Board may, from time to time, make calls upon members to perform payment of any amount of the consideration of their shares not yet paid, provided same amount is not, by the terms of issuance of same shares, payable at a definite date. Each member shall pay to the Company the amount of every call so made upon him at the time(s) and place(s) designated in such call. Unless otherwise stipulated in the resolution of the Board, each payment with respect to a call shall be deemed to constitute a pro-rata payment on account of all of the shares in respect of which such call was made.

11.2. A call may contain a demand for payment in installments.

11.3. A call shall be made in writing and shall be delivered to the member(s) in question not less than fourteen (14) days prior to the date of payment stipulated therein. Prior to the due date stipulated in the call the Board may, by delivering a written notice to the member(s), revoke such call, in whole or in part, postpone the designated date(s) of payment or change the designated place of payment.

11.4. If, according to the terms of issuance of any share, any amount is due at a definite date, such amount shall be paid on same date, and the holder of the same share shall be deemed, for all intents and purposes, to have duly received a call in respect of such amount.

11.5. The joint holders of a share shall be bound jointly and severally to pay all calls in respect thereof. A call duly made upon one of the joint holders shall be deemed to have been duly made upon all of the joint holders.

11.6. Any amount not paid when due shall bear an interest from its due date until its actual payment at a rate equal to the then prevailing rate of interest for unauthorized overdrafts as charged by Bank Hapoalim Ltd, unless otherwise prescribed by the Board.

The provisions of this Article 11.6 shall in no way deprive the Company of, or derogate from any other rights and remedies the Company may have against such member pursuant to the Articles or any pertinent law.

11.7. The Board may agree to accept prepayment by any member of any amount due with respect to his shares, and may direct the payment of interest for such prepayment at a rate as may be agreed upon between the Board and the member so prepaying.

11.8. Upon the issuance of shares of the Company, the Board may stipulate similar or different terms with respect to the payment of the consideration thereof by their respective holders.

12. **Forfeiture and Surrender**

12.1. If any member fails to pay when due any amount payable pursuant to a call, or interest thereon as provided for herein, the Company may, by a resolution of the Board, at any time thereafter, so long as said amount or interest remains unpaid, forfeit all or any of the shares in respect of which said call had been made. All expenses incurred by the Company with respect to the collection of any such amount of interest, including, inter-alia, attorney's fees and costs of legal proceedings, shall be added to, and shall constitute a part of the amount payable to the Company in respect of such call for all purposes (including the accrual of interest thereon).

12.2. Upon the adoption of a resolution of forfeiture, the Board shall cause the delivery of a notice thereof to the member in question. Same notice shall specify that, in the event of failure to pay the entire amount due within the period stipulated in the notice (which period shall be not less than thirty (30) days), same failure shall cause, ipso facto, the forfeiture of the shares. Prior to the expiration of such period, the Board may extend the period specified in the notice of forfeiture or nullify the resolution of forfeiture, but such nullification shall not estop nor derogate from the power of the Board to adopt a further resolution of forfeiture in respect of the non-payment of said amount.

12.3. Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited together with the shares.

12.4. The Company, by a resolution of the Board, may accept the voluntary surrender by any member of all or any part of his shares.

12.5. Any share forfeited or surrendered as provided herein shall thereupon constitute the property of the Company, and may be resold. Such shares that have not yet been resold shall be considered dormant shares.

12.6. Any member whose shares have been forfeited or surrendered shall cease to be a member in respect of the forfeited or surrendered shares, but shall, notwithstanding, be obligated to pay to the Company all amounts at the time of forfeiture or surrender due to the Company with respect thereof, including interest and expenses as aforesaid until actual repayment, whether the maturity date of same amounts is on or prior to the date of forfeiture or surrender or at any time thereafter, and the Board, in its discretion, may enforce payment of such amounts or any part thereof, unless such shares have been resold in which event the provisions of the Law shall apply. In the event of such forfeiture or surrender, the Company, by a resolution of the Board, may accelerate the maturity date(s) of any or all amounts then owed to the Company by same member and not yet due, however, arising whereupon all of such amounts shall forthwith become due and payable.

The Board may, at any time before any share so forfeited or surrendered shall have been reissued or otherwise disposed of to a third party, nullify the forfeiture or the acceptance of the surrender on such conditions as it thinks fit, but such nullification shall not estop nor derogate from the power of the Board to re-exercise its powers of forfeiture pursuant to this Article 12.

13. **Lien**

13.1. The Company shall have, at all times, a first and paramount lien upon all the shares registered in the name of each member on the Register of Members, upon all the dividends declared in respect of such shares and upon the proceeds of the sale thereof, as security for his obligations. For the purposes of this Article 13 and of Article 14, the term "Obligation" shall mean any and all present and future indebtedness owed to the Company by a member with respect to his shares, however arising, whether such indebtedness is absolute or contingent, joint or several, matured or unmatured, liquidated or non-liquidated.

13.2. Shall a member fail to fulfill any or all of his Obligations, the Company may enforce the lien, after same member was provided with a period of fourteen (14) days to fulfill the Obligations so breached.

13.3. A member shall be obliged to reimburse the Company for all expenses thereby incurred with respect to the enforcement of a lien upon same member's shares, and such obligation shall be secured by the shares which are subject to same lien.

14. **Sale of Shares after Forfeiture or Surrender or in Enforcement of Lien**

14.1. Upon any sale of shares after forfeiture or surrender or in the course of enforcement of a lien, the Company may appoint any person to execute an adequate instrument of transfer or any other instrument required to effect the sale, and shall be entitled to register the purchaser on the Register of Members as the holder of the shares so purchased. The purchaser shall not be obliged to check the regularity of the proceedings of forfeiture, surrender or enforcement of a lien or the use that was made consideration thereby paid with respect to the shares.

As of the entry of the purchaser's name in the Register of Members in respect of such shares, the validity of the sale shall not be rebutted, and the sole remedy of any person aggrieved by the sale shall be in damages, and against the Company solely.

14.2. The net proceeds of any such sale, after payment of the selling expenses, shall serve for repayment of the Obligations of the respective member, and the balance if any shall be paid to the member, his inheritors, the executors of his will, the administrators of his estate, and to persons on his behalf.

15. **Redeemable Securities**

Subject to the Law, the Company may issue redeemable securities and redeem the same.

16. **Effectiveness of Transfer of Shares**

A transfer of title to shares of the Company, whether voluntarily or by operation of law, shall not confer upon the transferee any rights towards the Company as a Registered Holder unless and until such time as the transfer has been registered in the Register of Members.

17. **Procedure on Voluntary Transfer of Shares**

A person desiring to be registered as a Registered Holder, shall deliver to the Company an instrument of transfer of shares according to which he is the transferee accompanied by a notice to the effect, in a form to be prescribed by the Board, duly executed by such person and the transferor, and subject to the prior fulfillment of the provisions of Article 18 below, the Board shall instruct the registration of same in the Register of Members.

18. **Transfer of Shares**

18.1. The transfer of shares of the Company and any other securities issued by the Company and owned by a Registered Holder (in this Article 18, hereinafter, "**Securities**") shall be made in writing in a conventional manner or as established by the Board; it may be effected by the signature of the transferor only, on the condition that an appropriate share transfer deed shall be submitted to the Company.

18.2. Securities that are not paid up in full or are subject to any lien or pledge may not be transferred unless the transfer is approved by the Board, which may at its sole discretion withhold its approval without having to show grounds.

18.3. Any transfer of Securities that are not paid up in full shall be subject to the signature of the transferee and the signature of a witness in verification of the authenticity of the signatures on the share transfer deed.

18.4. The transferor shall be deemed to be the Registered Holder of the transferred Securities until the name of the transferee is entered in the Register of Members.

18.5. The share transfer deed shall be submitted to the office for registration together with the certificates to be transferred and such other evidence as the Company may require with regard to the transferor's title or right to transfer the Securities. The share transfer deed shall remain with the Company after its registration.

18.6. The Company may demand payment of a transfer registration fee at a rate to be determined by the Board from time to time.

18.7. The Board may close the Register of Members for a period no longer than 30 days every year.

18.8. Upon the death of a Registered Holder of Securities of the Company, the Company shall recognize the guardians, administrators of the estate, executors of the will, and in the absence of such persons, the inheritors of the deceased person as the only ones entitled to be registered as the Registered Holders of Securities of the Company, subject to proof of their rights in a manner established by the Board.

18.9. In the event of the deceased member being a Registered Holder of a Security jointly with other persons, the surviving member shall be considered the sole Registered Holder of said Securities, upon the approval of the Company, without exempting the estate of the deceased joint holder from any of the obligations relating to the jointly held Securities.

18.10. A person acquiring a right to a Security by virtue of his being a guardian or administrator of the estate or inheritor of the deceased member, or receiver, liquidator or trustee in liquidation proceedings regarding a corporate member, or by any operation of law, may be subject to submission of such proof of entitlement as the Board may establish be entered as the Registered Holder of the respective Security or transfer the Security subject to the provisions of the Articles with regard to such transfer.

18.11. A person acquiring a Security as a result of a transfer by operation of law shall be entitled to dividends and other rights in respect of the Security and also to receive and certify the receipt of dividends and other sums of money in connection with the said Security; however, such person shall not be entitled to receive notices of the convening of General Meetings of the Company or to participate or vote therein or to exercise any right conferred by the Security with the exception of the aforementioned rights, pending the registration of such person in the Register of Members.

19. **Issuance of Shares**

The number of shares, and other securities convertible or exercisable into shares, issued by the Company shall not exceed a maximum amount equal to the registered share capital of the Company; for this purpose, securities convertible or exercisable into shares, shall be considered as having been converted or exercised on the date of issuance.

IV GENERAL MEETINGS

20. **Annual Meeting**

20.1. An Annual Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual Meeting) and at such place as may be determined by the Board.

20.2. The Annual Meeting shall:

20.2.1. Discuss the audited financial statements of the Company for the last fiscal year;

20.2.2. Appoint auditors and establish their remuneration, or empower the Board to establish their remuneration;

20.2.3. Appoint the directors as stipulated in Article 32 below, and establish their remuneration;

20.2.4. Discuss any other business to be transacted at a General Meeting according to the Articles or by operation of law.

21. **Extraordinary Meeting**

21.1. All General Meetings other than Annual Meetings shall be called “Extraordinary Meetings”.

21.2. The Board may, whenever it thinks fit, convene an Extraordinary Meeting, and shall be obligated to do so upon receipt of a requisition in writing in accordance with Section 63 of the Law.

21.3. Members of the Company shall not be authorized to convene an Extraordinary Meeting except as provided in Section 64 of the Law.

22. **Notice of General Meetings**

22.1. Prior to any General Meeting, a written notice thereof shall be made public as required by Law. Such notice shall specify the place, the day and the hour of the General Meeting, the agenda of the meeting and such other information required under law. The notice will be published not less than fourteen (14) days prior to any General Meeting. The Company shall not be required to deliver notice to each shareholder, except as may be specifically required by Law.

22.2. Any written notice or other document may be served by the Company upon any member either personally or by sending it by prepaid mail addressed to such member at his address as described in the Register of Members or such other address as he may have designated in writing for the receipt of notices and other documents.

22.3. Notwithstanding anything to the contrary herein, notice by the Company of a General Meeting which is published in one international wire service shall be deemed to have been duly given on the date of such publication.

23. **Quorum**

23.1. Two or more members present in person or by proxy and holding shares conferring in the aggregate more than twenty-five percent (25%) of the total voting power attached to the shares of the Company, shall constitute a quorum at General Meetings. No business shall be considered or determined at a General Meeting, unless the requisite quorum is present when the General Meeting proceeds to consider and/or determine same business.

23.2. If within half an hour from the time appointed for the General Meeting a quorum is not present, the General Meeting shall, if convened upon requisition under Section 64 of the Law, be dissolved, but in any other case it shall stand adjourned on the same day, in the next week, at the same time and place. The requisite quorum at an adjourned General Meeting shall be any two or more members, present in person or by proxy. At an adjourned General Meeting the only businesses to be considered shall be those matters which might have been lawfully considered at the General Meeting originally called if a requisite quorum had been present, and the only resolutions to be adopted are such types of resolutions which could have been adopted at the General Meeting originally called.

24. **Chairman**

The Chairman, of the Board, or if there is no such chairman, or if he is not present, any other person appointed by the members present, shall preside as Chairman at a General Meeting of the Company. The Chairman of any General Meeting shall have no additional or casting vote.

25. **Adoption of Resolution at General Meetings**

25.1. A resolution, including, but not limited to, a resolution to amend these Articles and to approve a merger of the Company, shall be deemed adopted at a General Meeting 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 General Meeting and voted thereon, or such other percentage as is required by these Articles or by the Law.

25.2. Any proposed resolution put to vote at a General Meeting shall be decided by a poll.

25.3. Subject to approval by a General Meeting at which the requisite quorum is present, the chairman is obligated at the request of the General Meeting, to adjourn the General Meeting, and the adjourned meeting shall convene at such date and place as is decided by the General Meeting. If the General Meeting is adjourned by more than twenty-one (21) days, a notice of the adjourned meeting shall be given in the manner set forth in Sections 67 through 69 of the Law. An adjourned meeting may only transact such business as left unfinished at the original meeting.

25.4. A declaration by the Chairman of the General Meeting that a proposed resolution has been adopted or rejected, shall constitute conclusive evidence of the adoption or rejection, respectively, of same resolution, and no further proof verifying the contents of such declaration or the number or proportion of the votes recorded in favor of or against such resolution shall be required.

25.5. Notwithstanding anything to the contrary herein, for so long as the Shareholders Agreement is in effect, at the written request of any two directors with respect to any proposed action or transaction described below, such action or transaction shall require the approval of the General Meeting by a resolution supported by members present, in person or by proxy, vested with at least 50.1% of the outstanding shares of the Company, or by such higher approval threshold as may be required by Law:

25.5.1. any transaction of the Company or of a subsidiary of the Company with (i) an Officer of the Company or a nominee to become a director of the Company, (ii) a shareholder of the Company which owns 5% or more of its outstanding share capital, (iii) a family member of the first degree of any of the foregoing persons or (iv) an Affiliate of any of the foregoing. "**Officer**" shall have the meaning of "office holder" under the Law. "**Affiliate**" shall mean, with respect to any party, any person (a) in which such party, directly or indirectly, owns at least majority interest (both economic and voting), (b) which directly or indirectly owns a majority interest (both economic and voting) in such party, or (c) which, directly or indirectly, is in Control of or is Controlled by such party. "**Control**" shall mean, with respect to a person that is a corporation, the ownership, directly or indirectly, of voting securities of such person carrying more than 50% of the voting rights attaching to all voting securities of such person which are sufficient, if exercised, to elect a majority of its board of directors, and in relation to a person that is a partnership, limited partnership, business trust or other similar entity, the ownership, directly or indirectly, of voting securities of such person carrying more than 50% of the voting rights attaching to all voting securities of the person or the ownership of other interests entitling the holder to exercise control and direction over the activities of such person;

25.5.2. any amendment to the Memorandum or these Articles;

25.5.3. any merger or consolidation of the Company;

25.5.4. any material change in the Company's scope of business;

25.5.5. the voluntary liquidation or dissolution of the Company;

25.5.6. approval of the Company's annual budget and business plan, and any material deviation therefrom; and

25.5.7. any change of the signatory rights on behalf of the Company.

26. **Voting Power**

26.1. Subject to the provisions of Article 27.1 below and subject to any other provision hereof pertaining to voting rights attached or not-attached to shares of the Company, whether in general or in respect of a specific matter or matters, every member shall have one vote for each share registered in his name on the Register of Members, regardless of its denomination or class.

26.2. In case of equality of votes, the resolution shall be deemed to have been rejected.

27. **Attendance and Voting Rights at General Meeting**

27.1. 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 be counted as part of the quorum thereat) unless all amounts due as at the date designated for same General Meeting with respect to his shares were paid.

27.2. A corporate body being a member of the Company and entitled to vote and/or attend at a General Meeting may exercise such rights by authorizing any person, whether in general or for a specific General Meeting, to be present and/or vote on its behalf. Upon the request of the Chairman of the General Meeting, a writing evidence of such authorization and its validity (in a form acceptable to the Chairman) shall be furnished thereto.

27.3. A member entitled to vote and/or attend at a General Meeting may appoint a proxy, whether is general or for a specific General Meeting, to exercise such rights, in a form approved by the Board.

27.4. The instrument appointing a proxy shall be delivered to the Company not later than forty-eight (48) hours before the time designated for the General Meeting at which the person named in the instrument proposes to vote and/or attend.

27.5. A member entitled to vote and/or attend at a General Meeting and is legally incapacitated, may exercise such rights by his custodian.

27.6. If two or more persons are registered as joint owners of any share, the right to attend at a General Meeting, if attached to such share, shall be conferred upon all of the joint owners, but the right to vote at a General Meeting and/or the right to be counted as part of the quorum thereat, if attached to such share, shall be conferred exclusively upon the senior amongst the joint owners attending the General Meeting, in person or by proxy; and for this purpose seniority shall be determined by the order in which the names appear on the Register of Members.

27.7. The voting on the terms of the instrument of proxy shall be legal even in case of prior death or incapacity or bankruptcy of the principal, and in respect of a corporate principal, in case of its winding up or revocation of the instrument of proxy or transfer of the respective share, unless a notice in writing of such death or incapacity or bankruptcy or winding up or revocation of share transfer shall have been received by the Register of Members.

The written notice of revocation of the proxy shall be valid if signed by the principal and received by the Register of Members not later than one hour before the start of voting.

27.8. No proxy shall be valid after the expiry of 12 months from the date of its issue.

V BOARD OF DIRECTORS

28. **Powers of the Board**

28.1. The Board shall be vested with the exclusive authority to exercise all of the Company's powers which are not, by Law, the Memorandum (for as long as it is in effect), the Articles or any applicable law, required to be exercised by the General Meeting, the General Manager, or any other organ of the Company as such term is defined in the Law.

28.2. The Board shall set the policy guidelines for the Company and shall supervise the performance and activities of the General Manager.

29. **Exercise of Powers of the Board**

29.1. The powers conferred upon the Board shall be vested in the Board as a collective body, and not in each one or more of the directors individually, and all such powers may be exercised by the Board by adopting resolutions in accordance with the provisions of the Articles.

29.2. Except as otherwise required by these Articles, a resolution shall be deemed adopted at a meeting of the Board if supported by a majority of the directors attending such meeting and entitled to vote thereon. The Chairman of the Board shall have no casting vote, except as set forth in Article 41.2.

29.3. The Board may hold meetings using any means of communication, provided that all of the directors participating can simultaneously hear one another.

29.4. The Board may adopt resolutions without convening a meeting, as provided in the Law.

30. **Committees of Directors**

30.1. The Board may, subject to Section 112 of the Law, delegate any or all of its powers to committees, each consisting of two or more directors, one of which shall be an External Director, and it may, from time to time, revoke or alter the powers so delegated. Without derogating from the generality of the foregoing, subject to the Law, the Board may delegate to a committee its power to approve the terms of compensation of officers. Each committee shall, in the exercise of the powers so delegated, conform to any regulations and conditions prescribed by the Board upon the delegation or at any other time. Each resolution adopted by a committee within the powers delegated to it by the Board shall be deemed to have been held by the Board.

30.2. The Board will appoint from among its members an audit committee. All External Directors shall be members of the audit committee.

30.3. The provision of the Articles with respect to the meetings of the Board, their convening and adoption of resolutions thereat shall apply, mutatis mutandis, to the meetings of any such committee, unless otherwise prescribed by the Board.

31. **Number of Directors**

Unless otherwise prescribed by a resolution adopted at a General Meeting, the Board shall consist of not less than four (4) nor more than eight (8) directors (including the External Directors appointed as required under the Law).

32. **Appointment and Removal of Directors**

32.1. The directors shall be elected annually at a General Meeting as aforesaid and shall remain in office until the next Annual Meeting at which time they shall retire, unless their office is vacated previously as stipulated in the Articles, provided however that the External Directors shall be appointed, and shall remain in office, as prescribed in the Law.

32.2. The elected directors shall assume office on the day of their election.

32.3. A retiring director may be reelected. Pending the convening of an Annual Meeting at which the directors are to retire from office, all directors shall remain in office until the convening of the Annual Meeting of the Company except in case of prior vacation of a director’s office according to the Articles.

32.4. If no directors are elected at the Annual Meeting, all the retiring directors shall remain in office pending their replacement by a General Meeting of the Company.

32.5. Except with regard to a director whose tenure of office expires upon the convening of a General Meeting or a person recommended by the Board to serve as director, no motions for appointment of a candidate as a director shall be made unless a notice in writing signed by a member of the Company (other than the candidate himself) who is entitled to participate in and vote at the meeting, stating the intent of the said member to propose a candidate for election to the office of director, together with a document in writing by the candidate expressing his consent to be so elected, shall have been received at the office of the Company within a period of not less than forty-eight (48) hours and not more than forty-two (42) days before the appointed date of the General Meeting.

32.6. The General Meeting may, by way of a resolution, remove a director from office before the expiry of his tenure, and appoint another person to serve as director of the Company in his place, and also appoint a number of directors in the event of the number of directors having decreased below the minimum established by the General Meeting.

32.7. The provisions of this Article 32 shall not apply to External Directors, whose appointment and removal shall be pursuant to the relevant provisions of the Law.

33. **Qualification of Directors**

No person shall be disqualified to serve as a director by reason of his not holding shares in the Company or by reason of his having served as director in the past.

The provisions of this Article 33 shall not apply to External Directors, whose qualifications are as set forth in the relevant provisions of the Law.

34. **Vacation of Director's Office**

The office of a director shall be vacated:

34.1. Upon his death;

34.2. On the date at which he is declared a bankrupt;

34.3. On the date he is declared legally incapacitated;

34.4. On the date stipulated therefor in the resolution of his election or the notice of his appointment, as the case may be;

34.5. On the date stipulated therefor in the resolution or notice of his removal or on the date of the delivery of such notice to the Company, whichever is later;

34.6. On the date stipulated therefor in a written notice of resignation thereby delivered to the Company or upon its delivery to the Company, whichever is later.

34.7. If he is convicted in a final judgment of an offence of a nature which disqualifies a person from serving as a director, as set forth in the Law.

34.8. If a court of competent jurisdiction decides to terminate his office, in accordance with the provisions of the Law, in a decision or judgment for which no stay of enforcement is granted.

35. **Remuneration of Directors**

The directors shall be entitled to remuneration by the Company for their services as directors. The remuneration may be established as a global sum or as a fee for participation in meetings. In addition to such remuneration, every director shall be entitled to a refund of reasonable expenses for travel, per diem money, and other expenses related to the discharge of his duties as a director.

The provisions of this Article 35 shall not apply to External Directors, whose remuneration shall be in accordance with the relevant provisions of the Law.

36. **Conflict of Interests**

The approval of any transaction that involves a conflict of interest with an Officer shall be approved in accordance with the Law and these Articles.

37. **Alternate Director**

37.1. Subject to the approval of the Board, a director may, by delivering a written notice to the Company, appoint an alternate for himself (hereinafter referred to as "**Alternate Director**"), remove such Alternate Director and appoint another Alternate Director in place of any Alternate Director appointed by him whose office has been vacated for any reason whatsoever. The appointment of the Alternate Director shall be for an indefinite period and for all purposes, unless restricted to a specific period, to a specific meeting or act of the Board, to a specific matter or in any other manner, and same restriction was specified in the appointment instrument or in a written note delivered to the Company.

37.2. Any notice delivered to the Company pursuant to Article 37.1 shall become effective on the date specified therefor therein or upon delivery thereof to the Company or upon approval of the Board, whichever is later.

37.3. An Alternate Director shall be vested with all rights and shall bear all obligations of the director who appointed him, provided, however, that he shall not be entitled to appoint an alternate for himself (unless the instrument appointed him expressly provides otherwise), and provided further that the Alternate Director shall have no standing at any meeting of the Board or any committee thereof whereat the director who appointed him is present.

37.4. The following 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.

37.5. The office of an Alternate Director shall be vacated under the circumstances, mutatis mutandis, set forth in Article 34, and such office shall further be ipso facto vacated if the director who appointed such Alternate Director ceases to be a director.

38. **Meeting of the Board**

38.1. Subject to Articles 40 and 41 below, the Board may meet, adjourn its meeting and otherwise determine and regulate such meetings and their proceedings as it deems fit.

38.2. Upon the vacation of the office of a director, the remaining directors may continue to discharge their functions until the number of remaining directors decreases below the minimum established in the Articles. In the latter case the remaining directors may only act to convene a General Meeting of the Company.

38.3. The Board, by unanimous approval of all directors then in office, may at any time appoint any person to serve as director as replacement for a vacated office or in order to increase the number of directors, subject to the condition that the number of directors shall not exceed the maximum established in these Articles. Any so appointed director shall remain in office until the next Annual Meeting, at which he may be reelected.

39. **Convening Meetings of the Board**

39.1. The Chairman of the Board may, at any time, convene a meeting of the Board, and shall be obliged to do so (i) at least once every three months, (ii) upon receipt of a written demand from any one director, or (iii) in accordance with Section 122(4) or 169 of the Law. In the event there is no such Chairman or a meeting of the Board was not convened to a date which is no later then ten (10) days following delivery of such written demand or receipt of the relevant notice or report, any of the abovementioned directors may convene a meeting of the Board.

Convening a meeting of the Board shall be made by delivering a notice thereof to all of the directors within a reasonable length of time prior to the date thereof. Such notice shall specify the exact time and place of the meeting so called and a reasonably detailed description of the all of the issues on the agenda for such meeting.

39.2. A resolution adopted at a meeting of the Board, which had not convened in accordance with the necessary requirements set forth in the Law or these Articles may be invalidated in accordance with the applicable provisions of the Law.

39.3. A director may waive his right to receive prior notice of any meeting, in general or in respect of a specific meeting, and shall be deemed to have waived such right with respect to any meeting at which he was present.

40. **Quorum**

A majority of the number of directors then in office and entitled to participate in the discussion shall constitute a quorum at meetings of the Board, except if and as otherwise required in accordance with the Law. No business shall be considered or determined at any meeting of the Board unless the requisite quorum is present when the meeting proceeds to consider or determine same business.

41. **Chairman of the Board**

41.1. The Board may from time to time elect one of its members to be the Chairman of the Board, remove such Chairman from office and appoint another in his place. However, the General Manager shall not serve as the Chairman of the Board, nor shall the Chairman of the Board be vested with the powers designated to the General Manager, except in accordance with Section 121(3) of the Law. The Chairman of the Board shall preside at every meeting of the Board, but if there is no such Chairman, or if he is not present or he is unwilling to take the chair at any meeting, the directors present shall elect one of their members to be chairman of such meeting.

41.2. The 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 thereof, then holds at least 25.05% of the outstanding shares of the Company. Notwithstanding the foregoing, in case Mr. Shlomo Nehama elects to exercise his casting vote in respect of a specific resolution brought before the Board (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 Section 6 of the Shareholders Agreement as an Offering Party (as defined in the Shareholders Agreement), whereby the Triggering Resolution will be pending until the consummation of the sale of the Restricted Shares (as defined in the Shareholders Agreement) of one party to the Shareholders Agreement to the other party of the Shareholders Agreement in accordance with such "Buy Me Buy You" mechanism; and (b) in the event that three (3) directors of the Company so require, the Triggering Resolution shall be conditioned upon the approval of the General Meeting pursuant to Article 25.1. Upon a transfer of the Restricted Shares by Kanir to third party in accordance with the terms of the Shareholders Agreement, the casting vote of the Chairman of the Board shall expire.

VI GENERAL MANAGER

42. **General Manager**

42.1. The Board shall appoint one or more persons, whether or not directors, as General Manager(s) of the Company, either for a definite period or without any limitation of time, and may confer powers, authorities and rights and/or impose duties and obligations upon such person or persons and determine his or their salaries as the Board may deem fit and subject to the provisions of the Law. Subject to the Law, the Board may delegate to the General Manager its power to approve the terms of compensation of other officers.

VII MINUTES OF THE BOARD

43. **Minutes**

43.1. The proceedings of each meeting of the Board and meeting of committee of the Board shall be recorded in the minutes of the Company. Such minutes shall set forth the names of the persons present at every such meeting and all resolutions adopted thereat and shall be signed by the chairman of the meeting.

43.2. All minutes approved and signed by the chairman of the meeting or the Chairman of the Board, shall constitute prima facie evidence of its contents.

VIII INTERNAL AUDITOR

44. **Internal Auditor**

44.1. The Board shall appoint an internal auditor in accordance with the provisions of the Law.

44.2. The Internal Auditor shall submit to the audit committee a proposal for an annual or periodic work program for its approval. The Audit Committee shall approve such proposal subject to the modifications which it considers necessary.

44.3. The General Manager shall be in charge of and supervise the Internal auditor's performance of its obligations.

IX DIVIDENDS AND PROFITS

45. **Declaration of Dividends**

45.1. The Board may, from time to time, subject to the provisions of the Law, declare a dividend at a rate as the Board may deem considering the accrued profits of the Company as set forth in its financial statements, and provided that the payment of such dividends will not reasonably prevent the Company from meeting its current and expected liabilities.

45.2. Subject to any special or restricted rights conferred upon the holders of shares as to dividends, all dividends shall be declared and paid in accordance with the paid-up capital of the Company attributable to the shares in respect of which the dividends are declared and paid. The paid-up capital attributable to any share (whether issued at its nominal value, at a premium or at a discount), shall be nominal value of such share. Provided, however that if the entire consideration for same share was not yet paid to the Company, the paid-up capital attribute thereto shall be such proportion of the nominal value as the amount paid to the Company with respect to the share bears to its full consideration, and further provided the amounts which have been prepaid on account of shares and the Company has agreed to pay interest thereon shall not be deemed, for the purposes of this Article, to be payments on account of such shares. In the event no amount has been paid with respect to any shares whatsoever, dividends may be declared and paid according to the nominal value of the shares.

45.3. Notice of the declaration of dividends shall be published as required by applicable law.

46. **Rights to Participate in the Distribution of Dividends**

46.1. Subject to special rights with respect to the Company's profits to be conferred upon any person pursuant to these Articles and the Law, all the profits of the Company may be distributed among the members entitled to participate in the distribution of dividends.

46.2. Notwithstanding for foregoing, a holder of shares shall not be attributed with the right to participate in the distribution of dividends the record date for which preceded the date of issuance of such shares.

47. **Interest on Dividends**

The Company shall not be obligated to pay, and shall not pay interest on declared dividends.

48. **Payment of Dividends**

Subject to Article 49, a declared dividend may be paid by wire transfer or a check made to the order of the person entitled to receive such dividend (and if there are two or more persons entitled to the dividend in respect of the same share – to the order of any one of such persons) or to the order of such person as the person entitled thereto may direct in writing. Same check shall be sent to the address of the person entitled to the dividend, as notified to the Company.

49. **Payment in Specie**

Upon the recommendation of the Board, dividends may be paid, wholly or partly, by the distribution of specific assets of the Company and/or by the distribution of shares and/or debentures of the Company and/or of any other company, or in any combination of such manners.

50. **Setting-Off Dividends**

The Company's obligation to pay dividends or any other amount in respect of shares, may be set-off by the Company against any indebtedness, however arising, liquidated or non-liquidated, of the person entitled to receive the dividend.

The provisions contained in this Article shall not prejudice any other right or remedy vested with the Company pursuant to the Articles or any applicable law.

51. **Unclaimed Dividends**

51.1. Dividends unclaimed by the person entitled thereto within thirty (30) days after the date stipulated for their payment, may be invested or otherwise used by the company, as it deems fit, until claimed; but the Company shall not be deemed a trustee in respect thereof.

51.2. Dividends unclaimed within the period of seven (7) years from the date stipulated for their payment, shall be forfeited and shall revert to the Company, unless otherwise directed by the Board.

52. **Reserves and Funds**

52.1. The Board may, before recommending the distribution of dividends, determine to set aside out of the profits of the Company or out of an assets revaluation fund and carry to reserve or reserves such sums as it deems fit, and direct the designation, application and use of such sums. The Board may further determine that any such sums which it deems prudent not to distribute as dividends will not be set aside for reserve, but shall remain as such at the disposal of the Company.

52.2. The Board may, from time to time, direct the revaluation of the assets of the Company, in whole or in part, and the creation of an assets revaluation fund out of the revaluation surplus, if any.

53. **Capitalization of Profits**

53.1. The Board may capitalize all or any part of the sums or assets allocated to the credit of any reserve fund or to the credit of the profit and loss account or being otherwise distributable as dividends (including sums or assets received as premiums on the issuance of shares or debentures), and direct accordingly that such sums or assets be released for distribution amongst the members who would have been entitled thereto if distributed by way of dividends and in the same proportion; provided that same sums or assets be not paid in cash or in specie but be applied for the payment in full or in part of the unpaid consideration of the issued shares held by such members and/or for the payment in full of the consideration (as shall be stipulated in said resolution) for shares or debentures of the Company to be issued to such members subsequent to the date of said resolution, credited as fully paid up.

53.2. In the event a resolution as aforesaid shall have been adopted, the Board shall make all adjustments and applications of the moneys or assets resolved to be capitalized thereby, and shall do all acts and things required to give effect thereto. The Board may authorize any person to enter into agreement with the Company on behalf of all members entitled to participate in such distribution, providing for the issuance to such members of any shares or debentures, credited as fully paid, to which they may be entitled upon such capitalization or for the payment on behalf of such members, by the application thereto of the proportionate part of the money or assets resolved to be capitalized, of the amounts or any part thereof remaining unpaid on their existing shares, and any agreement made under such authority shall be effective and binding upon all such members.

X ACCOUNTING BOOKS

54. **Accounting Books**

54.1. The Board shall cause the Company to hold proper accounting books and to prepare an annual balance sheet, a statement of Profit and Loss, and such other financial statements as the Company may be required to prepare under law.

The accounting books of the Company shall be held at the office or at a place deemed fit by the Board, and they shall be open to inspection by the directors.

54.2. The Board may determine at its sole discretion the terms on which any of the accounts and books of the Company shall be open to inspection by members, and no member (other than a director) shall be entitled to inspect any account or ledger or document of the Company unless such right is granted by law or by the Board.

54.3. At least once a year, the Board shall submit to the Annual Meeting financial statements for the period from the previous statement as required by Law. The balance sheet shall be accompanied by an auditors' report, if available.

54.4. The Company shall not be required to send copies of its financial statements to members.

XI BRANCH REGISTERS

55. **Authority to keep Branch Registers**

The Company may keep branch registers in any reciprocal state.

56. **Provisions in respect of keeping Branch Registers**

Subject to the provisions contained in the Law, the Board shall be authorized to make such rules and procedures in connection with the keeping of branch registers as it may, from time to time, think fit.

XII SIGNATURES

57. **The Company's Signature**

57.1. A document shall be deemed signed by the Company upon the fulfillment of the following:

57.1.1. It bears the name of the Company in print;

57.1.2. It bears the signature of one or more persons authorized therefor by the Board; and

57.1.3. The act of the person authorized by the Board as aforesaid was within its authority and without deviation therefrom.

57.2. The signatory rights on behalf of the Company shall be determined by the Board.

57.3. An authorization by the Board as provided in Article 57.2 may be for a specific matter, for a specific document or for a certain sort of document or for all the Company's documents or for a definite period of time or for an unlimited period of time, provided that any such authority may be terminated by Board, at will.

57.4. The provisions of this Article shall apply both to the Company's documents executed in Israel and the Company's documents executed abroad.

XIII NOTICES

58. **Notices in Writing**

58.1. Notices pursuant to the Law, the Memorandum and the Articles shall be made in the manner prescribed by the Board from time to time.

58.2. Unless otherwise prescribed by the Board, all notices shall be made in writing and shall be sent by mail.

59. **Delivery of Notices**

59.1. Each member and each director shall notify the Company in writing of his address for the receipt of notices, documents and other communications relating to the Company, its business and affairs.

59.2. Any notice, document or other communication shall be deemed to have been received at the time received by the addressee, or if sent by registered mail, within three (3) days from its dispatch, whichever is earlier.

59.3. The address for the purposes of Article 59.2 shall be the address furnished pursuant to Article 59.1, and the address of the Company for the purposes of Article 59.2 shall be its registered address or principal place of business.

XIV INDEMNITY AND INSURANCE

60. **Indemnity of Officers**

60.1. The Company may, from time to time and subject to any provision of law, indemnify an Officer in respect of a liability or expense set out below which is imposed on him or incurred by him as a result of an action taken in his capacity as an Officer of the Company:

60.1.1. 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;

60.1.2. reasonable litigation expenses, including legal fees, incurred by the Officer as a result of an investigation or proceeding instituted against such Officer 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 (the phrases "proceeding that has ended without the filing of an indictment" and "financial obligation in lieu of a criminal proceeding" shall have the meanings ascribed to such phrases in Section 260(a)(1a) of the Companies Law); and

60.1.3. reasonable litigation expenses, including legal fees, which the Officer 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.

60.2. The Company may, from time to time and subject to any provision of the law:

60.2.1. Undertake in advance to indemnify an Officer of the Company for any of the following:

(i) any liability as set out in Article 60.1.1 above, provided that the undertaking to indemnify is limited to the classes of events which in the opinion of the Board can be anticipated in light of the Company's activities at the time of giving the indemnification undertaking, and for an amount and/or criteria which the Board has determined are reasonable in the circumstances and, the events and the amounts or criteria that the 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 Article 60.1.2 or 60.1.3 above;

60.2.2. indemnify an Officer after the occurrence of the event which is the subject of the indemnity.

61. **Insurance of Officer**

The Company may enter into an agreement for the insurance of the liability of an Officer, in whole or in part, with respect to any liability which may imposed upon such Officer as a result of an act performed by same Officer in his capacity as an Officer of the Company, for any of the following:

61.1.1. A breach of a cautionary duty toward the Company or toward another person;

61.1.2. A breach of a fiduciary duty toward the Company, provided the Officer acted in good faith and has had reasonable ground to assume that the act would not be detrimental to the Company;

61.1.3. A monetary liability imposed upon an Officer toward another.

61A. **Exemption**

Subject to the provisions of the Companies Law, including the receipt of all approvals as required therein or under any applicable law, the Board may resolve in advance to exempt an Officer from all or part of such Officer's responsibility or liability for damages caused to the Company due to any breach of such Officer's duty of care towards the Company.

XV WINDING UP

62. **Distribution of Assets**

If the Company be wound up, then, subject to provisions of any applicable law and to any special or restricted rights attached to a share, the assets of the Company in excess of its liabilities shall be distributed among the members in proportion to the paid-up capital of the Company attributable to the shares in respect of which such distribution is being made. The paid-up capital attributable to any share (whether issued at its nominal value, at a premium or at a discount), shall be a nominal value of such share, provided, however, that if the entire consideration for same share was not yet paid to the Company, the paid-up capital attributable thereto shall be such proportion of the nominal value as the amount paid to the Company with respect to the share bears to its full consideration.

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.

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, 2009

/s/ Ran Fridrich

Ran Fridrich
Interim 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.

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, 2009

/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.

In connection with the Annual Report on Form 20-F of Ellomay Capital Ltd. (the "Company") for the year ended December 31, 2008 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
Interim Chief Executive Officer

/s/ Kalia Weintraub

Kalia Weintraub
Chief Financial Officer

Date: March 31, 2009

Exhibit 14.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-102288 and 333-92491) pertaining to the Employee Stock Option plans of Ellomay Capital Ltd. (“the Company”) and Forms F-3 (File Nos. 333-144171, 333-115826, 333-114428, 333-47842 and 333-92493) of the Company and in the related Prospectuses of our report dated March 31, 2009, with respect to the consolidated financial statements of Ellomay Capital Ltd. and its subsidiaries included in this Annual Report on Form 20-F for the year ended December 31, 2008.

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Tel Aviv, Israel
March 31, 2009

Exhibit 14.2

[BDO McCabe Lo Limited Letterhead]

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-102288 and 333-92491) pertaining to the Employee Stock Option plans of Ellomay Capital Ltd. ("the Company") and Form F-3 (File Nos. 333-144171, 333-115826, 333-114428, 333-47842 and 333-92493) of the Company and in the related Prospectus of our report dated June 26, 2008 with respect to the financial statements of NUR Asia Pacific Limited included in the Annual Report on Form 20-F of Ellomay Capital Ltd. for the year ended December 31, 2008.

/s/ *BDO McCabe Lo Limited*

BDO McCabe Lo Limited
Certified Public Accountants

March 31, 2009