ROYAL BANK OF CANADA
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RBC Capital Markets®	Filed Pursuant to Rule 433 Registration Statement No. 333-208507

The information in this preliminary terms supplement is not complete and may be changed.

Preliminary Terms Supplement Subject to Completion: Dated August 7, 2018 Pricing Supplement Dated August __, 2018 to the Product Prospectus Supplement ERN-ETF-1 Dated January 11, 2016, Prospectus Supplement Dated January 8, 2016, and Prospectus Dated January 8, 2016	$ __________ Barrier Enhanced Return Notes Linked to the Financial Select Sector SPDR® Fund, Due September 2, 2020 Royal Bank of Canada

Royal Bank of Canada is offering the Barrier Enhanced Return Notes (the “Notes”) linked to the performance of the Financial Select Sector SPDR® Fund (the “Reference Asset”).

The CUSIP number for the Notes is 78013XSN9. The Notes do not pay interest. The Notes provide a 200% leveraged positive return if the share price of the Reference Asset increases from the Initial Level to the Final Level, subject to the Maximum Redemption Amount of [16-20]% of the principal amount of the Notes (to be determined on the Pricing Date). Investors are subject to one-for-one loss of the principal amount of the Notes in percentage terms if the closing price of the Reference Asset on the Valuation Date is less than 75% of the Initial Level. Any payments on the Notes are subject to our credit risk.

Issue Date: August 31, 2018
Maturity Date: September 2, 2020

The Notes will not be listed on any securities exchange.

Investing in the Notes involves a number of risks. See “Risk Factors” beginning on page S-1 of the prospectus supplement dated January 8, 2016, “Additional Risk Factors Specific to the Notes” beginning on page PS-6 of the product prospectus supplement dated January 11, 2016, and “Selected Risk Considerations” beginning on page P-6 of this terms supplement.

The Notes will not constitute deposits insured by the Canada Deposit Insurance Corporation, the U.S. Federal Deposit Insurance Corporation or any other Canadian or U.S. government agency or instrumentality.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this terms supplement is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Note	Total
Price to public(1)	100.00%	$
Underwriting discounts and commissions(1)	2.25%	$
Proceeds to Royal Bank of Canada	97.75%	$

(1) Certain dealers who purchase the Notes for sale to certain fee-based advisory accounts may forego some or all of their underwriting discount or selling concessions. The public offering price for investors purchasing the Notes in these accounts may be between $977.50 and $1,000 per $1,000 in principal amount.

The initial estimated value of the Notes as of the date of this terms supplement is $957.20 per $1,000 in principal amount, which is less than the price to public. The final pricing supplement relating to the Notes will set forth our estimate of the initial value of the Notes as of the Pricing Date, which will not be less than $937.20 per $1,000 in principal amount. The actual value of the Notes at any time will reflect many factors, cannot be predicted with accuracy, and may be less than this amount. We describe our determination of the initial estimated value in more detail below.

If the Notes priced on the date of this terms supplement, RBC Capital Markets, LLC, which we refer to as RBCCM, acting as agent for Royal Bank of Canada, would receive a commission of approximately $22.50 per $1,000 in principal amount of the Notes and would use a portion of that commission to allow selling concessions to other dealers of up to approximately $22.50 per $1,000 in principal amount of the Notes. The other dealers may forgo, in their sole discretion, some or all of their selling concessions. See "Supplemental Plan of Distribution (Conflicts of Interest)" below.

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SUMMARY

The information in this "Summary" section is qualified by the more detailed information set forth in this terms supplement, the product prospectus supplement, the prospectus supplement, and the prospectus.

Issuer:	Royal Bank of Canada ("Royal Bank")
Issue:	Senior Global Medium-Term Notes, Series G
Underwriter:	RBC Capital Markets, LLC ("RBCCM")
Reference Asset:	Financial Select Sector SPDR® Fund, which seeks investment results that generally correspond (before fees and expenses) to the price and yield of the Financial Select Sector Index (the "Underlying Index").
Bloomberg Ticker:	XLF
Currency:	U.S. Dollars
Minimum Investment:	$1,000 and minimum denominations of $1,000 in excess thereof
Pricing Date:	August 28, 2018
Issue Date:	August 31, 2018
CUSIP:	78013XSN9
Valuation Date:	August 28, 2020
Payment at Maturity (if held to maturity):	If, on the Valuation Date, the Percentage Change is positive, then the investor will receive an amount per $1,000 principal amount per Note equal to the lesser of: 1. Principal Amount + (Principal Amount x Percentage Change x Leverage Factor); and 2. the Maximum Redemption Amount. If, on the Valuation Date, the Percentage Change is less than or equal to 0%, but the Final Level is not less than the Barrier Level (that is, the Percentage Change is between zero and -25%), then the investor will receive the principal amount only. If, on the Valuation Date, the Final Level is less than the Barrier Level (that is, the Percentage Change is between -25.01% and -100%), then the investor will receive a cash payment equal to: Principal Amount + (Principal Amount x Percentage Change) In this case, you will lose all or a portion of the principal amount of the Notes.
Percentage Change:	The Percentage Change, expressed as a percentage, is calculated using the following formula: $\frac{\text{Final Level- Initial Level}}{\text{Initial Level}}$
Initial Level:	The closing share price of the Reference Asset on the Pricing Date.

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Final Level:	The closing share price of the Reference Asset on the Valuation Date.
Leverage Factor:	200%
Maximum Redemption Amount:	[16-20]% of the principal amount of the Notes (to be determined on the Pricing Date)
Barrier Level:	75% of the Initial Level
Maturity Date:	September 2, 2020, subject to extension for market and other disruptions, as described in the product prospectus supplement dated January 11, 2016.
Term:	Approximately two (2) years
Principal at Risk:	The Notes are NOT principal protected. You may lose all or a substantial portion of your principal amount at maturity if the Final Level is less than the Barrier Level.
Calculation Agent:	RBCCM
U.S. Tax Treatment:	By purchasing a Note, each holder agrees (in the absence of a change in law, an administrative determination or a judicial ruling to the contrary) to treat the Notes as a pre-paid cash-settled derivative contract for U.S. federal income tax purposes. However, the U.S. federal income tax consequences of your investment in the Notes are uncertain and the Internal Revenue Service could assert that the Notes should be taxed in a manner that is different from that described in the preceding sentence. Please see the section below, "Supplemental Discussion of U.S. Federal Income Tax Consequences," and the discussion (including the opinion of our counsel Morrison & Foerster LLP) in the product prospectus supplement dated January 11, 2016 under "Supplemental Discussion of U.S. Federal Income Tax Consequences," which apply to the Notes.
Secondary Market:	RBCCM (or one of its affiliates), though not obligated to do so, may maintain a secondary market in the Notes after the Issue Date. The amount that you may receive upon sale of your Notes prior to maturity may be less than the principal amount of your Notes.
Listing:	The Notes will not be listed on any securities exchange.
Clearance and Settlement:	DTC global (including through its indirect participants Euroclear and Clearstream, Luxembourg as described under "Description of Debt Securities—Ownership and Book-Entry Issuance" in the prospectus dated January 8, 2016).
Terms Incorporated in the Master Note:	All of the terms appearing above the item captioned "Secondary Market" on pages P-2 and P-3 of this terms supplement and the terms appearing under the caption "General Terms of the Notes" in the product prospectus supplement dated January 11, 2016, as modified by this terms supplement. In addition to those terms, the following two sentences are also so incorporated into the master note: RBC confirms that it fully understands and is able to calculate the effective annual rate of interest applicable to the Notes based on the methodology for calculating per annum rates provided for in the Notes. RBC irrevocably agrees not to plead or assert Section 4 of the Interest Act (Canada), whether by way of defense or otherwise, in any proceeding relating to the Notes.

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ADDITIONAL TERMS OF YOUR NOTES

You should read this terms supplement together with the prospectus dated January 8, 2016, as supplemented by the prospectus supplement dated January 8, 2016 and the product prospectus supplement dated January 11, 2016, relating to our Senior Global Medium-Term Notes, Series G, of which these Notes are a part. Capitalized terms used but not defined in this terms supplement will have the meanings given to them in the product prospectus supplement. In the event of any conflict, this terms supplement will control. The Notes vary from the terms described in the product prospectus supplement in several important ways. You should read this terms supplement carefully.

This terms supplement, together with the documents listed below, contains the terms of the Notes and supersedes all prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in "Risk Factors" in the prospectus supplement dated January 8, 2016 and "Additional Risk Factors Specific to the Notes" in the product prospectus supplement dated January 11, 2016, as the Notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Notes. You may access these documents on the Securities and Exchange Commission (the "SEC") website at www.sec.gov as follows (or if that address has changed, by reviewing our filings for the relevant date on the SEC website):

Prospectus dated January 8, 2016:
http://www.sec.gov/Archives/edgar/data/1000275/000121465916008810/j18160424b3.htm
Prospectus Supplement dated January 8, 2016:
http://www.sec.gov/Archives/edgar/data/1000275/000121465916008811/p14150424b3.htm
Product Prospectus Supplement ERN-ETF-1 dated January 11, 2016:
https://www.sec.gov/Archives/edgar/data/1000275/000114036116047385/form424b5.htm

Our Central Index Key, or CIK, on the SEC website is 1000275. As used in this terms supplement "we," "us," or "our" refers to Royal Bank of Canada.

Royal Bank of Canada has filed a registration statement (including a product prospectus supplement, a prospectus supplement, and a prospectus) with the SEC for the offering to which this terms supplement relates. Before you invest, you should read those documents and the other documents relating to this offering that we have filed with the SEC for more complete information about us and this offering. You may obtain these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, Royal Bank of Canada, any agent or any dealer participating in this offering will arrange to send you the product prospectus supplement, the prospectus supplement and the prospectus if you so request by calling toll-free at 1-877-688-2301.

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HYPOTHETICAL RETURNS

The examples set out below are included for illustration purposes only. The hypothetical Percentage Changes of the Reference Asset used to illustrate the calculation of the Payment at Maturity (rounded to two decimal places) are not estimates or forecasts of the Initial Level, the Final Level or the share price of the Reference Asset on any trading day prior to the Maturity Date. All examples assume a Barrier Level of 75% of the Initial Level, a Leverage Factor of 200%, a hypothetical Maximum Redemption Amount of 109% of the principal amount of the Notes (the midpoint of the Maximum Redemption Amount set forth on the cover page) and that a holder purchased Notes with an aggregate principal amount of $1,000 and that no market disruption event occurs on the Valuation Date.

Example 1—Calculation of the Payment at Maturity where the Percentage Change is positive.

Percentage Change: 3%

Payment at Maturity: $1,000 + ($1,000 x 3% x 200%) = $1,000 + $60.00 = $1,060.00

On a $1,000 investment, a 3% Percentage Change results in a Payment at Maturity of $1,060.00, a 6% return on the Notes.

Example 2—Calculation of the Payment at Maturity where the Percentage Change is positive (and the Payment at Maturity is subject to the Maximum Redemption Amount).

Percentage Change: 15%

Payment at Maturity: $1,000 + ($1,000 x 15% x 200%) = $1,000 + $300.00 = $1,300.00
However, the Maximum Redemption Amount is $1,180.00

On a $1,000 investment, a 15% Percentage Change results in a Payment at Maturity of $1,180, an 18% return on the Notes.

Example 3—Calculation of the Payment at Maturity where the Percentage Change is negative (but the Final Level is greater than the Barrier Level).

Percentage Change: -20%

Payment at Maturity: In this case, even though the Percentage Change is negative, you will receive the principal amount of your Notes at maturity, because the closing price of the Reference Asset on the Valuation Date is greater than the Initial Level.

On a $1,000 investment, a -20% Percentage Change results in a Payment at Maturity of $1,000, a 0% return on the Notes.

Example 4—Calculation of the Payment at Maturity where the Percentage Change is negative, and the Final Level is less than the Barrier Level

Percentage Change: -75%

Payment at Maturity: $1,000 + ($1,000 x -75%) = $1,000 - $750.00 = $250.00

On a $1,000 investment, a -75% Percentage Change results in a Payment at Maturity of $250.00, a -75.00% return on the Notes.

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SELECTED RISK CONSIDERATIONS

An investment in the Notes involves significant risks. Investing in the Notes is not equivalent to investing directly in the Reference Asset. These risks are explained in more detail in the section "Additional Risk Factors Specific to the Notes," beginning on page PS-4 of the product prospectus supplement. In addition to the risks described in the prospectus supplement and the product prospectus supplement, you should consider the following:

- Principal at Risk - Investors in the Notes could lose all or a substantial portion of their principal amount if the Final Level is less than the Barrier Level. In such a case, you will lose 1% of the principal amount of your Notes for each 1% that the Final Level is less than the Initial Level.
- The Notes Do Not Pay Interest and Your Return May Be Lower than the Return on a Conventional Debt Security of Comparable Maturity – There will be no periodic interest payments on the Notes as there would be on a conventional fixed-rate or floating-rate debt security having the same maturity. The return that you will receive on the Notes, which could be negative, may be less than the return you could earn on other investments. Even if your return is positive, your return may be less than the return you would earn if you bought a conventional senior interest bearing debt security of Royal Bank.
- Your Potential Payment at Maturity Is Limited – The Notes will provide less opportunity to participate in the appreciation of the Reference Asset than an investment in a security linked to the Reference Asset providing full participation in the appreciation, because the payment at maturity will not exceed the Maximum Redemption Amount. Accordingly, your return on the Notes may be less than your return would be if you made an investment in the Reference Asset or a security directly linked to the positive performance of the Reference Asset.
- Payments on the Notes Are Subject to Our Credit Risk, and Changes in Our Credit Ratings Are Expected to Affect the Market Value of the Notes – The Notes are Royal Bank's senior unsecured debt securities. As a result, your receipt of the amount due on the maturity date is dependent upon Royal Bank's ability to repay its obligations at that time. This will be the case even if the share price of the Reference Asset increases after the Pricing Date. No assurance can be given as to what our financial condition will be at the maturity of the Notes.
- There May Not Be an Active Trading Market for the Notes—Sales in the Secondary Market May Result in Significant Losses – There may be little or no secondary market for the Notes. The Notes will not be listed on any securities exchange. RBCCM and other affiliates of Royal Bank may make a market for the Notes; however, they are not required to do so. RBCCM or any other affiliate of Royal Bank may stop any market-making activities at any time. Even if a secondary market for the Notes develops, it may not provide significant liquidity or trade at prices advantageous to you. We expect that transaction costs in any secondary market would be high. As a result, the difference between bid and asked prices for your Notes in any secondary market could be substantial.
- You Will Not Have Any Rights to the Securities Included in the Reference Asset – As a holder of the Notes, you will not have voting rights or rights to receive cash dividends or other distributions or other rights that holders of securities included in the Reference Asset would have. The Final Level will not reflect any dividends paid on the securities included in the Reference Asset, and accordingly, any positive return on the Notes may be less than the potential positive return on those securities.
- The Initial Estimated Value of the Notes Will Be Less than the Price to the Public – The initial estimated value set forth on the cover page and that will be set forth in the final pricing supplement for the Notes does not represent a minimum price at which we, RBCCM or any of our affiliates would be willing to purchase the Notes in any secondary market (if any exists) at any time. If you attempt to sell the Notes prior to maturity, their market value may be lower than the price you paid for them and the initial estimated value. This is due to, among other things, changes in the share

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price of the Reference Asset, the borrowing rate we pay to issue securities of this kind, and the inclusion in the price to the public of the underwriting discount and the estimated costs relating to our hedging of the Notes. These factors, together with various credit, market and economic factors over the term of the Notes, are expected to reduce the price at which you may be able to sell the Notes in any secondary market and will affect the value of the Notes in complex and unpredictable ways. Assuming no change in market conditions or any other relevant factors, the price, if any, at which you may be able to sell your Notes prior to maturity may be less than your original purchase price, as any such sale price would not be expected to include the underwriting discount and the hedging costs relating to the Notes. In addition to bid-ask spreads, the value of the Notes determined by RBCCM for any secondary market price is expected to be based on the secondary rate rather than the internal funding rate used to price the Notes and determine the initial estimated value. As a result, the secondary price will be less than if the internal funding rate was used. The Notes are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your Notes to maturity.

- The Initial Estimated Value of the Notes on the Cover Page and that We Will Provide in the Final Pricing Supplement Are Estimates Only, Calculated as of the Time the Terms of the Notes Are Set –The initial estimated value of the Notes will be based on the value of our obligation to make the payments on the Notes, together with the mid-market value of the derivative embedded in the terms of the Notes. See “Structuring the Notes” below. Our estimates are based on a variety of assumptions, including our credit spreads, expectations as to dividends, interest rates and volatility, and the expected term of the Notes. These assumptions are based on certain forecasts about future events, which may prove to be incorrect. Other entities may value the Notes or similar securities at a price that is significantly different than we do.

The value of the Notes at any time after the Pricing Date will vary based on many factors, including changes in market conditions, and cannot be predicted with accuracy. As a result, the actual value you would receive if you sold the Notes in any secondary market, if any, should be expected to differ materially from the initial estimated value of your Notes.

- Inconsistent Research — Royal Bank or its affiliates may issue research reports on the Reference Assets or on securities that are, or may become, components of the Reference Assets. We may also publish research from time to time on financial markets and other matters that may influence the share prices of the Reference Assets or the value of the Notes, or express opinions or provide recommendations that may be inconsistent with purchasing or holding the Notes or with the investment view implicit in the Notes or the Reference Assets. You should make your own independent investigation of the merits of investing in the Notes and the Reference Assets.
- Market Disruption Events and Adjustments – The payment at maturity and the Valuation Date are subject to adjustment as described in the product prospectus supplement. For a description of what constitutes a market disruption event as well as the consequences of that market disruption event, see “General Terms of the Notes—Market Disruption Events” in the product prospectus supplement.
- Changes that Affect the Underlying Index Will Affect the Market Value of the Notes and the Amount You Will Receive at Maturity — The policies of the sponsor of the Underlying Index (the “Index Sponsor”), concerning the calculation of the Underlying Index, additions, deletions or substitutions of the components of the Underlying Index and the manner in which changes affecting those components, such as stock dividends, reorganizations or mergers, may be reflected in the Underlying Index and, therefore, could affect the share price of the Reference Asset, the amount payable on the Notes at maturity, and the market value of the Notes prior to maturity. The amount payable on the Notes and their market value could also be affected if the Index Sponsor changes these policies, for example, by changing the manner in which it calculates the Underlying Index, or if the sponsor discontinues or suspends the calculation or publication of the Underlying Index.

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- We Have No Affiliation with the Index Sponsor and Will Not Be Responsible for Any Actions Taken by the Index Sponsor - The Index Sponsor is not an affiliate of ours and will not be involved in the offering of the Notes in any way. Consequently, we have no control over the actions of the Index Sponsor, including any actions of the type that would require the calculation agent to adjust the payment to you at maturity. The Index Sponsor has no obligation of any sort with respect to the Notes. Thus, the Index Sponsor has no obligation to take your interests into consideration for any reason, including in taking any actions that might affect the value of the Notes. None of our proceeds from the issuance of the Notes will be delivered to the Index Sponsor.
- Adjustments to the Reference Asset Could Adversely Affect the Notes — The advisor of the Reference Asset, SSGA Funds Management, Inc. (the "Advisor"), is responsible for calculating and maintaining the Reference Asset. The Advisor can add, delete or substitute the stocks comprising the Reference Asset. The Advisor may make other methodological changes that could change the share price of the Reference Asset at any time. If one or more of these events occurs, the calculation of the amount payable at maturity may be adjusted to reflect such event or events. Consequently, any of these actions could adversely affect the amount payable at maturity and/or the market value of the Notes.
- We and Our Affiliates Do Not Have Any Affiliation with the Advisor and Are Not Responsible for its Public Disclosure of Information — We and our affiliates are not affiliated with Advisor in any way and have no ability to control or predict its actions, including any errors in or discontinuance of disclosure regarding its methods or policies relating to the Reference Asset. The Advisor is not involved in the offering of the Notes in any way and has no obligation to consider your interests as an owner of the Notes in taking any actions relating to the Reference Asset that might affect the value of the Notes. Neither we nor any of our affiliates has independently verified the adequacy or accuracy of the information about the Advisor or the Reference Asset contained in any public disclosure of information. You, as an investor in the Notes, should make your own investigation into the Reference Asset.
- The Correlation Between the Performance of the Reference Asset and the Performance of the Underlying Index May Be Imperfect — The performance of the Reference Asset is linked principally to the performance of the Underlying Index. However, because of the potential discrepancies identified in more detail in the product prospectus supplement, the return on the Reference Asset may correlate imperfectly with the return on the Underlying Index.
- The Reference Asset Is Subject to Management Risks — The Reference Asset is subject to management risk, which is the risk that the Advisor's investment strategy, the implementation of which is subject to a number of constraints, may not produce the intended results. For example, the Advisor may invest a portion of the Reference Asset's assets in securities not included in the relevant industry or sector but which the Advisor believes will help the Reference Asset track the relevant industry or sector.
- Our Business Activities May Create Conflicts of Interest — We and our affiliates expect to engage in trading activities related to the Reference Asset or the securities held by the Reference Asset that are not for the account of holders of the Notes or on their behalf. These trading activities may present a conflict between the holders' interests in the Notes and the interests we and our affiliates will have in their proprietary accounts, in facilitating transactions, including options and other derivatives transactions, for their customers and in accounts under their management. These trading activities, if they influence the prices of the Reference Asset, could be adverse to the interests of the holders of the Notes. We and one or more of our affiliates may, at present or in the future, engage in business with the issuers of the securities held by the Reference Asset, including making loans to or providing advisory services. These services could include investment banking and merger and acquisition advisory services. These activities may present a conflict between our or one or more of our affiliates' obligations and your interests as a holder of the Notes. Moreover, we and our affiliates may have published, and in the future expect to publish, research reports with respect to the

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Reference Asset. This research is modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing or holding the Notes. Any of these activities by us or one or more of our affiliates may affect the price of the Reference Asset, and, therefore, the market value of the Notes.

- The Securities Composing the Underlying Index Are Concentrated in One Sector – All of the securities included in the Underlying Index are issued by companies in the financial sector. As a result, the securities that will determine the performance of the underlying shares and the value of the Notes are concentrated in one sector. Although an investment in the Notes will not give holders any ownership or other direct interests in the securities composing the Underlying Index, the return on an investment in the Notes will be subject to certain risks associated with a direct equity investment in companies in this market sector. Accordingly, by investing in the Notes, you will not benefit from the diversification which could result from an investment linked to companies that operate in multiple sectors.
- A Limited Number of Index Components May Affect the Level of the Underlying Index and an Underlying Index Is Not Necessarily Representative of the Sector — As of August 3, 2018, the top three index components constituted approximately 32.11% of the total weight of the Financial Select Sector Index. Any reduction in the market price of those securities is likely to have a substantial adverse impact on the level of the relevant underlying index and consequently, the price of the relevant Reference Asset and the value of the Notes.

While the securities included in an underlying index are common stocks of companies generally considered to be involved in various segments of the financial sector, the securities included in its underlying index may not follow the price movements of the entire financial sector generally. If the securities included in the underlying index decline in value, the underlying index will decline in value even if security prices in the financial sector generally increase in value.

- Economic Conditions Have Adversely Impacted the Stock Prices of Many Companies in the Financial Services Sector, and May Do So During the Term of the Notes — In recent years, economic conditions in the U.S. have resulted, and may continue to result, in significant losses among many companies that operate in the financial services sector. These conditions have also resulted, and may continue to result, in a high degree of volatility in the stock prices of financial institutions, and substantial fluctuations in the profitability of these companies. Numerous financial services companies have experienced substantial decreases in the value of their assets, taken action to raise capital (including the issuance of debt or equity securities), or even ceased operations. Further, companies in the financial services sector have been subject to unprecedented government actions and regulation, which may limit the scope of their operations and, in turn, result in a decrease in value of these companies. Any of these factors may have an adverse impact on the price of the Reference Asset. As a result, the price of the Reference Asset may be adversely affected by economic, political, or regulatory events affecting the financial services sector or one of the sub-sectors of the financial services sector. This in turn could adversely impact the market value of the Notes and decrease the Redemption Amount.

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INFORMATION REGARDING THE REFERENCE ASSET

Information provided to or filed with the SEC by the Reference Asset under the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended, can be located by reference through the SEC's website at http://www.sec.gov. In addition, information regarding the Reference Asset may be obtained from other sources including, but not limited to, press releases, newspaper articles and other publicly disseminated documents. We have not participated in the preparation of, or verified, such publicly available information. None of the forgoing documents or filings are incorporated by reference in, and should not be considered part of, this document.

The following information regarding the Reference Asset is derived from publicly available information. We have not independently verified the accuracy or completeness of reports filed by the Reference Asset with the SEC, information published by it on its website or in any other format, information about it obtained from any other source or the information provided below.

The Notes are not sponsored, endorsed, sold or promoted by the investment adviser. The investment adviser makes no representations or warranties to the owners of the Notes or any member of the public regarding the advisability of investing in the Notes. The investment adviser has no obligation or liability in connection with the operation, marketing, trading or sale of the Notes.

We obtained the information regarding the historical performance of the Reference Asset set forth below from Bloomberg Financial Markets. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg Financial Markets. The historical performance of the Reference Asset should not be taken as an indication of its future performance, and no assurance can be given as to the market price of the Reference Asset on the Valuation Date. We cannot give you assurance that the performance of the Reference Asset will not result in the loss of all or part of your investment.

The Financial Select Sector SPDR® Fund

The XLF seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of the Financials Select Sector Index. The Financials Select Sector Index measures the performance of the financial sector of the U.S. equity market. The XLF is composed of companies whose primary line of business is directly associated with the financial sector. The XLF trades on the NYSE Arca under the ticker symbol "XLF."

The Financial Select Sector Index

The Financial Select Sector Index (Index symbol: "XLF") is a modified market capitalization-based index, intended to provide an indication of the pattern of common stock price movements of companies that are components of the S&P 500® Index and are involved the following industries: diversified financial services, insurance, commercial banks, capital markets, real estate investment trusts, thrift & mortgage finance, consumer finance, and real estate management & development.

Each index is one of the Select Sector Indices. The Select Sector Indices are sub-indices of the S&P 500® Index. Each stock in the S&P 500® Index is allocated to at least one Select Sector Index, and the combined companies of the ten Select Sector Indices represent all of the companies in the S&P 500® Index. The industry indices are sub-categories within each Select Sector Index and represent a specific industry segment of the overall Select Sector Index. The ten Select Sector Indices seek to represent the eleven S&P 500® Index sectors.

Each Select Sector Index was developed and is maintained in accordance with the following criteria:

- Each of the component stocks in a Select Sector Index (the "Component Stocks") is a constituent company of the S&P 500® Index.

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- The ten Select Sector Indices together will include all of the companies represented in the S&P 500® Index and each of the stocks in the S&P 500® Index will be allocated to at least one of the Select Sector Indices.
- The Index Compilation Agent assigns each constituent stock of the S&P 500® Index to a Select Sector Index. The Index Compilation Agent assigns a company's stock to a particular Select Sector Index based on S&P Dow Jones Indices' sector classification methodology as set forth in its Global Industry Classification Standard.
- Each Select Sector Index is calculated by S&P Dow Jones Indices using a modified "market capitalization" methodology. This design ensures that each of the component stocks within a Select Sector Index is represented in a proportion consistent with its percentage with respect to the total market capitalization of that Select Sector Index.
- For reweighting purposes, each Select Sector Index is rebalanced quarterly after the close of business on the second to last calculation day of March, June, September and December using the following procedures: (1) The rebalancing reference date is two business days prior to the last calculation day of each quarter; (2) With prices reflected on the rebalancing reference date, and membership, shares outstanding, additional weight factor (capping factor) and investable weight factors (as described in the section "Computation of the S&P 500 Index®" below) as of the rebalancing effective date, each company is weighted using the modified market capitalization methodology. Modifications are made as defined below.

(i) The indices are first evaluated to ensure none of the indices breach the maximum allowable limits defined in rules (ii) and (v) below. If any of the allowable limits are breached, the component stocks are reweighted based on their float-adjusted market capitalization weights.
(ii) If any component stock has a weight greater than 24%, that component stock has its float-adjusted market capitalization weight capped at 23%. The 23% weight cap creates a 2% buffer to ensure that no component stock exceeds 25% as of the quarter-end diversification requirement date.
(iii) All excess weight is equally redistributed to all uncapped component stocks within the relevant Select Sector Index.
(iv) After this redistribution, if the float-adjusted market capitalization weight of any other component stock(s) then breaches 23%, the process is repeated iteratively until no component stock s breaches the 23% weight cap.
(v) The sum of the component stocks with weight greater than 4.8% cannot exceed 50% of the total index weight. These caps are set to allow for a buffer below the 5% limit.
(vi) If the rule in step (v) is breached, all the component stocks are ranked in descending order of their float-adjusted market capitalization weights and the first component stock that causes the 50% limit to be breached has its weight reduced to 4.6%.
(vii) This excess weight is equally redistributed to all component stocks with weights below 4.6%. This process is repeated iteratively until step (v) is satisfied.
(viii) Index share amounts are assigned to each component stock to arrive at the weights calculated above. Since index shares are assigned based on prices one business day prior to rebalancing, the actual weight of each component stock at the rebalancing differs somewhat from these weights due to market movements.
(ix) If necessary, the reweighting process may take place more than once prior to the close on the last business day of March, June, September or December to ensure conformity with all diversification requirements.

Barrier Enhanced Return Notes
Linked to the Financial Select Sector
SPDR® Fund

Each Select Sector Index is calculated using the same methodology utilized by S&P Dow Jones Indices in calculating the S&P 500® Index, using a base-weighted aggregate methodology. The daily calculation of each Select Sector Index is computed by dividing the total market value of the companies in the Select Sector Index by a number called the index divisor.

The Index Compilation Agent at any time may determine that a Component Stock which has been assigned to one Select Sector Index has undergone such a transformation in the composition of its business, and should be removed from that Select Sector Index and assigned to a different Select Sector Index. In the event that the Index Compilation Agent notifies S&P Dow Jones Indices that a Component Stock's Select Sector Index assignment should be changed, S&P Dow Jones Indices will disseminate notice of the change following its standard procedure for announcing index changes and will implement the change in the affected Select Sector Indices on a date no less than one week after the initial dissemination of information on the sector change to the maximum extent practicable. It is not anticipated that Component Stocks will change sectors frequently.

Component Stocks removed from and added to the S&P 500® Index will be deleted from and added to the appropriate Select Sector Index on the same schedule used by S&P Dow Jones Indices for additions and deletions from the S&P 500® Index insofar as practicable.

The S&P 500® Index

The S&P 500® Index (the "SPX") is intended to provide an indication of the pattern of common stock price movement. The calculation of the level of the SPX is based on the relative value of the aggregate market value of the common stocks of 500 companies as of a particular time compared to the aggregate average market value of the common stocks of 500 similar companies during the base period of the years 1941 through 1943.

S&P calculates the SPX by reference to the prices of the constituent stocks of the SPX without taking account of the value of dividends paid on those stocks. Effective with the September 2015 rebalance, consolidated share class lines will no longer be included in the SPX. Each share class line will be subject to public float and liquidity criteria individually, but the company's total market capitalization will be used to evaluate each share class line. This may result in one listed share class line of a company being included in the SPX while a second listed share class line of the same company is excluded.

Computation of the SPX

While S&P currently employs the following methodology to calculate the SPX, no assurance can be given that S&P will not modify or change this methodology in a manner that may affect the Payment at Maturity.

Historically, the market value of any component stock of the SPX was calculated as the product of the market price per share and the number of then outstanding shares of such component stock. In March 2005, S&P began shifting the SPX halfway from a market capitalization weighted formula to a float-adjusted formula, before moving the SPX to full float adjustment on September 16, 2005. S&P's criteria for selecting stocks for the SPX did not change with the shift to float adjustment. However, the adjustment affects each company's weight in the SPX.

Under float adjustment, the share counts used in calculating the SPX reflect only those shares that are available to investors, not all of a company's outstanding shares. Float adjustment excludes shares that are closely held by control groups, other publicly traded companies or government agencies.

In September 2012, all shareholdings representing more than 5% of a stock's outstanding shares, other than holdings by "block owners," were removed from the float for purposes of calculating the SPX. Generally, these "control holders" will include officers and directors, private equity, venture capital and special equity firms, other publicly traded companies that hold shares for control, strategic partners, holders of restricted shares, ESOPs, employee and family trusts, foundations associated with the company, holders of unlisted share classes of stock, government entities at all levels (other than government retirement/pension

funds) and any individual person who controls a 5% or greater stake in a company as reported in regulatory filings. However, holdings by block owners, such as depositary banks, pension funds, mutual funds and ETF providers, 401(k) plans of the company, government retirement/pension funds, investment funds of insurance companies, asset managers and investment funds, independent foundations and savings and investment plans, will ordinarily be considered part of the float.

Treasury stock, stock options, equity participation units, warrants, preferred stock, convertible stock, and rights are not part of the float. Shares held in a trust to allow investors in countries outside the country of domicile, such as depositary shares and Canadian exchangeable shares are normally part of the float unless those shares form a control block.

For each stock, an investable weight factor (“IWF”) is calculated by dividing the available float shares by the total shares outstanding. Available float shares are defined as the total shares outstanding less shares held by control holders. This calculation is subject to a 5% minimum threshold for control blocks. For example, if a company’s officers and directors hold 3% of the company’s shares, and no other control group holds 5% of the company’s shares, S&P would assign that company an IWF of 1.00, as no control group meets the 5% threshold. However, if a company’s officers and directors hold 3% of the company’s shares and another control group holds 20% of the company’s shares, S&P would assign an IWF of 0.77, reflecting the fact that 23% of the company’s outstanding shares are considered to be held for control. As of July 31, 2017, companies with multiple share class lines are no longer eligible for inclusion in the SPX. Constituents of the SPX prior to July 31, 2017 with multiple share class lines will be grandfathered in and continue to be included in the SPX. If a constituent company of the SPX reorganizes into a multiple share class line structure, that company will remain in the SPX at the discretion of the S&P Index Committee in order to minimize turnover.

The SPX is calculated using a base-weighted aggregate methodology. The level of the SPX reflects the total market value of all 500 component stocks relative to the base period of the years 1941 through 1943. An indexed number is used to represent the results of this calculation in order to make the level easier to use and track over time. The actual total market value of the component stocks during the base period of the years 1941 through 1943 has been set to an indexed level of 10. This is often indicated by the notation 1941-43 = 10. In practice, the daily calculation of the SPX is computed by dividing the total market value of the component stocks by the “index divisor.” By itself, the index divisor is an arbitrary number. However, in the context of the calculation of the SPX, it serves as a link to the original base period level of the SPX. The index divisor keeps the SPX comparable over time and is the manipulation point for all adjustments to the SPX, which is index maintenance.

Index Maintenance

Index maintenance includes monitoif" width="1" height="1"> — — 10,064 — 10,064 Other comprehensive loss, net of related taxes: Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge (net of related tax of $46,000) — — — — (75) (75) Change in unrealized gains or losses on marketable securities available-for-sale (net of related tax of $168,000) — — — — (274) (274) Balance at March 31, 2008 42,224 $ 42 $ 547,482 $ 111,503 $ 1,039 $ 660,066

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

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Three Months Ended March 31,	2008	2007
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 10,064	$ (5,841)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	13,934	12,012
Accretion of asset retirement obligation	252	285
Stock-based compensation	1,059	559
Amortization of deferred lease income	(671)	(671)
Minority interest	(2,205)	—
Equity in income of investees	(539)	(1,231)
Impairment of auction rate securities	328	—
Distributions from unconsolidated investments	—	884
Changes in unrealized loss in respect of derivative instruments, net	—	(83)
Gain on severance pay fund asset	(937)	(183)
Deferred income tax provision (benefit)	970	(3,176)
Liability for unrecognized tax benefits	248	84
Changes in operating assets and liabilities:		
Receivables	(3,323)	538
Costs and estimated earnings in excess of billings on uncompleted contracts	1,356	(2,866)
Inventories, net	(2,872)	(1,169)
Prepaid expenses and other	1,322	116
Deposits and other	179	540
Accounts payable and accrued expenses	5,580	3,781
Due from/to related entities, net	(217)	(27)
Billings in excess of costs and estimated earnings on uncompleted contracts	7,937	3,734
Liabilities for severance pay	2,557	289
Due from/to Parent	(1,206)	853
Net cash provided by operating activities	33,816	8,428
Cash flows from investing activities:		
Marketable securities, net	12,588	44,024
Net change in restricted cash, cash equivalents and marketable securities	(3,010)	7,232
Capital expenditures	(81,620)	(31,228)
Increase in severance pay fund asset, net	(303)	(334)
Repayment from unconsolidated investment	31	31
Net cash provided by (used in) investing activities	(72,314)	19,725
Cash flows from financing activities:		
Due to Parent, net	(7,000)	(7,000)
Proceeds from issuance of unregistered shares of common stock to the Parent	33,315	—
Proceeds from exercise of options by employees	—	302
Repayments of short-term and long-term debt	(2,216)	(16,792)
Cash dividends paid	(2,106)	(2,673)
Net cash provided by (used in) financing activities	21,993	(26,163)
Net increase (decrease) in cash and cash equivalents	(16,505)	1,990
Cash and cash equivalents at beginning of period	47,227	20,254
Cash and cash equivalents at end of period	$ 30,722	$ 22,244
Supplemental non-cash investing and financing activities:		
Increase in accounts payable related to purchases of property, plant and equipment	$ 15,983	$ 5,039
Accrued liabilities related to financing activities	$ —	$ 134

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

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 — GENERAL AND BASIS OF PRESENTATION

These unaudited condensed consolidated interim financial statements of Ormat Technologies, Inc. and its subsidiaries (the ‘‘Company’’) have been prepared in accordance with accounting principles generally accepted in the United States of America (‘‘U.S. GAAP’’) and pursuant to the rules and regulations of the Securities and Exchange Commission (‘‘SEC’’) for interim financial statements. Accordingly, they do not contain all information and notes required by U.S. GAAP for annual financial statements. In the opinion of management, the unaudited condensed consolidated interim financial statements reflect all adjustments, which include normal recurring adjustments, necessary for a fair statement of the Company's consolidated financial position as of March 31, 2008, and the consolidated results of operations and cash flows for the three-month periods ended March 31, 2008 and 2007.

The financial data and other information disclosed in the notes to the condensed consolidated interim financial statements related to these periods are unaudited. The results for the three-month period ended March 31, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2007. The condensed consolidated balance sheet data as of December 31, 2007 was derived from the audited consolidated financial statements for the year ended December 31, 2007, but does not include all disclosures required by U.S. GAAP.

Dollar amounts, except per share data, in the notes to these financial statements are rounded to the closest $1,000.

Certain comparative figures have been reclassified to conform to the current period presentation.

Sale of unregistered shares to the Parent

On January 8, 2008, the Company completed an unregistered sale of 693,750 shares of common stock to Ormat Industries Ltd. (the ‘‘Parent’’), at a price of $48.02 per share. The proceeds from the unregistered sale were approximately $33.3 million.

Concentration of credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of temporary cash investments, marketable securities and accounts receivable.

The Company places its temporary cash investments with high credit quality financial institutions located in the United States (‘‘U.S.’’) and in foreign countries. At March 31, 2008 and December 31, 2007, the Company had deposits totaling $8,389,000 and $21,322,000, respectively, in six U.S. financial institutions that were federally insured up to $100,000 per account. At March 31, 2008 and December 31, 2007, the Company's deposits in foreign countries amounted to approximately $16,120,000 and $13,248,000, respectively.

At March 31, 2008 and December 31, 2007, accounts receivable related to operations in foreign countries amounted to approximately $19,637,000 and $17,140,000, respectively. At March 31, 2008 and December 31, 2007, accounts receivable from the Company's major customers that have generated 10% or more of its revenues amounted to approximately 48% and 39% of the Company's accounts receivable, respectively.

Southern California Edison Company (''SCE'') accounted for 30.3% and 24.8% of the Company's total revenues for the three months ended March 31, 2008 and 2007, respectively. SCE is also the power purchaser and revenue source for the Company's Mammoth project, which is accounted for separately under the equity method.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Hawaii Electric Light Company accounted for 21.0% and 15.7% of the Company's total revenues for the three months ended March 31, 2008 and 2007, respectively.

Sierra Pacific Power Company accounted for 11.5% and 10.3% of the Company's total revenues for the three months ended March 31, 2008 and 2007, respectively.

The Company performs ongoing credit evaluations of its customers' financial condition. The Company has historically been able to collect on all of its receivable balances, and accordingly, no provision for doubtful accounts has been made.

NOTE 2 — NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements effective in the three-month period ended March 31, 2008

SFAS No. 157 — Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (''FASB'') issued Statement of Financial Accounting Standards (''SFAS'') No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Company) for financial assets and liabilities. The adoption by the Company of SFAS No. 157, effective January 1, 2008, did not have any impact on its results of operations or financial position. The disclosures required under SFAS No. 157 are set forth in Note 6.

In accordance with the provisions of FSP No. 157-2, Effective Date of FASB Statement No. 157, the Company has elected to defer implementation of SFAS No. 157 as it relates to the Company's non-financial assets and liabilities that are recognized and disclosed at fair value on a nonrecurring basis in the financial statements until January 1, 2009. The Company is currently evaluating the potential impact, if any, on the Company's non-financial assets and liabilities not measured on a nonrecurring basis. The major categories of assets and liabilities that are recognized at fair value for which the Company has not applied FAS No. 157 are mainly asset retirement obligations and impairment of long-lived assets.

SFAS No. 159 — The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities and other eligible items at fair value, which are not otherwise currently required to be measured at fair value. Under SFAS No. 159, the decision to measure items at fair value is made at specified election dates on an irrevocable instrument-by-instrument basis. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront cost and fees associated with the item for which the fair value option is elected. Entities electing the fair value option are required to distinguish on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. If elected, SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007 (January 1, 2008 for the Company) with earlier adoption permitted provided that the entity also early adopts all of the requirements of SFAS No. 159. The Company decided not to elect the option provided for in this standard.

SAB No. 110

In December 2007, the SEC issued Staff Accounting Bulletin (''SAB'') No. 110 relating to the use of a ''simplified'' method in developing an estimate of the expected term of ''plain vanilla'' share

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

options. SAB No. 107, which was applied by the Company for estimating the expected term of employee's stock options, previously allowed the use of the simplified method until December 31, 2007. SAB No. 110 allows, under certain circumstances, entities to continue to accept the use of the simplified method beyond December 31, 2007. The Company is still evaluating if it is permitted to continue to use the simplified method to estimate the expected term of its stock options. No stock options were granted in the three months ended March 31, 2008.

New accounting pronouncements effective in future periods

SFAS No. 160 — Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51. SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS No. 160 shall be applied prospectively. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 160 on its consolidated financial statements.

SFAS No. 141 (revised 2007) — Business Combinations

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (''SFAS No. 141R''). SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 141R on its consolidated financial statements.

SFAS No. 161 — Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133. SFAS No. 161 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, and how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows. The required disclosures include the fair value of derivative instruments and their gains or losses in tabular format, information about credit-risk-related contingent features in derivative agreements, counterparty credit risk, and the company's strategies and objectives for using derivative instruments. SFAS No. 161 expands the current disclosure framework in SFAS No. 133. SFAS No. 161 is effective prospectively for fiscal years and interim periods beginning after November 15, 2008 (January 1, 2009 for the Company). The Company is currently evaluating the impact of

SFAS No. 161, and has not yet determined the potential impact, if any, that its adoption will have on its financial position, results of operations and cash flows.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3 — EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of shares of common stock outstanding for the period. The Company does not have any equity instruments that are dilutive, except for employee stock options.

NOTE 4 — INVENTORIES

Inventories consist of the following:

	March 31, 2008	December 31, 2007
	(dollars in thousands)	
Raw materials and purchased parts for assembly	$ 5,982	$ 3,613
Self-manufactured assembly parts and finished products	7,202	6,699
Total	$ 13,184	$ 10,312

NOTE 5 — UNCONSOLIDATED INVESTMENTS

Unconsolidated investments in power plant projects consist of the following:

	March 31, 2008	December 31, 2007
	(dollars in thousands)	
Mammoth	$ 30,835	$ 29,979
OLCL	563	581
Total	$ 31,398	$ 30,560

From time to time, the unconsolidated power plants make distributions to their owners. Such distributions are deducted from the investments in such power plants.

The Mammoth Project

The Company has a 50% interest in the Mammoth Project (‘‘Mammoth’’), which is comprised of three geothermal power plants located near the city of Mammoth, California. The purchase price was less than the underlying net equity of Mammoth by approximately $9.3 million. As such, the basis difference will be amortized over the remaining useful life of the property, plant and equipment and the power purchase agreements (‘‘PPAs’’), which range from 12 to 17 years. The Company operates and maintains the geothermal power plants under an operating and maintenance (‘‘O&M’’) agreement. The Company’s 50% ownership interest in Mammoth is accounted for under the equity method of accounting as the Company has the ability to exercise significant influence, but not control, over Mammoth.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The condensed financial position and results of operations of Mammoth are summarized below:

	March 31, 2008	December 31, 2007
	(dollars in thousands)	
Condensed balance sheets:		
Current assets	$ 7,386	$ 4,181
Non-current assets	73,046	74,417
Current liabilities	1,191	826
Non-current liabilities	3,030	3,004
Partners' capital	76,211	74,768

	Three Months Ended March 31,	
	2008	2007
	(dollars in thousands)	
Condensed statements of operations:		
Revenues	$ 4,756	$ 3,935
Gross margin	1,521	1,009
Net income	1,443	948
Company's equity in income of Mammoth:		
50% of Mammoth net income	$ 722	$ 474
Plus amortization of basis difference	148	148
	870	622
Less income taxes	(313)	(224)
Total	$ 557	$ 398

The Leyte Project

The Company holds an 80% interest in Ormat Leyte Co. Ltd. (''OLCL''). OLCL is a limited partnership established for the purpose of developing, financing, operating, and maintaining a geothermal power plant in Leyte Provina, the Philippines. Upon the adoption of FIN No. 46R, Consolidation of Variable Interest Entities (revised December 2003) — an interpretation of ARB No. 51, on March 31, 2004, the Company concluded that OLCL should not be consolidated. As a result of such conclusion, the Company's 80% ownership interest in OLCL is accounted for under the equity method of accounting.

The condensed financial position and results of operations of OLCL are summarized below:

	March 31, 2008	December 31, 2007
	(dollars in thousands)	
Condensed balance sheets:		
Current assets	$ 827	$ 1,327
Non-current assets	371	371
Current liabilities	541	1,018
Stockholders' equity	657	680

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Three Months Ended March 31,	
	2008	2007
	(dollars in thousands)	
Condensed statements of operations:		
Revenues	$ —	$ 3,416
Gross margin	—	1,660
Net income (loss)	(23)	711
Company’s equity in income (loss) of OLCL:		
80% of OLCL net income (loss)	$ (18)	$ 569
Plus amortization of deferred revenue on intercompany profit	—	264
Total	$ (18)	$ 833

In 1996, OLCL entered into a Build, Operate, and Transfer (‘‘BOT’’) agreement with PNOC-Energy Development Corporation (‘‘PNOC’’) in connection with four geothermal power generation plants, with a total capacity of 49MW, located in Leyte, Philippines. During 1997, the power plants started commercial operations and began selling power to PNOC under a ten-year PPA (tolling arrangement). OLCL owned the plants for a ten-year period which ended September 25, 2007, at which time they were transferred to PNOC for no further consideration. The Company did not incur any material financial loss as a result of such transfer, although this has reduced the Company’s owned foreign generation capacity by 39 MW with a commensurate impact on equity in income of investees and net income.

NOTE 6 — FAIR VALUE OF FINANCIAL INSTRUMENTS

As described in Note 1, the provisions of SFAS No. 157 were adopted by the Company on January 1, 2008 for financial assets and liabilities, and will be adopted by the Company on January 1, 2009 for non-financial assets and liabilities.

SFAS No. 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 liability. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by SFAS No. 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Fair Value at March 31, 2008	Total	Level 1	Level 2	Level 3
	(dollars in thousands)			
Assets:				
Current assets:				
Restricted marketable securities	$ 3,493	$ 3,493	$ —	$ —
Non current assets:				
Illiquid auction rate securities (including restricted cash accounts), see below	7,645	—	—	7,645
	$ 11,138	$ 3,493	$ —	$ 7,645

The Company's marketable debt securities (including restricted cash accounts) mainly include investments in auction rate securities and corporate bonds. Those securities, except for illiquid auction rate securities, are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in an active market. As of March 31, 2008, all of the Company's auction rate securities are associated with failed auctions. These failed auction rate securities have been in a loss position for less than 12 months. Historically, the carrying value of auction rate securities approximated fair value due to the frequent resetting of the interest rates. While the Company continues to earn interest on these investments at the contractual rates, the estimated market value of these auction rate securities no longer approximates fair value. The Company has estimated the fair value of these illiquid auction rate securities based, among other things, on the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, auction failure, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for each security. These estimated fair values could change significantly based on future market conditions. Therefore, such auction rate securities have been classified as Level 3 in the fair value hierarchy.

The table below sets forth a summary of changes in the fair value of the Company's financial assets classified as Level 3 (i.e., illiquid auction rate securities) for the three months ended March 31, 2008.

	(dollars in thousands)
Balance as of January 1, 2008	$ 8,367
Total unrealized losses:	
Included in net income	(328)
Included in other comprehensive income (loss)	(394)
Balance as of March 31, 2008	$ 7,645

Based on available information, the Company concluded that the fair market value of these failed auction rate securities at March 31, 2008 was $7.6 million, a decline of $3.6 million from par value. The decline in fair market value during the three-month period ended March 31, 2008 was $0.7 million. Of this amount, $0.4 million was deemed temporary as the Company believes the decline in fair market value was due to general market conditions. Based upon the Company's evaluation of available information, the Company believes these investments generally are of high credit quality, as

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

substantially all of the investments carry a AA credit rating and higher. In addition, the Company currently has the intent and ability to hold these investments until anticipated recovery in market value occurs. Accordingly, the Company has recorded an unrealized loss on these securities of $0.4 million in other comprehensive income (loss). The Company has concluded that the remaining $0.3 million of the decline was other-than-temporary and recorded an impairment charge in other non operating income (loss). The Company's conclusion for the other-than-temporary impairment is based on the significant decline in the fair value of one of the auction rate securities.

The funds invested in auction rate securities that have experienced failed auctions will not be accessible until a successful auction occurs, a buyer is found outside of the auction process or the underlying securities reach maturity. As a result, the Company has classified those securities with failed auctions as long-term assets in the consolidated balance sheets as of March 31, 2008 and December 31, 2007.

The Company continues to monitor the market for auction rate securities and to consider the market's impact (if any) on the fair market value of the Company's investments. If current market conditions deteriorate further, or the anticipated recovery in market values does not occur, the Company may be required to record additional unrealized losses in other comprehensive income or impairment charges in the next three quarters of 2008.

The marketable securities are included in the consolidated balance sheets as follows:

	March 31, 2008	December 31, 2007
	(dollars in thousands)	
Short-term marketable securities	$ —	$ 13,489
Amount presented among short-term restricted cash, cash equivalents and marketable securities	3,493	16,219
Long-term marketable securities – auction rate securities	3,234	2,762
Amount presented among long-term restricted cash, cash equivalents and marketable securities – auction rate securities	4,411	5,605
Total	$ 11,138	$ 38,075

The cost of the marketable securities at March 31, 2008 and December 31, 2007 was $14,623,000 and $40,685,000, respectively.

NOTE 7 — BUSINESS SEGMENTS

The Company has two reporting segments: Electricity and Products Segments. Such segments are managed and reported separately as each offers different products and serves different markets. The Electricity Segment is engaged in the sale of electricity from the Company's power plants pursuant to PPAs. The Products Segment is engaged in the manufacture, including design and development, of turbines and power units for the supply of electrical energy and in the associated construction of power plants utilizing the power units manufactured by the Company to supply energy from geothermal fields and other alternative energy sources. Transfer prices between the operating segments are determined based on current market values or cost plus markup of the seller's business segment.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Summarized financial information concerning the Company's reportable segments is shown in the following tables:

(dollars in thousands)	Electricity	Products	Consolidated
Three Months Ended March 31, 2008:			
Net revenues from external customers	$ 59,519	$ 9,868	$ 69,387
Intersegment revenues	—	23,785	23,785
Operating income	12,574	(155)	12,419
Segment assets at period end*	1,287,006	51,280	1,338,286
Three Months Ended March 31, 2007:			
Net revenues from external customers	$ 43,658	$ 18,089	$ 61,747
Intersegment revenues	—	3,985	3,985
Operating loss	(1,532)	(804)	(2,336)
Segment assets at period end*	1,073,171	65,346	1,138,517

* Segment assets of the Electricity Segment include unconsolidated investments.

Reconciling information between reportable segments and the Company's consolidated totals is shown in the following table:

	Three Months Ended March 31, 2008	2007
(dollars in thousands)		
Operating income (loss)	$ 12,419	$ (2,336)
Interest expense, net	(2,557)	(6,367)
Non-operating expense and other, net	(471)	(364)
Total consolidated income (loss) before income taxes, minority interest and equity in income of investees	$ 9,391	$ (9,067)

NOTE 8 — CONTINGENCIES

On April 26, 2008, our subsidiary, Ormat Momotombo Power Company (''OMPC''), received notice of an administrative order issued by the Ministry of Natural Resources and Environment of Nicaragua (''MARENA'') relating to alleged violations of environmental regulations under Nicaraguan law in connection with OMPC's operation of the Momotombo geothermal power plant in that country. The order was issued following an administrative hearing in the first instance at which OMPC was found liable for the environmental infractions. The order is subject to appeal within MARENA, as well as in the Nicaraguan judicial courts. In addition, this dispute is subject to the dispute resolution provisions contained in the Foreign Investment Contract entered into between OMPC and the Nicaraguan government in June 1999. All penalties incurred by OMPC as a result of these violations are stayed until OMPC has exhausted the legal remedies available to it under Nicaraguan law. The Company disagrees with the MARENA order finding OMPC liable for significant environmental infractions and intends to appeal the administrative order and otherwise defend vigorously against MARENA's claims. If the administrative order is upheld at the end of these review processes in a final non-appealable decision, OMPC may be required to suspend indefinitely its operating activities relating to the project and implement a plan of environmental remediation. The net book value of the geothermal power plant as of March 31, 2008 is $21.5 million.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
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The Company is a defendant in various legal and regulatory proceedings in the ordinary course of business. It is the opinion of the Company's management that the expected outcome of these matters, individually or in the aggregate, will not have a material effect on the results of operations and financial condition of the Company.

NOTE 9 — CASH DIVIDEND

On February 26, 2008, the Company's Board of Directors declared, approved and authorized payment of a quarterly dividend of $2.1 million ($0.05 per share) to all holders of the Company's issued and outstanding shares of common stock on March 14, 2008. Such dividend was paid on March 27, 2008.

NOTE 10 — INCOME TAXES

The Company's effective tax rate for the three months ended March 31, 2008 was 22.0%, which differs from the federal statutory rate of 35% primarily due to: (i) the benefit of production tax credits for new power plants placed in service since 2005; (ii) lower tax rates in Israel; and (iii) a tax credit related to the Company's subsidiaries in Guatemala. The liability for unrecognized tax benefits was $5,578,000 and $5,330,000 at March 31, 2008 and December 31, 2007, respectively. Such amounts would impact the Company's effective tax rate, if recognized.

NOTE 11 — SUBSEQUENT EVENTS

Cash dividend

On May 6, 2008, the Company's Board of Directors declared, approved and authorized payment of a quarterly dividend of $2.1 million ($0.05 per share) to all holders of the Company's issued and outstanding shares of common stock on May 20, 2008, payable on May 27, 2008.

Options grant

On April 8, 2008, the Company granted to employees incentive stock options, under the 2004 Incentive Plan, to purchase 450,000 shares of common stock at an exercise price of $45.78 per share, which amount represented the fair market value of the Company's common stock on the date of grant. Such options will expire seven years from the date of grant and will cliff vest and are exercisable from the grant date as follows: 25% after 24 months, 25% after 36 months, and the remaining 50% after 48 months.

OPC tax monetization transaction — second closing

On April 17, 2008, a wholly owned subsidiary of the Company, Ormat Nevada Inc. (''Ormat Nevada''), concluded the second closing under a 2007 transaction to monetize production tax credits and other favorable tax attributes, such as accelerated depreciation, generated from certain of its geothermal power projects. The first closing of the transaction occurred on June 7, 2007. Pursuant to the transaction, affiliates of Morgan Stanley & Co. Incorporated and Lehman Brothers Inc. became institutional equity investors in a newly formed subsidiary of Ormat Nevada, OPC LLC (''OPC''). Under this second closing, Ormat Nevada transferred the Galena 3 geothermal project to OPC, and received from the institutional equity investors $64.0 million.

As operator of all of the projects in the OPC portfolio, Ormat Nevada will continue to operate and maintain the Galena 3 project.

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ITEM 2.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report on Form 10-Q includes ‘‘forward-looking statements’’ within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this quarterly report that address activities, events or developments that we expect or anticipate will or may occur in the future, including such matters as our projections of annual revenues, expenses and debt service coverage with respect to our debt securities, future capital expenditures, business strategy, competitive strengths, goals, development or operation of generation assets, market and industry developments and the growth of our business and operations, are forward-looking statements. When used in this quarterly report on Form 10-Q, the words ‘‘may’’, ‘‘will’’, ‘‘could’’, ‘‘should’’ ‘‘expects’’, ‘‘plans’’, ‘‘anticipates’’, ‘‘believes’’, ‘‘estimates’’, ‘‘predicts’’, ‘‘projects’’, ‘‘potential’’, or ‘‘contemplate’’ or the terms or other comparable terminology are intended to identify forward-looking statements, although not all forward-looking statements contain such words or expressions. The forward-looking statements in this quarterly report are primarily located in the material set forth under the headings ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations’’, ‘‘Risk Factors’’, and ‘‘Notes to Condensed Consolidated Financial Statements’’, but are found in other locations as well. These forward-looking statements generally relate to our plans, objectives and expectations for future operations and are based upon management’s current estimates and projections of future results or trends. Although we believe that our plans and objectives reflected in or suggested by these forward-looking statements are reasonable, we may not achieve these plans or objectives. You should read this quarterly report on Form 10-Q completely and with the understanding that actual future results and developments may be materially different from what we expect due to a number of risks and uncertainties, many of which are beyond our control. We will not update forward-looking statements even though our situation may change in the future.

Specific factors that might cause actual results to differ from our expectations include, but are not limited to:

- significant considerations, risks and uncertainties discussed in this quarterly report;
- operating risks, including equipment failures and the amounts and timing of revenues and expenses;
- geothermal resource risk (such as the heat content of the reservoir, useful life and geological formation);
- environmental constraints on operations and environmental liabilities arising out of past or present operations, including the risk that we may not have, and in the future may be unable to procure, any necessary permits or other environmental authorization;
- construction or other project delays or cancellations;
- financial market conditions and the results of financing efforts;
- political, legal, regulatory, governmental, administrative and economic conditions and developments in the United States and other countries in which we operate;
- the enforceability of the long-term power purchase agreements for our projects;
- contract counterparty risk;
- weather and other

natural phenomena;

- the impact of recent and future federal and state regulatory proceedings and changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry and incentives for the production of renewable energy in the United States and elsewhere;
- changes in environmental and other laws and regulations to which our company is subject, as well as changes in the application of existing laws and regulations;

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- current and future litigation;
- our ability to successfully identify, integrate and complete acquisitions;
- competition from other similar geothermal energy projects, including any such new geothermal energy projects developed in the future, and from alternative electricity producing technologies;
- the effect of and changes in economic conditions in the areas in which we operate;
- market or business conditions and fluctuations in demand for energy or capacity in the markets in which we operate;
- the direct or indirect impact on our company's business resulting from terrorist incidents or responses to such incidents, including the effect on the availability of and premiums on insurance;
- the effect of and changes in current and future land use and zoning regulations, residential, commercial and industrial development and urbanization in the areas in which we operate;
- the risk factors set forth in our annual report on Form 10-K for the year ended December 31, 2007 and any updates contained herein which may have a significant impact on our business, operating results or financial condition;
- other uncertainties which are difficult to predict or beyond our control and the risk that we incorrectly analyze these risks and forces or that the strategies we develop to address them could be unsuccessful; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission (SEC).

Investors are cautioned that these forward-looking statements are inherently uncertain. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein. We undertake no obligation to update forward-looking statements even though our situation may change in the future. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements and related notes included elsewhere in this report and the ''Risk Factors'' section of our annual report on Form 10-K for the year ended December 31, 2007 and any updates contained herein as well as those set forth in our reports and other filings made with the SEC.

General

Overview

We are a leading vertically integrated company engaged in the geothermal and recovered energy power business. We design, develop, build, own and operate clean, environmentally friendly geothermal and recovered energy-based power plants using equipment that we design and manufacture.

Our geothermal power plants include both power plants that we have built and power plants that we have acquired, while all of our recovered energy-based plants have been constructed by us. We conduct our business activities in two business segments, which we refer to as our Electricity Segment and Products Segment. In our Electricity Segment, we develop, build, own and operate geothermal and recovered energy-based power plants in the United States and geothermal power plants in other countries around the world and sell the electricity they generate. In our Products Segment, we design, manufacture and sell equipment for geothermal and recovered energy-based electricity generation, remote power units and other power generating units and provide services relating to the engineering,

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procurement, construction, operation and maintenance of geothermal and recovered energy power plants. Both our Electricity Segment and Products Segment operations are conducted in the United States and throughout the world. We currently own or control, as well as operate, geothermal projects in the United States, Guatemala, Kenya and Nicaragua, as well as recovered energy generation (REG) plants in the United States. During the three months ended March 31, 2008 and 2007, our U.S. power plants generated 560,499 MWh and 437,126 MWh, respectively.

For the three months ended March 31, 2008, our Electricity Segment represented approximately 85.8% of our total revenues, while our Products Segment represented approximately 14.2% of our total revenues during such period.

During the three months ended March 31, 2008, our total revenues increased by 12.4% (from $61.7 million to $69.4 million) over the same period last year. Revenues from the Electricity Segment increased by 36.3%, while revenues from the Products Segment decreased by 45.4%.

For the three months ended March 31, 2008, total Electricity Segment revenues from the sale of electricity by our consolidated power plants were $59.5 million. In addition, revenues from our 50% ownership of the Mammoth project for the three months ended March 31, 2008 were $2.4 million. This additional data is a Non-Generally Accepted Accounting Principles (Non-GAAP) financial measure, as defined by the SEC. There is no comparable GAAP measure. Management believes that such Non-GAAP data is useful to the readers as it provides a more complete view of the scope of activities of the power plants that we operate. Our investment in the Mammoth project is accounted for in our consolidated financial statements under the equity method and the revenues are not included in our consolidated revenues for the three months ended March 31, 2008.

During the three months ended March 31, 2008, revenues attributable to our Products Segment were $9.9 million, as compared to $18.1 million during the three months ended March 31, 2007.

During March and April 2008, we received purchase orders for the supply and construction of REG and geothermal plants in a total amount of $87 million. Of this amount, approximately $50 million is subject to a notice to proceed which we expect to receive in the near future when our customer finalizes construction financing for the project.

Recovered energy-based power generation continues to present opportunities for us in the United States and throughout the world. We expect that recovered energy generation projects will continue to contribute to our growth in both the Electricity Segment and the Products Segment. During the three months ended March 31, 2008, we recognized revenues in our Products Segment of approximately $2.0 million from REG compared to $6.3 million during the three months ended March 31, 2007. We believe that the decrease in revenues in our REG projects from the prior year does not represent a trend.

Revenues from our Electricity Segment are relatively predictable, as they are derived from sales of electricity generated by our power plants pursuant to long-term power purchase agreements. The price for electricity under all but one of our power purchase agreements is effectively a fixed price at least through May 2012. The power purchase agreement of the Puna project has a variable energy rate based on the local utility’s short run avoided costs, which are the incremental costs that the power purchaser avoids by not having to generate such electrical energy itself or purchase it from others. In the three months ended March 31, 2008, 77.3% of our electricity revenues were derived from contracts with fixed energy rates, and therefore such revenues were not affected by the fluctuations in energy commodity prices. However, electricity revenues are subject to seasonal variations and can be affected by higher-than-average ambient temperatures, as described below under the heading ‘‘Seasonality’’. Revenues attributable to our Products Segment are based on the sale of equipment and the provision of various services to our customers. These revenues may vary from period to period because of the timing of our receipt of purchase orders and the progress of our execution of each project.

Our management assesses the performance of our two segments of operation differently. In the case of our Electricity Segment, when making decisions about potential acquisitions or the development of new projects, we typically focus on the internal rate of return of the relevant investment, relevant technical and geological matters and other relevant business considerations. We

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evaluate our operating projects based on revenues and expenses, and our projects that are under development based on costs attributable to each such project. By contrast, we evaluate the performance of our Products Segment based on the timely delivery of our products, performance quality of our products and costs actually incurred to complete customer orders as compared to the costs originally budgeted for such orders.

Recent Developments

- In April 2008, we entered into an Engineering, Procurement and Construction (EPC) contract with Montana-Dakota Utilities Co. for a 5.3 MW REG power plant to be located on the Northern Border Pipeline compressor station in Morton County, North Dakota. Subject to regulatory approvals, the project is scheduled to be completed in the fourth quarter of 2009.
- In April 2008, we commenced commercial operation of the Heber South geothermal project located in the Imperial Valley, California.
- In April 2008, our wholly owned subsidiary, Ormat Nevada Inc. (Ormat Nevada), concluded the second closing under a 2007 transaction to monetize production tax credits and other favorable tax attributes, such as accelerated depreciation, generated from certain of its geothermal power projects. The first closing of the transaction occurred on June 7, 2007. Pursuant to the transaction, affiliates of Morgan Stanley & Co. Incorporated and Lehman Brothers Inc. became institutional equity investors in a newly formed subsidiary of Ormat Nevada, OPC LLC (OPC). Under this second closing, Ormat Nevada transferred the Galena 3 geothermal project to OPC, and received from the institutional equity investors $64.0 million.

As operator of all of the projects in the OPC portfolio, Ormat Nevada will continue to operate and maintain the Galena 3 project.

- In March 2008, we signed a new 20-year power purchase agreement with Great River Energy, a Minnesota Cooperative Corporation of Elk River, Minnesota, for the sale of electricity generated from a 5.3 MW Ormat REG facility to be constructed at a compressor station along the Northern Border natural gas pipeline. The new facility will convert the recovered waste heat from the exhaust of an existing gas turbine into electricity. We have already secured the rights to the waste heat for the new facility. We expect the plant to be commissioned in 2009 or early 2010.
- In March 2008, we entered into an EPC contract with Nevada Geothermal Power (NGP) for the supply and construction of a 49.5 MW power plant, consisting of three Ormat Energy Converters units, which are guaranteed to produce 16.5 MW (gross) each, at NGP's Blue Mountain geothermal project in Nevada. The total EPC contract value is $76 million, of which limited notices to proceed totaling $26.5 million were received by us in February and May 2008 in order to secure the guaranteed substantial completion date of December 31, 2009. The full release under the EPC contract is subject to finalizing the financing for the project and is expected to occur over the near term. The EPC contract provides for an additional partial release of funds, if necessary.
- In March 2008, we entered into a Joint Ownership Agreement (JOA) with Nevada Power Company, a subsidiary of Sierra Pacific Resources, for the Carson Lake geothermal project located in Churchill County, Nevada, that is currently under development by us. We will develop the project on our own until the resource is sufficiently defined at a level that is capable of supporting at least 30 MW and Nevada Power Company has received regulatory approval to acquire its 50 percent ownership interest. Following Nevada Power Company's acquisition of its 50 percent interest, we will continue to develop the project on behalf of the owners. If the development results in a resource that cannot support at least 30

MW, the parties are not obligated to close the acquisition and we may continue to develop the project by ourselves. Under the JOA each party will own a 50 percent undivided interest in the

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project as tenants-in-common. To acquire its project interest, Nevada Power Company will pay 50 percent of the costs expended to the closing date of the acquisition plus a fee. Drilling, construction, and operating and maintenance (O&M) costs going forward will be governed by the JOA and separate Drilling Services, EPC and O&M agreements.

To enable the JOA closing, the parties will amend an existing power purchase agreement to reflect the joint ownership of the project. Each party will be entitled to 50 percent of the production tax credit or 50 percent of the investment tax credit, as applicable. The amended agreement is subject to Public Utilities Commission of Nevada (PUCN) approval.

- In March 2008, we entered into an EPC contract with Nevada Power Company for a 6 MW REG power plant in the Goodsprings area, approximately 35 miles south of Las Vegas, Nevada. Subject to regulatory approvals, the project is scheduled to be completed in 2010.
- In March 2008, the California Public Utilities Commission approved a new 20-year power purchase agreement that we entered into in June 2007 with Southern California Edison Company for the sale of 50 MW of energy to be produced from the North Brawley project, which we are currently constructing in Imperial County, California. The power purchase agreement includes an option to increase the capacity of the plant and the amount of energy to be sold up to 100 MW at our discretion. We estimate that the North Brawley project will come on line by the end of 2008.
- In March 2008, the PUCN approved the agreement we reached in May 2007 with Sierra Pacific Power Company and Nevada Power Company, the purchasers of electricity generated by our existing and planned geothermal power projects in Nevada, regarding certain amendments to the power purchase agreements for a number of our existing geothermal projects in operation and some of our geothermal projects under development and construction. These amendments (i) provided for a mechanism to share production tax credits with the relevant purchaser pursuant to a reduction in the price for electricity paid by the power purchaser under the relevant power purchase agreement, bringing additional power purchase agreements in line with the production tax credit sharing arrangements included in other power purchase agreements with these purchasers in Nevada, (ii) revised certain generation thresholds based on a more definitive understanding of the geothermal resource at the respective projects, and (iii) addressed certain delays in meeting contract milestones as a result of ordinary course project construction delays.
- In February 2008, we commenced commercial operation of the Galena 3 project at the Steamboat complex in Nevada.
- On January 8, 2008, we completed an unregistered sale of 693,750 shares of common stock to our parent, Ormat Industries Ltd., at a price of $48.02 per share, or approximately $33.3 million in the aggregate. The proceeds of that sale are being used for general corporate purposes, including construction of geothermal and recovered energy generation power plants and other investments, and the financing of possible acquisitions.

Trends and Uncertainties

The geothermal industry in the United States has historically experienced significant growth followed by a consolidation of owners and operators of geothermal power plants. During the 1990s, growth and development in the geothermal industry occurred primarily in foreign markets and only minimal growth and development occurred in the United States. Since 2001, there has been increased demand for energy generated from geothermal resources in the United States as production costs for electricity generated from geothermal resources have become more competitive relative to fossil fuel generation. This is partly due to increasing natural gas and oil prices and newly enacted legislative and regulatory incentives, such as state renewable portfolio standards. We see the increasing demand for energy generated from geothermal and other renewable resources in the United States and the further introduction of renewable portfolio standards as the most significant trends affecting our industry today and in the immediate future. Our operations and the trends that from time to time impact our operations are subject to market cycles.

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Although other trends, factors and uncertainties may impact our operations and financial condition, including many that we do not or cannot foresee, we believe that our results of operations and financial condition for the foreseeable future will be affected by the following trends, factors and uncertainties:

- Our primary focus continues to be the implementation of our organic growth through the construction of new projects and enhancements of several of our existing projects. We expect that this investment in organic growth will increase our total generating capacity, consolidated revenues and operating income attributable to our Electricity Segment in 2008, as compared with 2007.
- We continue to experience increases in the cost of raw materials, labor and transportation costs required for our equipment manufacturing activities and equipment used in our power plants, as well as for sale to third parties. We have experienced an increase in drilling costs and a shortage in drilling equipment. We believe this is the result of the high oil prices resulting in increased drilling activity in the marketplace. We also have experienced, and expect to continue to experience, an increase in construction costs, resulting from, among other things, increased labor costs. This is particularly true in the United States, where construction costs remain high despite the current credit crisis. An increase in our raw materials, drilling, construction, labor, transportation and other costs may have an adverse effect on our financial condition and results of operations.
- We expect that the increased awareness of climate change may result in significant changes in the business and regulatory environments, which may create business opportunities for us going forward.
- In the United States, we expect to continue to benefit from the increasing demand for renewable energy. Twenty-nine states and the District of Columbia, including California, Nevada and Hawaii (where we have been most active in geothermal development and where all of our U.S. geothermal projects are located) have adopted renewable portfolio standards, renewable portfolio goals or other similar laws. These laws require that an increasing percentage of the electricity supplied by electric utility companies operating in such states be derived from renewable energy resources until certain pre-established goals are met. We expect that the additional demand for renewable energy from utilities in such states will create additional opportunities for us to expand existing projects and build new power plants.
- In addition to renewable portfolio standards, several federal climate change proposals are being considered. For example, the Lieberman-Warner Climate Security Act (S. 2191) was approved by the United States Senate Environment and Public Works Committee on December 5, 2007. This bill, if passed into law, would place a cap on greenhouse gas emissions and require increasing reductions in greenhouse gas emissions. In the absence of federal legislation, states are passing greenhouse gas legislation. For example, on September 27, 2006, the California Global Warming Solutions Act of 2006 (the Act) was signed into law. The Act regulates most sources of greenhouse gas emissions and is expected to result in a reduction of carbon emissions to 1990 levels by 2020, representing a twenty-five percent reduction in greenhouse gas emissions. To accomplish this, the Act provides a framework for greenhouse gas emissions reductions through the use of emissions control technologies and other cost-effective reduction strategies, one of which may involve the use of market-based trading of emissions rights. In addition to California, sixteen other states have set greenhouse gas emissions targets (Arizona, Connecticut, Florida, Hawaii, Illinois, Massachusetts, Maine, Minnesota, New Hampshire, New Jersey, New Mexico, New York, Oregon, Rhode Island, Vermont and Washington). Regional initiatives are also being developed to reduce greenhouse gas emissions and develop trading systems for renewable energy credits. For example, many northeastern states are part of the Regional Greenhouse Gas Initiative (RGGI), a regional cap-and trade system to limit carbon dioxide. In addition to RGGI, other states have also established the Midwestern Regional Greenhouse Gas Reduction Accord and the Western Climate Initiative. Although individual and regional

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programs will take some time to develop, their requirements, particularly the creation of any market-based trading mechanism to achieve compliance with emissions caps, should be advantageous to in-state and in-region (and, in some cases, such as RGGI and the state of California, inter-regional) energy generating sources that have low carbon emissions such as geothermal energy. Although it is currently hard to quantify the direct economic benefit of these efforts to reduce greenhouse gas emissions, we believe they will prove advantageous to us.

• Outside of the United States, we expect that a variety of governmental initiatives, will create new opportunities for the development of new projects, as well as create additional markets for our remote power units and other products. These initiatives include the award of long-term contracts to independent power generators, the creation of competitive wholesale markets for selling and trading energy, capacity and related energy products and the adoption of programs designed to encourage ‘‘clean’’ renewable and sustainable energy sources.

• We expect to continue to generate the majority of our revenues from our Electricity Segment through the sale of electricity from our power plants. All of our current revenues from the sale of electricity are derived from fully-contracted payments under long-term power purchase agreements. We also intend to continue to pursue growth in our recovered energy business.

• We expect competition from the wind and solar power generation industry to continue. While the current demand for renewable energy is large enough that this increased competition has not impacted our ability to obtain new power purchase agreements, it may contribute to a reduction in electricity prices. Despite increased competition from the wind and solar power generation industry, we believe that baseload electricity, such as geothermal-based energy, will emerge as the preferred source of renewable energy.

• We expect increased competition from new entrants to the geothermal industry, both in the power generation space and in the lease of geothermal resources. While the current demand for renewable energy is large enough that increased competition has not impacted our ability to obtain new power purchase agreements and new leases, increased competition in the power generation space may contribute to a reduction in electricity prices, and increased competition in geothermal leasing may contribute to an increase in lease costs.

• The viability of our geothermal power plants depends on various factors such as the heat content of the geothermal reservoir, useful life of the reservoir (the term during which such geothermal reservoir has sufficient extractable fluids for our operations) and operational factors relating to the extraction of the geothermal fluids. Our geothermal power plants may experience an unexpected decline in the capacity of their respective geothermal wells. Such factors, together with the possibility that we may fail to find commercially viable geothermal resources in the future, represent significant uncertainties we face in connection with our operations.

• As our power plants age, they may require increased maintenance with a resulting decrease in their availability.

• Our foreign operations are subject to significant political, economic and financial risks, which vary by country. These risks include the partial privatization of the electricity sector in Guatemala, labor unrest in Nicaragua and the political uncertainty currently prevailing in some of the countries in which we operate. Although we maintain political risk insurance to mitigate these risks, insurance does not provide complete coverage with respect to all such risks.

• The United States extended a tax subsidy and increased the amount of the tax subsidy for companies that use geothermal steam or fluid to generate electricity as part of the Energy Policy Act of 2005 that became law on August 8, 2005. The tax subsidy is a ‘‘production tax credit’’, which in 2007 was 2.0 cents per kWh and is adjusted annually for inflation. The production tax credit may be claimed for ten years on the electricity output of new geothermal power plants put into service by December 31, 2008.

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• The Energy Policy Act of 2005 authorizes the Federal Energy Regulatory Commission (FERC) to revise the Public Utility Regulatory Policy Act (PURPA) so as to terminate the obligation of electric utilities to purchase the output of a Qualifying Facility if FERC finds that there is an accessible competitive market for energy and capacity from the Qualifying Facility. The legislation does not affect existing power purchase agreements. We do not expect this change in law to affect our U.S. projects significantly, as all except one of our current contracts (our Steamboat 1 project, which sells its electricity to Sierra Pacific Power Company on a year-by-year basis) are long-term. FERC issued a final rule that makes it easier to eliminate the utilities' purchase obligation in four regions of the country. None of those regions includes a state in which our current projects operate. However, FERC has the authority under the Energy Policy Act of 2005 to act, on a case-by-case basis, to eliminate the mandatory purchase obligation in other regions. If the utilities in the regions in which our domestic projects operate were to be relieved of the mandatory purchase obligation, they would not be required to purchase energy from us upon termination of their respective existing power purchase agreements, which could have an adverse effect on our revenues.

Revenues

We generate our revenues from the sale of electricity from our geothermal and recovered energy-based power plants; the design, manufacturing and sale of equipment for electricity generation; and the construction, installation and engineering of power plant equipment.

Revenues attributable to our Electricity Segment are relatively predictable as they are derived from the sale of electricity from our power plants pursuant to long-term power purchase agreements. However, such revenues are subject to seasonal variations, as more fully described below in the section entitled ''Seasonality''. Electricity Segment revenues may also be affected by higher-than-average ambient temperatures, which could cause a decrease in the generating capacity of our power plants, and by unplanned major maintenance activities related to our power plants.

Our power purchase agreements generally provide for the payment of energy payments, or energy and capacity payments. Generally, capacity payments are payments calculated based on the amount of time that our power plants are available to generate electricity. Some of our power purchase agreements provide for bonus payments in the event that we are able to exceed certain target levels and the potential forfeiture of payments if we fail to meet minimum target levels. Energy payments, on the other hand, are payments calculated based on the amount of electrical energy delivered to the relevant power purchaser at a designated delivery point. The rates applicable to such payments are either fixed (subject, in certain cases, to certain adjustments) or are based on the relevant power purchaser's short run avoided costs (the incremental costs that the power purchaser avoids by not having to generate such electrical energy itself or purchase it from others). Our more recent power purchase agreements provide generally for energy payments alone with an obligation to compensate the off-taker for its incremental costs as a result of shortfalls in our supply.

The lease income related to the Puna lease transactions, which are accounted for as operating leases, is included as a separate line item in our Electricity Segment revenues (See ''Liquidity and Capital Resources''). For management purposes, we analyze such revenue on a combined basis with other revenues in our Electricity Segment.

As required by Emerging Issues Task Force (EITF) Issue No. 01-8, Determining Whether an Arrangement Contains a Lease, we have assessed all of our power purchase agreements agreed to, modified or acquired in business combinations on or after July 1, 2003, and concluded that all such agreements contain a lease element requiring lease accounting. Accordingly, revenue related to the lease element of the agreements is presented as ''lease portion of energy and capacity'' revenue, with the remaining revenue related to the production and delivery of the energy presented as ''energy and capacity'' revenue in our consolidated financial statements. As the lease revenue and the energy and capacity revenues are derived from the same arrangement and both fall within our Electricity Segment, we analyze such revenues, and related costs, on a combined basis for management purposes.

Revenues attributable to our Products Segment are generally less predictable than revenues from our Electricity Segment. This is because larger customer orders for our products are typically a result

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of our participating in, and winning, tenders issued by potential customers in connection with projects they are developing. Such projects often take a long time to design and develop and are often subject to various contingencies such as the customer's ability to raise the necessary financing for a project. As a result, we are generally unable to predict the timing of such orders for our products and may not be able to replace existing orders that we have completed with new ones. As a result, our revenues from our Products Segment fluctuate (and at times, extensively) from period to period.

The following table sets forth a breakdown of our revenues for the periods indicated:

	Revenues in Thousands		% of Revenues for Period Indicated	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2008	2007	2008	2007
Revenues				
Electricity Segment	$ 59,519	$ 43,658	85.8 %	70.7 %
Products Segment	9,868	18,089	14.2	29.3
Total	$ 69,387	$ 61,747	100.0 %	100.0 %

Geographical Breakdown of Revenues

For the three months ended March 31, 2008, 82.0% of our revenues attributable to our Electricity Segment were generated in the United States, as compared to 78.3% for the same period in 2007. The following table sets forth the geographic breakdown of the revenues attributable to our Electricity Segment for the periods indicated:

	Revenues in Thousands		% of Revenues for Period Indicated	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2008	2007	2008	2007
United States	$ 48,826	$ 34,188	82.0 %	78.3 %
Foreign	10,693	9,470	18.0	21.7
Total	$ 59,519	$ 43,658	100.0 %	100.0 %

For the three months ended March 31, 2008, 8% of our revenues attributable to our Products Segment were generated in the United States, as compared to 48.3% for the same period in 2007.

Seasonality

The prices paid for the electricity generated by our domestic projects pursuant to our power purchase agreements are subject to seasonal variations. The prices paid for electricity under the power purchase agreements with Southern California Edison, the Heber 1 and 2 projects, the Mammoth project and the Ormesa project and the prices that will be paid for the electricity under the power purchase agreement for the North Brawley project are higher in the months of June through September. As a result, we receive and will receive in the future higher revenues during such months. The prices paid for electricity pursuant to the power purchase agreements of our projects in Nevada have no significant changes during the year. In the winter, due principally to the lower ambient temperature, our power plants produce more energy and as a result we receive higher energy revenues. However, the higher capacity payments payable by Southern California Edison in California in the summer months have a more significant impact on our revenues than that of the higher energy revenues generally generated in winter due to increased efficiency. As a result, our revenues are generally higher in the summer than in the winter. The prices paid for electricity pursuant to the power purchase agreement of the Puna project are tied to the price of oil. Accordingly, our revenues for that project, which accounted for approximately 23% of our total revenues for the three months ended March 31, 2008, may be volatile.

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Breakdown of Cost of Revenues

Electricity Segment

The principal cost of revenues attributable to our operating projects include operation and maintenance expenses such as depreciation and amortization, salaries and related employee benefits, equipment expenses, costs of parts and chemicals, costs related to third-party services, lease expenses, royalties, startup and auxiliary electricity purchases, property taxes and insurance and, for the California projects, transmission charges, scheduling charges and purchases of sweet water for use in our plant cooling towers. Some of these expenses, such as parts, third-party services and major maintenance, are not incurred on a regular basis. This results in fluctuations in our expenses and our results of operations for individual projects from quarter to quarter. The lease expense related to the Puna lease transactions is included as a separate line item in our Electricity Segment cost of revenues (See ‘‘Liquidity and Capital Resources’’). For management purposes we analyze such costs on a combined basis with other cost of revenues in our Electricity Segment.

Payments made to government agencies and private entities on account of site leases where plants are located are included in cost of revenues. Royalty payments, included in cost of revenues, are made as compensation for the right to use certain geothermal resources and are paid as a percentage of the revenues derived from the associated geothermal rights. For the three months ended March 31, 2008, royalties constituted approximately 5.7% of the Electricity Segment revenues, compared to approximately 4.5% for the same period in 2007.

Products Segment

The principal expenses attributable to our Products Segment include materials, salaries and related employee benefits, expenses related to subcontracting activities, transportation expenses, and sales commissions to sales representatives. Some of the principal expenses attributable to our Products Segment, such as a portion of the costs related to labor, utilities and other support services are fixed, while others, such as materials, construction, transportation and sales commissions, are variable and may fluctuate significantly, depending on market conditions. As a result, the cost of revenues attributable to our Products Segment, expressed as a percentage of total revenues, fluctuates. Another reason for such fluctuation is that in responding to bids for our products, we price our products and services in relation to existing competition and other prevailing market conditions, which may vary substantially from order to order.

Cash, Cash Equivalents and Marketable Securities

Our cash, cash equivalents and marketable securities as of March 31, 2008 decreased to $30.7 million from $60.7 million as of December 31, 2007. This decrease is principally due to our use during the first quarter of 2008 of $81.6 million of cash resources to fund capital expenditures and $9.2 million to repay long-term debt to our parent and to third parties. The decrease in our cash resources was partially offset by the $33.3 million net proceeds from our unregistered sale of 693,750 shares to our parent at a price of $48.02 per share on January 8, 2008, and the $33.8 million derived from operating activities in the first quarter of 2008. In addition, we have $3.2 million and $2.8 million of marketable securities as of March 31, 2008 and December 31, 2007, respectively, classified as non-current assets. This classification is due to failed auctions in the fourth quarter of 2007 of certain auction rate securities in our portfolio, as described below in the section entitled ‘‘Exposure to Market Risks’’. We also have access to $160 million of corporate borrowing capacity under existing lines of credit with different commercial banks, as described below in the section entitled ‘‘Liquidity and Capital Resources.’’

Critical Accounting Policies

A comprehensive discussion of our critical accounting policies is included in the ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations’’ section in our annual report on Form 10-K for the year ended December 31, 2007.

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New Accounting Pronouncements

See Note 2 to our condensed consolidated financial statements set forth in Item 1 of this quarterly report for information regarding new accounting pronouncements.

Results of Operations

Our historical operating results in dollars and as a percentage of total revenues are presented below. A comparison of the different periods described below may be of limited utility as a result of each of the following: (i) our recent construction of new projects and enhancement of acquired projects; (ii) fluctuation in revenues from our Products Segment; and (iii) an accumulation of operational issues in the first quarter of 2007 that resulted in both reduced revenues and increased costs for such quarter.

	Three Months March 31,	
	2008	2007
(in thousands, except per share data)		
Statements of Operations Historical Data:		
Revenues:		
Electricity Segment	$ 59,519	$ 43,658
Products Segment	9,868	18,089
	69,387	61,747
Cost of revenues:		
Electricity Segment	38,676	39,722
Products Segment	8,050	15,924
	46,726	55,646
Gross margin:		
Electricity Segment	20,843	3,936
Products Segment	1,818	2,165
	22,661	6,101
Operating expenses:		
Research and development expenses	696	704
Selling and marketing expenses	3,519	1,986
General and administrative expenses	6,027	5,747
Operating income (loss)	12,419	(2,336)
Other income (expense):		
Interest income	1,046	1,415
Interest expense	(3,603)	(7,782)
Foreign currency translation and transaction losses	(183)	(716)
Impairement of auction rate securities	(328)	—
Other non-operating income	40	352
Income (loss) before income taxes, minority interest and equity in income of investees	9,391	(9,067)
Income tax benefit (provision)	(2,071)	1,995
Minority interest	2,205	—
Equity in income of investees	539	1,231
Net income (loss)	$ 10,064	$ (5,841)
Earnings (loss) per share – basic and diluted	$ 0.24	$ (0.15)
Weighted average number of shares used in computation of earnings (loss) per share:		
Basic	42,163	38,109
Diluted	42,271	38,109

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	Three Months March 31,	
	2008	2007
Statements of Operations Percentage Data:		
Revenues:		
Electricity Segment	85.8 %	70.7 %
Products Segment	14.2	29.3
	100.0	100.0
Cost of revenues:		
Electricity Segment	65.0	91.0
Products Segment	81.6	88.0
	67.3	90.1
Gross margin:		
Electricity Segment	35.0	9.0
Products Segment	18.4	12.0
	32.7	9.9
Operating expenses:		
Research and development expenses	1.0	1.1
Selling and marketing expenses	5.1	3.2
General and administrative expenses	8.7	9.3
Operating income (loss)	17.9	(3.8)
Other income (expense):		
Interest income	1.5	2.3
Interest expense	(5.2)	(12.6)
Foreign currency translation and transaction losses	(0.3)	(1.2)
Impairment of auction rate securities	(0.5)	0.0
Other non-operating income	0.1	0.6
Income (loss) before income taxes, minority interest and equity in income of investees	13.5	(14.7)
Income tax benefit (provision)	(3.0)	3.2
Minority interest	3.2	0.0
Equity in income of investees	0.8	2.0
Net income (loss)	14.5 %	(9.5 %)

Comparison of the Three Months Ended March 31, 2008 and the Three Months Ended March 31, 2007

Total Revenues

Total revenues for the three months ended March 31, 2008 were $69.4 million, as compared with $61.7 million for the three months ended March 31, 2007, which represented a 12.4% increase in total revenues. This increase is attributable to our Electricity Segment whose revenues increased by 36.3%, offset by a decrease of 45.4% in our Products Segment, over the same period in 2007.

Electricity Segment

Revenues attributable to our Electricity Segment for the three months ended March 31, 2008 were $59.5 million, as compared with $43.7 million for the three months ended March 31, 2007, which represented a 36.3% increase in such revenues. This increase is primarily attributable to additional revenues of $14.6 million generated in the Unites States resulting from (i) an increase in our generating capacity and energy generation in the United States from 437,126 MWh in the three months ended March 31, 2007 to 572,488 MWh in the three months ended March 31, 2008; and (ii) an increase in the energy rates in the Puna project (due to higher oil prices) and in our Standard

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Offer # 4 power purchase agreements payable by Southern California Edison. The increase in Electricity Segment revenues in the first quarter of 2008 is also attributable to a net increase of $1.2 million in revenues from our international plants as a result of revenues generated from our Amatitlan project in Guatemala, which started generating electricity in March 2007. The increase in our United States generating capacity is mainly the result of additional generation from new power plants placed in service, as well as the enhanced performance of our existing power plants. The 36.3% increase in our Electricity Segment revenues over the same period last year also reflects the weak first quarter of 2007 that resulted from an accumulation of operational issues in certain projects in the Unites States, most of which have been resolved.

Products Segment

Revenues attributable to our Products Segment for the three months ended March 31, 2008 were $9.9 million, as compared with $18.1 million for the three months ended March 31, 2007, which represented a 45.4% decrease in such revenues. This decrease is principally attributable to last year's lower products backlog, and the timing of revenue recognition in accordance with the percentage of completion method for each of our geothermal and recovered energy generation products. Our manufacturing and construction activities were not reduced, as we increased the amount of our manufacturing and construction activities for our own projects.

Total Cost of Revenues

Total cost of revenues for the three months ended March 31, 2008 was $46.7 million, as compared with $55.6 million for the three months ended March 31, 2007, which represented a 16.0% decrease in total cost of revenues. As a percentage of total revenues, our total cost of revenues for the three months ended March 31, 2008 was 67.3% compared with 90.1% for the same period in 2007. These decreases are attributable to decreased costs in both our Electricity and Products Segments, as discussed below.

Electricity Segment

Total cost of revenues attributable to our Electricity Segment for the three months ended March 31, 2008 was $38.7 million, as compared with $39.7 million for the three months ended March 31, 2007, which represented a 2.6% decrease in total cost of revenues for such segment. This decrease from the same period last year reflects the heightened major maintenance costs that we experienced during the first quarter of 2007 due to an accumulation of operating issues in our United States projects, most of which have been resolved. The decrease in our costs in this segment during the first quarter of 2008 was partially offset by: (i) costs relating to new and enhanced projects placed into service; and (ii) an increase in labor and materials costs in existing plants. Due to project timing issues, a portion of our project maintenance costs that would otherwise have been incurred during the first quarter of 2008 will be incurred in the second quarter. These deferred costs will be incurred in addition to our scheduled maintenance costs for the second quarter, including the replacement of two turbines in our Steamboat 2/3 project, which will require a shutdown of the project for a period of time. As a percentage of total electricity revenues, the total cost of revenues attributable to our Electricity Segment for the three months ended March 31, 2008 was 65.0% compared with 91.0% for the three months ended March 31, 2007.

Products Segment

Total cost of revenues attributable to our Products Segment for the three months ended March 31, 2008 was $8.1 million, as compared with $15.9 million for the three months ended March 31, 2007, which represented a 49.4% decrease in total cost of revenues related to such segment. This decrease is attributable to the decrease in our product revenues, as described above, as well as to a different product mix. This decrease was partially offset by an increase in labor, material, construction and transportation costs, as well as costs resulting from the devaluation of the U.S. dollar. As a percentage of total Products Segment revenues, our total cost of revenues attributable to this segment for the three months ended March 31, 2008 was 81.6% as compared with 88.0% for the three months ended March 31, 2007. Our costs as a percentage of total revenues for this segment were not negatively impacted by the reduced revenues during the first quarter of 2008 due to the increased amount of manufacturing and construction activities for our own projects.

Research and Development Expenses

Research and development expenses for the three months ended March 31, 2008 were $0.7 million, which is consistent with our research and development expenses for the same period last year.

Selling and Marketing Expenses

Selling and marketing expenses for the three months ended March 31, 2008 were $3.5 million, as compared with $2.0 million for the three months ended March 31, 2007, which represented a 77.2% increase. The increase was due primarily to an increase in personnel expenses and other administrative expenses as a result of the hiring of additional personnel to support our continued growth, and an increase in salaries due in part to the devaluation of the U.S. dollar, as well as expenses relating to a transaction that was not consummated. Selling and marketing expenses for the three months ended March 31, 2008 constituted 5.1% of total revenues for such period, as compared with 3.2% for the three months ended March 31, 2007.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2008 were $6.0 million, as compared with $5.7 million for the three months ended March 31, 2007, which represented a 4.9% increase. Such increase is attributable to an increase in personnel expenses and other administrative expenses as a result of hiring additional personnel in anticipation of our future growth, and as a result of an increase in salaries due in part to the devaluation of the U.S. dollar. General and administrative expenses for the three months ended March 31, 2008 decreased to 8.7% of total revenues for such period, from 9.3% for the three months ended March 31, 2007.

Operating Income (Loss)

Operating income for the three months ended March 31, 2008 was $12.4 million, as compared with operating loss of $2.3 million for the three months ended March 31, 2007. Such increase in operating income was principally attributable to an increase in the gross margin in our Electricity Segment due to the significant increase in revenues coupled with a decrease in our costs in this segment during the first quarter of 2008, as described above. Operating income attributable to our Electricity Segment for the three months ended March 31, 2008 was $12.6 million, as compared with operating loss of $1.5 million for the three months ended March 31, 2007. Operating loss attributable to our Products Segment for the three months ended March 31, 2008 was $0.2 million, as compared with $0.8 million for the three months ended March 31, 2007.

Interest Income

Interest income for the three months ended March 31, 2008 was $1.0 million, as compared with $1.4 million for the three months ended March 31, 2007, which represented a 26.0% decrease. The $0.4 million decrease is primarily due to our holding a reduced amount of liquid investments, as well as a decrease in interest rates payable on liquid investments.

Interest Expense

Interest expense for the three months ended March 31, 2008 was $3.6 million, as compared with $7.8 million for the three months ended March 31, 2007, which represented a 53.7% decrease. The $4.2 million decrease is primarily due to principal repayments and to an increase of $2.3 million in interest capitalized to projects as a result of increased projects under construction.

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Impairment of Auction Rate Securities

In the three months ended March 31, 2008, we recorded $0.3 million of impairment as a result of an other-than-temporary decline in the value of certain auction rate securities. See also Note 6 to our condensed consolidated financial statements.

Income Taxes

Income tax provision for the three months ended March 31, 2008 was $2.1 million as compared with income tax benefit of $2.0 million for the three months ended March 31, 2007. The effective tax rate for the three months ended March 31, 2008 and 2007 was 22.0%.

Minority interest

Minority interest for the three months ended March 31, 2008 includes income of $2.2 million from the sale of limited liability company interests in OPC to the institutional equity investors in June 2007.

Equity in Income of Investees

Our participation in the income generated from our investees for the three months ended March 31, 2008 was $0.5 million, as compared with $1.2 million for the three months ended March 31, 2007. On September 25, 2007, our equity investee, Ormat Leyte Co. Ltd. (Leyte) transferred its power plants to PNOC-Energy Development Corporation pursuant to a Build, Operate, and Transfer agreement. We did not incur any material financial loss as a result of such transfer, although going forward this will reduce our owned foreign generation capacity by 39 MW with a commensurate impact on equity in income of investees and net income. Our equity in income of investees for the three months ended March 31, 2008 includes an immaterial loss from Leyte, while in the three months ended March 31, 2007 we had $0.8 million of income from Leyte.

Net Income (Loss)

Net income for the three months ended March 31, 2008 was $10.1 million, as compared with a net loss of $5.8 million for the three months ended March 31, 2007. Such increase in net income was principally attributable to: (i) an increase in our operating income of $14.8 million; (ii) a $4.2 million decrease in interest expense; and (iii) a $2.2 million increase in minority interest as described above. This was partially offset by a $4.1 million increase in income tax provision. Net income for the three months ended March 31, 2008 includes stock-based compensation related to stock options of $1.1 million as compared with $0.6 million for the three months ended March 31, 2007.

Liquidity and Capital Resources

Our principal sources of liquidity have been derived from cash from operations, proceeds from parent company loans, third party debt in the form of borrowing under credit facilities, issuance by Ormat Funding and OrCal Geothermal of their Senior Secured Notes, project financing (including the Puna lease and the OPC Tax Monetization Transactions described below) and the issuance of our common stock in public and private offerings. We have utilized this cash to fund our acquisitions, develop and construct power generation plants and meet our other cash and liquidity needs.

As of March 31, 2008, we have access to the following sources of funds: (i) $30.7 million in cash, cash equivalents and short-term marketable securities; and (ii) $110.0 million of corporate borrowing capacity under existing lines of credit with different commercial banks. In May 2008, we secured additional borrowing capacity of $50 million through a line of credit with a commercial bank.

Our estimated capital needs for the rest of 2008 include approximately $356.0 million for capital expenditures on new projects in development or construction, exploration activity, operating projects, and machinery and equipment, as well as $65.8 million for debt repayment (including to our parent).

We expect to finance these requirements and our working capital deficit in the amount of $27.8 million as of March 31, 2008 with: (i) the sources of liquidity described above; (ii) additional

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proceeds of approximately $64.0 million which we received on April 17, 2008 from the second closing of the OPC Tax Monetization Transaction; (iii) cash flows from our operations; (iv) additional borrowing capacity under future lines of credit with commercial banks that are under negotiations; (v) future project financing and refinancing; and (vi) future tax monetization transactions. Our management believes that these sources will address our anticipated liquidity, capital expenditures and other investment requirements. Our shelf registration statement on Form S-3, which was declared effective on January 31, 2006, provides us with the ability to raise additional capital of up to $623 million through the issuance of securities.

Sale of Unregistered Shares to the Parent

As described in ‘‘Recent Developments’’, on January 8, 2008, we completed an unregistered sale of 693,750 shares of common stock to our parent at a price of $48.02 per share. The proceeds from this unregistered sale were approximately $33.3 million. The proceeds from this sale are being used for general corporate purposes, which may include construction of geothermal and recovered energy generation power plants and other investments and financing activities.

Loan Agreements with our Parent

In 2003, we entered into a loan agreement with Ormat Industries Ltd. (our parent company), which was further amended on September 20, 2004. Pursuant to this loan agreement, Ormat Industries agreed to make a loan to us in one or more advances not exceeding a total aggregate amount of $150.0 million. The proceeds of the loan are to be used to fund our general corporate activities and investments. We are required to repay the loan and accrued interest in full and in accordance with an agreed-upon repayment schedule and in any event on or prior to June 5, 2010. Interest on the loan is calculated on the balance from the date of the receipt of each advance until the date of payment thereof at a fixed rate per annum equal to Ormat Industries’ average effective cost of funds plus 0.3% in dollars, which represents a rate of 7.5% per annum. All computations of interest shall be made by Ormat Industries on the basis of a year consisting of 360 days. As of March 31, 2008, the outstanding balance of the loan was approximately $50.8 million compared to $57.8 million, as of December 31, 2007.

Third Party Debt

Our third party debt is composed of two principal categories. The first category consists of project finance debt or acquisition financing that we or our subsidiaries have incurred for the purpose of developing and constructing, refinancing or acquiring our various projects, which are described under the heading ‘‘Non-Recourse and Limited-Recourse Third Party Debt’’. The second category consists of debt incurred by us or our subsidiaries for general corporate purposes, which are described under the heading ‘‘Full-Recourse Third Party Debt’’.

Non-Recourse and Limited-Recourse Third Party Debt

OrCal Geothermal Senior Secured Notes — Non-Recourse

On December 8, 2005, OrCal Geothermal Inc. (OrCal), one of our subsidiaries, issued $165.0 million, 6.21% Senior Secured Notes (OrCal Senior Secured Notes) in an offering subject to Rule 144A and Regulation S of the Securities Act of 1933, as amended, for the purpose of refinancing the acquisition cost of the Heber projects. The OrCal Senior Secured Notes have been rated BBB− by Fitch. The OrCal Senior Secured Notes have a final maturity date of December 30, 2020. Principal and interest on the OrCal Senior Secured Notes are payable in semi-annual payments that commenced on June 30, 2006. The OrCal Senior Secured Notes are collateralized by substantially all of the assets of OrCal and those of its wholly owned subsidiaries and are fully and unconditionally guaranteed by all of the wholly owned subsidiaries of OrCal. There are various restrictive covenants under the OrCal Senior Secured Notes, which include limitations on additional indebtedness and payment of dividends. As of March 31, 2008, we were in compliance with the covenants under the OrCal Senior Secured Notes. As of March 31, 2008, there were $134.5 million of OrCal Senior Secured Notes outstanding.

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Ormat Funding Senior Secured Notes — Non Recourse

On February 13, 2004, Ormat Funding Corp. (OFC), one of our subsidiaries, issued $190.0 million, 8¼% Senior Secured Notes (OFC Senior Secured Notes) in an offering subject to Rule 144A and Regulation S of the Securities Act of 1933, as amended, for the purpose of refinancing the acquisition cost of the Brady, Ormesa and Steamboat 1/1A projects, and the financing of the acquisition cost of the Steamboat 2/3 project. The OFC Senior Secured Notes have a final maturity date of December 30, 2020. Principal and interest on the OFC Senior Secured Notes are payable in semi-annual payments which commenced on June 30, 2004. The OFC Senior Secured Notes are collateralized by substantially all of the assets of OFC and those of its wholly owned subsidiaries and are fully and unconditionally guaranteed by all of the wholly owned subsidiaries of OFC. There are various restrictive covenants under the OFC Senior Secured Notes, which include limitations on additional indebtedness and payment of dividends. As of March 31, 2008, we were in compliance with the covenants under the OFC Senior Secured Notes. As of March 31, 2008, there were $164.9 million of OFC Senior Secured Notes outstanding.

Senior Loans from International Finance Corporation (IFC) and Commonwealth Development Corporation (CDC) — Non-Recourse

Orzunil I de Electricidad, Limitada (Orzunil), a wholly owned subsidiary in Guatemala, has senior loan agreements with IFC and CDC. The first loan from IFC, of which $5.6 million was outstanding as of March 31, 2008, has a fixed annual interest rate of 11.775%, and matures on November 15, 2011. The second loan from IFC, of which $0.7 million was outstanding as of March 31, 2008, has a fixed annual interest rate of 11.730%, and matures on May 15, 2008. The loan from CDC, of which 6.0 million was outstanding as of March 31, 2008, has a fixed annual interest rate of 10.300%, and matures on August 15, 2010. There are various restrictive covenants under the Senior Loans, which include limitations on Orzunil's ability to make distributions to its shareholders. As of March 31, 2008, Orzunil is in compliance with the covenants under these senior loans.

Credit Facility Agreement (The Momotombo project) — Limited Recourse

Ormat Momotombo Power Company (Momotombo), a wholly owned subsidiary in Nicaragua, has a loan agreement with Bank Hapoalim, of which $7.6 million was outstanding as of March 31, 2008, bearing an interest rate of 3-month LIBOR plus 2.375% per annum on tranche one of the loan and 3-month LIBOR plus 3.0% per annum on tranche two of the loan. Tranche one of the loan matures on September 5, 2010, and is payable in 32 quarterly installments of $298,000 and tranche two of the loan matures on December 5, 2010, and is payable in 28 quarterly installments of $424,000. There are various restrictive covenants under this loan, which include limitations on Momotombo's ability to make distributions to its shareholders.

Due to a failure of a turbine that was not manufactured by Ormat, the Momotombo project had not been in full operation from June 2007 through October 2007. As a result, Momotombo did not meet the ''debt service coverage ratio'' required at December 31, 2007, and therefore, distributions from the project are restricted. The turbine has been repaired and the power plant returned to full operation in November 2007.

In October 2007, Momotombo reached an agreement with Bank Hapoalim, pursuant to which Bank Hapoalim allowed Momotombo to use the funds in the ''Debt Service Reserve Account'' for the repair of the damaged turbine. As a result, Momotombo does not comply with the required ''Debt Service Reserve Account''. In accordance with the terms of the credit facility, Momotombo has a 180-day period to replenish the ''Debt Service Reserve Account''. On February 24, 2008, Bank Hapoalim granted Momotombo an extension to replenish the ''Debt Service Reserve Account'' until August 31, 2009. As the power plant recently returned to full operation, we believe that Momotombo will comply with the ‘‘Debt Service Reserve Account’’ covenant before August 31, 2009.

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New financing of our projects

Financing of the Amatitlan Project

We intend to refinance our equity investment in the construction of the Amatitlan project in Guatemala. We terminated the exclusivity of the mandate letter with the local bank in Guatemala and are currently in discussions with other financial institutions.

Financing of Phase II of Olkaria III Project

We have engaged a financial institution that is leading a syndicate for the purpose of arranging long term financing for the Olkaria III project in Kenya. The syndicate is in the process of conducting due diligence related to the potential financing. We are in the process of negotiating the term sheet for the financing.

Full-Recourse Third Party Debt

Our full-recourse third party debt includes an $8.0 million medium term loan from Bank Hapoalim, of which $1.0 million was outstanding as of March 31, 2008, bearing an interest rate of 12-month LIBOR plus 1.7% per annum.

In connection with our acquisition through our Israeli subsidiary, Ormat Systems Ltd. (Ormat Systems), of the power generation business from our parent and in connection with obtaining lines of credit, we entered into certain agreements with various commercial banks. Under these agreements, in exchange for such banks’ release of our parent’s guarantee and a release of their security interest over the assets of Ormat Systems, we and Ormat Systems have agreed to certain negative covenants, including, but not limited to, a prohibition on: (i) creating any floating charge or any permanent pledge, charge or lien over our assets without obtaining the prior written approval of the lender; (ii) guaranteeing the liabilities of any third party without obtaining the prior written approval of the lender; and (iii) selling, assigning, transferring, conveying or disposing of all or substantially all of our assets. In some cases, we have agreed to maintain certain financial ratios such as a debt service coverage ratio and a debt to equity ratio. We do not expect that these covenants or ratios, which apply to us on a consolidated basis, will materially limit our ability to execute our future business plans or our operations. The failure to perform or observe any of the covenants set forth in such agreements, subject to various cure periods, would result in the occurrence of an event of default and would enable the lenders to accelerate all amounts due under each such agreement.

We do not expect that any third party debt that we, or any of our subsidiaries, will incur in the future will be guaranteed by our parent.

Most of the loan agreements to which we or our subsidiaries are a party contain cross-default provisions with respect to other material indebtedness owed by us or them to any third party.

On February 15, 2006, our subsidiary, Ormat Nevada, entered into a $25.0 million credit agreement with Union Bank of California (UBOC). Under the credit agreement, Ormat Nevada can request extensions of credit in the form of loans and/or the issuance of one or more letters of credit. UBOC is currently the sole lender and issuing bank under the credit agreement, but is also designated as an administrative agent on behalf of banks that may, from time to time in the future, join the credit agreement as parties thereto. In connection with this transaction, we have entered into a guarantee in favor of the administrative agent for the benefit of the banks, pursuant to which we agreed to guarantee Ormat Nevada’s obligations under the credit agreement. Ormat Nevada’s obligations under the credit agreement are otherwise unsecured by any of its (or any of its subsidiaries’) assets.

Loans and draws under the letters of credit (if any) under the credit agreement will bear interest at the floating rate based on the Eurodollar plus a margin. There are various restrictive covenants under the credit agreement, which include maintaining certain levels of tangible net worth, leverage ratio, minimum coverage ratio, and a distribution coverage ratio. In addition, there are restrictions on dividend distributions in the event of a payment default or noncompliance with such ratios.

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As of March 31, 2008, three letters of credit in the amount of $12.3 million remained issued and outstanding under this credit agreement with UBOC.

In 2007, we entered into credit agreements with three commercial banks in the aggregate amount of $110 million. In addition, in May 2008, we entered into an additional credit agreement with another commercial bank in the amount of $50 million. Under these credit agreements, we or our Israeli subsidiary, Ormat Systems, can request extensions of credit in the form of loans and/or the issuance of one or more letters of credit. Each of the credit agreements has a term of three years.

Loans and draws under the credit agreements or under any letters of credit will bear interest at the respective bank's cost of funds plus a margin. Our (or Ormat Systems') obligations under the credit agreements are unsecured, but we are subject to a negative pledge in favor of the banks and certain other customary restrictive covenants.

As of March 31, 2008 and as of the date of this report, no loans or letters of credits were outstanding under such credit agreements.

Our management believes that we are currently in compliance with our covenants with respect to our third-party debt, except as described above regarding the Bank Hapoalim loan.

Letters of Credit

Some of our customers require our project subsidiaries to post letters of credit in order to guarantee their respective performance under relevant contracts. We are also required to post letters of credit to secure our obligations under various leases and licenses and may, from time to time, decide to post letters of credit in lieu of cash deposits in reserve accounts under certain financing arrangements. In addition, our subsidiary, Ormat Systems, is required from time to time to post performance letters of credit in favor of our customers with respect to orders of products.

Bank Leumi and Bank Hapoalim have issued such performance letters of credit in favor of our customers from time to time. As of March 31, 2008, Bank Leumi and Bank Hapoalim have agreed to make available to us letters of credit totaling $8.9 million and $23.1 million, respectively. As of such date, Bank Leumi and Bank Hapoalim have issued letters of credit in the amount of $8.9 million and $13.1 million, respectively.

In addition, we and certain of our subsidiaries may request letters of credit under the credit agreements with UBOC and four other commercial banks as described above under ''Full-Recourse Third Party Debt''. As of March 31, 2008, three letters of credit in the amount of $12.3 million remained issued and outstanding under the UBOC credit agreement.

Puna Project Lease Transactions

On May 19, 2005, our subsidiary in Hawaii, Puna Geothermal Ventures (PGV), entered into a transaction involving the Puna geothermal power plant located on the Big Island of Hawaii. The transaction was concluded with financing parties by means of a leveraged lease transaction. A secondary stage of the lease transaction relating to two new geothermal wells that PGV drilled in the second half of 2005 (for production and injection) was completed on December 30, 2005. Pursuant to a 31-year head lease, PGV leased its geothermal power plant to the abovementioned financing parties in return for deferred lease payments by such financing parties to PGV in the aggregate amount of $83.0 million.

OPC Tax Monetization Transactions

On June 7, 2007, a wholly owned subsidiary of the Company, Ormat Nevada, concluded a transaction to monetize production tax credits and other favorable tax attributes, such as accelerated depreciation, generated from certain of its geothermal power projects. Pursuant to the transaction, affiliates of Morgan Stanley & Co. Incorporated and Lehman Brothers Inc. became institutional equity investors in a newly formed subsidiary of Ormat Nevada. The projects involved in the transaction include Desert Peak 2, Steamboat Hills, and Galena 2, all located in Nevada.

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Under the transaction structure, Ormat Nevada transferred the aforementioned geothermal power projects to the newly formed subsidiary, OPC LLC (OPC), and sold limited liability company interests in OPC to the institutional equity investors for $71.8 million. Ormat Nevada will continue to operate and maintain the projects and will receive initially all of the distributable cash flow generated by the projects until it recovers the capital that it has invested in the projects, while the institutional equity investors will receive substantially all of the production tax credits and the taxable income or loss, and the distributable cash flow after Ormat Nevada has recovered its capital. The institutional equity investor's return is limited by the term of the transaction. Once the investors reach a target after-tax yield on their investment in OPC (the Flip Date), Ormat Nevada will receive 95% of both distributable cash and taxable income and the investors will receive 5% of both distributable cash and taxable income on a going forward basis. Following the Flip Date, Ormat Nevada also has the option to buy out the investors' remaining interest in OPC at the then-current fair market value or, if greater, the investors' capital account balances in OPC. Should Ormat Nevada exercise this purchase option, it would thereupon revert to being sole owner of the projects.

On April 17, 2008, a second closing of the transaction was concluded. Under this second closing, Ormat Nevada transferred the Galena 3 geothermal project to OPC, and received from the institutional equity investors $64.0 million.

Liquidity Impact of Uncertain Tax positions

As discussed in Note 10 to our Condensed Consolidated Financial Statements set forth in Item 1 of this quarterly report, we have a liability associated with unrecognized tax benefits and related interest and penalties in the amount of approximately $5.6 million as of March 31, 2008. This liability is included in long-term liabilities in our consolidated balance sheet, because we generally do not anticipate that settlement of the liability will require payment of cash within the next twelve months. We are not able to reasonably estimate when we will make any cash payments required to settle this liability, but do not believe that the ultimate settlement of our obligations will materially effect our liquidity.

Dividend

The following are the dividends declared by us during the past two years:

Date Declared	Dividend Amount per Share	Record Date	Payment Date
August 6, 2006	$ 0.04	August 23, 2006	August 30, 2006
November 7, 2006	$ 0.04	November 30, 2006	December 13, 2006
February 27, 2007	$ 0.07	March 21, 2007	March 29, 2007
May 8, 2007	$ 0.05	May 22, 2007	May 29, 2007
August 8, 2007	$ 0.05	August 22, 2007	August 29, 2007
November 6, 2007	$ 0.05	November 28, 2007	December 12, 2007
February 26, 2008	$ 0.05	March 14, 2008	March 27, 2008
May 6, 2008	$ 0.05	May 20, 2008	May 27, 2008

Historical Cash Flows

The following table sets forth the components of our cash flows for the relevant periods indicated:

	Three Months Ended March 31,	
	2008	2007
	(in thousands)	
Net cash provided by operating activities	$ 33,816	$ 8,428
Net cash provided by (used in) investing activities	(72,314)	19,725
Net cash provided by (used in) financing activities	21,993	(26,163)
Net increase (decrease) in cash and cash equivalents	(16,505)	1,990

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For the three months ended March 31, 2008

Net cash provided by operating activities for the three months ended March 31, 2008 was $33.8 million, as compared with $8.4 million for the three months ended March 31, 2007. Such net increase of $25.4 million resulted primarily from (i) the increase in net income to $10.1 million in the three months ended March 31, 2008, as compared with a net loss of $5.8 million in the three months ended March 31, 2007, mainly as a result of the increase in gross margin, as described above, and (ii) an increase of $5.6 million and $7.9 million, respectively, in accounts payable and in billings in excess of costs and estimated earnings on uncompleted contracts, in the three months ended March 31, 2008, as compared to an increase of $3.8 million and $3.7 million, respectively, in the three months ended March 31, 2007.

Net cash used in investing activities for the three months ended March 31, 2008 was $72.3 million, as compared with $19.7 million provided by investing activities for the three months ended March 31, 2007. The principal factors that affected our cash flow used in investing activities during the three months ended March 31, 2008 were capital expenditures of $81.6 million, primarily for our facilities under construction, and a $3.0 million increase in restricted cash, cash equivalents and marketable securities, offset by a $12.6 million decrease in marketable securities. The principal factors that affected our cash flow provided by investing activities during the three months ended March 31, 2007 were a $44.0 million decrease in marketable securities, a $7.2 million decrease in restricted cash, cash equivalents and marketable securities, offset by capital expenditures of $31.2 million, primarily for our power facilities under construction.

Net cash provided by financing activities for the three months ended March 31, 2008 was $22.0 million, as compared with $26.2 million used in financing activities for the three months ended March 31, 2007. The principal factors that affected the cash flow provided by financing activities during the three months ended March 31, 2008 were the $33.3 million net proceeds from our sale of 693,750 shares to our parent, offset by the repayment of long-term debt in the amount of $2.2 million, the repayment of debt to our parent in the amount of $7.0 million and the payment of a dividend to our shareholders in the amount of $2.1 million. The principal factors that affected the cash flow used in financing activities during the three months ended March 31, 2007 were the repayment of long-term debt in the amount of $16.8 million, the repayment of debt to our parent in the amount of $7.0 million and the payment of a dividend to our shareholders in the amount of $2.7 million.

Capital Expenditures

Our capital expenditures primarily relate to two principal components: the enhancement of our existing power plants and the development of new power plants. We expect that the following enhancements of our existing power plants and the construction of new power plants will be funded initially from internally generated cash or other available corporate resources, which we expect to subsequently refinance with limited or non-recourse debt or tax monetization at the subsidiary level. We currently do not contemplate obtaining any new loans from our parent company.

Phase II of the Olkaria III Project. In connection with Phase II of the Olkaria III 35 MW project, we have completed the drilling of the wells and the majority of the power plant equipment is on site.

Puna Project. An enhancement program for the Puna project is currently planned and is intended to increase the output of the project by an estimated 8 MW through the construction of an OEC unit. We expect that such enhancement program will be completed in 2009. We have not yet entered into a power purchase agreement for the supply of energy from this planned addition.

North Brawley Project. The construction of the North Brawley project is currently under way. Once completed, it will deliver approximately 50 MW of power generation under an existing power purchase agreement with Southern California Edison. Drilling started in February 2007. Construction work is at an advanced stage and the key power plant equipment has arrived at the site. We expect the construction to be completed by the end of 2008.

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OREG 2 Project. In connection with the OREG 2 recovered energy project, we plan to construct four power plants along the Northern Border natural gas pipeline. Each of the four facilities will have a net capacity of 5.5 MW. These facilities are scheduled to be completed during 2009.

GRE Project. We are developing a 5.3 MW recovered energy generation project for Great River Energy, which will be located along the Northern Boarder pipeline in Martin County, Minnesota. We recently signed a 20-year power purchase agreement with Great River Energy. We expect this facility to be commissioned in late 2009 or early 2010.

Peetz Project. In connection with the Peetz recovered energy project, we are currently manufacturing the equipment required for use in the 4 MW power plant along a natural gas pipeline near Denver, Colorado. The facility is scheduled to be commissioned in mid-2009.

GDL Project. We are constructing a 10 MW power plant, located in the Kawerau, New Zealand. We have a 49% ownership interest in the project and have an option to acquire the remaining 51% before the completion of construction. Completion of this project is expected in late 2008 or early 2009.

East Brawley. We plan to construct and have begun manufacturing equipment for an additional 50 MW power plant in the Brawley known geothermal resource area in Imperial County, California, adjacent to the North Brawley project. Completion of the project is projected for the end of 2009.

We have budgeted approximately $610 million for the projects described above and have invested approximately $179 million of such budget as of March 31, 2008, and expect to invest approximately $281 million in the rest of 2008.

In addition to the above projects, our operating projects have capital expenditure requirements for the rest of 2008 of approximately $26 million. We plan to start other construction and enhancement of additional projects, and we have various leases for geothermal resources, in which we have started exploration activity, for a total investment amount of approximately $45 million for the rest of 2008 and 2009, and we also plan to invest approximately $17 million in machinery and equipment, including drilling equipment in the rest of 2008.

We do not anticipate material capital expenditures in the near term for any of our operating projects, other than those described above and other than new projects beyond 2008.

Exposure to Market Risks

One market risk to which power plants are typically exposed is the volatility of electricity prices. However, our exposure to such market risk is limited currently because our long-term power purchase agreements have fixed or escalating rate provisions that limit our exposure to changes in electricity prices. However, beginning in May 2012, the energy payments under the power purchase agreements for the Heber 1 and 2 projects, the Ormesa project and the Mammoth project will be determined by reference to the relevant power purchaser’s short run avoided costs. The Puna project is currently benefiting from energy prices which are higher than the floor under the Puna power purchase agreement, as a result of the high fuel costs that impact Hawaii Electric Light Company’s avoided costs. In addition, under certain of the power purchase agreements for our projects in Nevada, the price that Sierra Pacific Power Company pays for energy and capacity is based upon California-Oregon border power market pricing.

As of March 31, 2008, 97.7% of our consolidated long-term debt (including amounts owed to our parent) was in the form of fixed rate securities and therefore not subject to interest rate volatility risk. As of such date, 2.3% of our debt was in the form of a floating rate instrument, exposing us to changes in interest rates in connection therewith. As of March 31, 2008, $8.6 million of our debt remained subject to some floating rate risk. As such, our exposure to changes in interest rates with respect to our long-term obligations is immaterial.

We currently maintain our surplus cash in short-term, interest-bearing bank deposits, money market securities, commercial paper and auction rate securities (with a minimum investment grade rating of AA by Standard & Poor’s Ratings Services).

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We account for our investment in marketable securities in accordance with SFAS No. 115, Accounting for Investments in Debt and Equity Securities. All of our investments in marketable securities (including marketable securities which are part of restricted cash accounts) are treated as ‘‘available-for-sale’’ under SFAS No.115. Our marketable securities include auction rate securities and commercial paper.

Our cash equivalents and our portfolio of marketable securities are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectation due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However because we classify our debt securities as ‘‘available-for-sale’’, no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. Should interest rates fluctuate by 10 percent, the value of our marketable securities as of March 31, 2008 would not have changed significantly, since most of our investment in marketable securities are short-term or bearing variable interest rates, but our interest income would have changed by approximately $0.1 million for the three months ended March 31, 2008.

Auction rate securities are securities that are structured with short-term interest rate reset dates of generally less than ninety days but with contractual maturities that can be well in excess of ten years. At the end of each reset period, which depending on the security can occur on a daily, weekly, or monthly basis, investors can sell or continue to hold the securities at par. These securities are subject to fluctuations in fair value depending on the supply and demand at each auction.

In the fourth quarter of 2007, certain auction rate securities failed auction due to sell orders exceeding buy orders. While we continue to earn interest on these investments at the contractual rates, the estimated market value of these auction rate securities no longer approximates par value. We concluded that the fair value of these auction rate securities at March 31, 2008 and December 31, 2007 was $7.6 million and $8.4 million, respectively, a decline of $3.6 million and $2.8 million, respectively, from par value of $11.2 million. Of this amount, $1.2 million and $0.8 million as of March 31, 2008 and December 31, 2007, respectively, was deemed temporary, as we believe the decline in market value is due to general market conditions. Based upon our evaluation of available information, we believe these investments generally are of high credit quality, as substantially all of the investments carry a AA credit rating and higher. In addition, we currently have the intent and ability to hold these investments until anticipated recovery in market value occurs. Accordingly, we have recorded an unrealized loss on these securities of $0.4 million and $0.8 million in the three months ended March 31, 2008 and in the year ended December 31, 2007, respectively, in other comprehensive loss. We concluded that an amount of $0.3 million and $2.0 million in the three months ended March 31, 2008 and in the year ended December 31, 2007, respectively, of the decline was other-than-temporary and recorded impairment charges for these amounts. Our conclusion for the other than temporary impairment is based on the significant decline in fair value indicated for a certain investment.

Another market risk to which we are exposed is primarily related to potential adverse changes in foreign currency exchange rates, in particular the fluctuation of the U.S. dollar versus the New Israeli Shekel (NIS). Risks attributable to fluctuations in currency exchange rates can arise when any of our foreign subsidiaries borrows funds or incurs operating or other expenses in one type of currency but receives revenues in another. In such cases, an adverse change in exchange rates can reduce such subsidiary’s ability to meet its debt service obligations, reduce the amount of cash and income we receive from such foreign subsidiary or increase such subsidiary’s overall expenses. Risks attributable to fluctuations in foreign currency exchange rates can also arise when the currency denomination of a particular contract is not the U.S. dollar. All of our power purchase agreements in the international markets are either U.S.

dollar-denominated or linked to the U.S. dollar. Our construction contacts from time to time contemplate costs which are incurred in local currencies. The way we often mitigate such risk is to receive part of the proceeds from the sale contract in the currency in which the expenses are incurred. In the past, we have not used any material foreign currency exchange contracts

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or other derivative instruments to reduce our exposure to this risk. In the future, we may use such foreign currency exchange contracts and other derivative instruments to reduce our foreign currency exposure to the extent we deem such instruments to be the appropriate tool for managing such exposure. We do not believe that our exchange rate exposure has or will have a material adverse effect on our financial condition, results of operations or cash flows.

Concentration of Credit Risk

Our credit risk is currently concentrated with a limited number of major customers: Sierra Pacific Power Company, Hawaii Electric Light Company and Southern California Edison. If any of these electric utilities fails to make payments under its power purchase agreements with us, such failure would have a material adverse impact on our financial condition.

Southern California Edison accounted for 30.3% and 24.8% of our total revenues for the three months ended March 31, 2008 and 2007, respectively. Southern California Edison is also the power purchaser and revenue source for our Mammoth project, which we account for separately under the equity method of accounting.

Hawaii Electric Light Company accounts for 21.0% and 15.7% of our total revenues for the three months ended March 31, 2008 and 2007, respectively.

Sierra Pacific Power Company accounted for 11.5% and 10.3% of our total revenues for the three months ended March 31, 2008 and 2007, respectively.

Government Grants and Tax Benefits

The U.S. government encourages production of electricity from geothermal resources through certain tax subsidies. We are permitted to claim approximately 10% of the cost of each new geothermal power plant in the United States as an investment tax credit against our federal income taxes. Alternatively, we are permitted to claim a ‘‘production tax credit,’’ which in 2007 was 2.0 cents per kWh and which is adjusted annually for inflation. The production tax credit may be claimed on the electricity output of new geothermal power plants put into service by December 31, 2008. Credit may be claimed for ten years on the output from any new geothermal power plants put into service prior to December 31, 2008. The owner of the project must choose between the production tax credit and the 10% investment tax credit described above. In either case, under current tax rules, any unused tax credit has a 1-year carry back and a 20-year carry forward. Whether we claim the production tax credit or the investment credit, we are also permitted to depreciate most of the plant for tax purposes over five years on an accelerated basis, meaning that more of the cost maybe deducted in the first few years than during the remainder of the depreciation period. If we claim the investment credit, our ‘‘tax base’’ in the plant that we can recover through depreciation must be reduced by half of the tax credit; if we claim a production tax credit; there is no reduction in the tax basis for depreciation.

Our subsidiary, Ormat Systems, received ‘‘Benefited Enterprise’’ status under Israel’s Law for Encouragement of Capital Investments, 1959 (the Investment Law), with respect to two of its investment programs. As a Benefited Enterprise, Ormat Systems was exempt from Israeli income taxes with respect to income derived from the first benefited investment for the period from July 1, 2004 to June 30, 2006, and thereafter such income is subject to reduced Israeli income tax rates of 25% for an additional five years. Ormat Systems is also exempt from Israeli income taxes with respect to income derived from the second benefited investment for the period from January 1, 2007 to December 31, 2008, and thereafter such income is subject to reduced Israeli income tax rates of 25% for an additional five years. These benefits are subject to certain conditions, including among other things, that all transactions between Ormat Systems and our affiliates are at arms length, and that the management and control of Ormat Systems will be from Israel during the whole period of the tax benefits. A change in control should be reported to the Israeli Tax Authorities in order to maintain the tax benefits. In addition, as an industrial company, Ormat Systems is entitled to accelerated depreciation on equipment used for its industrial activities. Under the provisions of certain tax regulations published in Israel in 2005, industrial companies whose operations are mostly ‘‘Eligible

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Operations'' are entitled to claim accelerated depreciation at the rate of 100% on machinery and equipment acquired from July 1, 2005 to December 31, 2006. Accelerated depreciation is to be claimed over two years. In the year in which the equipment was acquired, the regular depreciation rate is to be claimed, with the remainder to be claimed in the second year.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We incorporate by reference the information appearing under ''Exposure to Market Risks'' and ''Concentration of Credit Risk'' in Part I, Item 2 of this quarterly report on Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

a. Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures to ensure that the information required to be disclosed in our filings pursuant to Rule 13a-15 under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation as of March 31, 2008, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective.

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

b. Changes in internal controls over financial reporting

There were no changes in our internal controls over financial reporting in the first quarter of 2008 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There were no material developments in any legal proceedings to which the Company is a party during the three months period ended March 31, 2008 other than as described below.

On April 26, 2008, our subsidiary, Ormat Momotombo Power Company (OMPC), received notice of an administrative order issued by the Ministry of Natural Resources and Environment of Nicaragua (MARENA) relating to alleged violations of environmental regulations under Nicaraguan law in connection with OMPC's operation of the Momotombo geothermal power plant in that country. The order was issued following an administrative hearing in the first instance at which OMPC was found liable for the environmental infractions. The order is subject to appeal within MARENA, as well as in the Nicaraguan judicial courts. In addition, this dispute is subject to the dispute resolution provisions contained in the Foreign Investment Contract entered into between OMPC and the Nicaraguan government in June 1999. All penalties incurred by OMPC as a result of these violations are stayed until OMPC has exhausted the legal remedies available to it under Nicaraguan law. We disagree with the MARENA order finding OMPC liable for significant environmental infractions and intend to appeal the administrative order and otherwise defend vigorously against MARENA's claims. If the administrative order is upheld at the end of these review processes in a final non-appealable decision, OMPC may be required to suspend indefinitely its operating activities relating to the project and implement a plan of environmental remediation. The net book value of the geothermal power plant as of March 31, 2008 is $21.5 million.

From time to time, we (and our subsidiaries) are a party to various lawsuits, claims and other legal and regulatory proceedings that arise in the ordinary course of our (and their) business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to such lawsuits, claims and proceedings, we accrue reserves in accordance with accounting principles generally accepted in the U.S. We do not believe that any of these proceedings, individually or in the aggregate, would materially and adversely affect our business, financial condition, future results and cash flows.

ITEM 1A. RISK FACTORS

A comprehensive discussion of our risk factors is included in the ‘‘Risk Factors’’ section of our annual report on Form 10-K for the year ended December 31, 2007 filed with the SEC on March 5, 2008.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On January 8, 2008, we completed an unregistered sale of 693,750 shares of common stock to our parent, at a price of $48.02 per share of common stock, or approximately $33.3 million. We believe that this unregistered sale complied with the requirements of Regulation S under the Securities Act. Our parent is not a U.S. Person within the meaning of Regulation S. The sale was made in an offshore transaction, and no selling efforts were made in the U.S. Our parent agreed that the shares of common stock issued in the unregistered sale would not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. The proceeds of the sale are being used for general corporate purposes, including the construction of geothermal and recovered energy generation power plants and other investments, and the financing of possible acquisitions.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Our management believes that we are currently in compliance with our covenants with respect to our third-party debt except as described above regarding the Bank Hapoalim credit facility.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.
Document 3 .1 Second Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Ormat Technologies, Inc. Registration Statement on Form S-1 (File No. 333-117527) to the Securities and Exchange Commission on July 20, 2004. 3 .2 Second Amended and Restated By-laws, incorporated by reference to Exhibit 3.2 to Ormat Technologies, Inc. Registration Statement Amendment No. 2 on Form S-1 (File No. 333-117527) to the Securities and Exchange Commission on October 22, 2004. 3 .3 Amended and Restated Limited Liability Company Agreement of OPC LLC dated June 7, 2007, by and among Ormat Nevada Inc., Morgan Stanley Geothermal LLC, and Lehman-OPC LLC, incorporated by reference to Exhibit 3.1 to Ormat Technologies, Inc. Current Report on Form 8-K to the Securities and Exchange Commission on June 13, 2007. 4 .3 Form of Rights Agreement by and between Ormat Technologies, Inc. and American Stock Transfer & Trust Company, incorporated by reference to Exhibit 4.3 to Ormat Technologies, Inc. Registration Statement Amendment No. 2 on Form S-1 (File No. 333-117527) to the Securities and Exchange Commission on October 22, 2004. 4 .4 Indenture for Senior Debt Securities, dated as of January 16, 2006, between Ormat Technologies, Inc. and Union Bank of California, incorporated by reference to Exhibit 4.2 to Ormat Technologies, Inc. Registration Statement Amendment No. 1 on Form S-3 (File No. 333-131064) to the Securities and Exchange Commission on January 26, 2006. 4 .5 Indenture for Subordinated Debt Securities, dated as of January 16, 2006, between Ormat Technologies, Inc. and Union Bank of California, incorporated by reference to Exhibit 4.3 to Ormat Technologies, Inc. Registration Statement Amendment No. 1 on Form S-3 (File No. 333-131064) to the Securities and Exchange Commission on January 26, 2006. 10 .1.18 First Amendment to Agreement for Purchase of Membership Interests in OPC LLC, dated as of April 17, 2008, by and among Ormat Nevada Inc., Morgan Stanley Geothermal LLC, and Lehman-OPC LLC, filed herewith. 10 .8.1 Amendment to Employment Agreement of Yehudit Bronicki, dated March 28, 2008, by and between Ormat Technologies, Inc. and Yehudit Bronicki, filed herewith. 10 .9.1 Amendment to Employment Agreement of Yoram Bronicki, dated March 28, 2008, by and between Ormat Technologies, Inc. and Yoram Bronicki, filed herewith. 10 .24 Joint Ownership Agreement for the Carson Lake Project, dated as of March 12, 2008, by and between Nevada Power Company and ORNI 16 LLC, filed herewith. 31 .1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith. 31 .2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith. 32 .1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith. 32 .2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ORMAT TECHNOLOGIES, INC. Date: May 6, 2008 By: /s/ JOSEPH TENNE Name: Joseph Tenne
Title: Chief Financial Officer

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