ORMAT TECHNOLOGIES, INC.
Form 10-K/A
April 12, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
Amendment No. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number:

ORMAT TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	88-0326081
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

980 Greg Street, Sparks, Nevada 89431
(Address of principal executive offices)

Registrant's telephone number, including area code: (775) 356-9029

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ormat Technologies, Inc. Common Stock $0.001 Par Value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act).

Yes No

The aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant's most recently completed second fiscal quarter: -0-

The number of outstanding shares of common stock of Ormat Technologies, Inc., as of March 15, 2005 is 31,562,495, par value $0.001 per share.

Documents Incorporated by Reference: Part III (Items 10, 11, 12, 13 and 14) incorporates by reference portions of the Registrant's Proxy Statement for its Annual Meeting of Stockholders, which will be filed not later than 120 days after December 31, 2004.

EXPLANATORY NOTE

Ormat Technologies, Inc. is filing this amendment on Form 10-K/A to its Form 10-K for the year ended December 31, 2004 originally filed on March 28, 2005 solely to correct a clerical error and a computational error contained in Note 18- Quarterly Financial Information (Unaudited) to Ormat's consolidated financial statements, which are included in Item 8 of the Form 10-K. Specifically, in the table under Note 18- Quarterly Financial Information (Unaudited), the "Weighted average number of shares" for the three months ended December 31, 2004 was corrected to show 27,969,000 and not 24,969,000, and as a result, the "Net Income per share — basic and diluted" for the three months ended December 31, 2004, was corrected to show $0.17 and not $0.19. The net income per share for the year ended December 31, 2004 was correctly stated as $0.72, and no other items were affected by the error referred to above. This Form 10-K/A does not otherwise amend the Form 10-K. This amendment does not reflect events occurring after the filing of the Form 10-K.

ORMAT TECHNOLOGIES, INC.

FORM 10-K/A FOR THE YEAR ENDED DECEMBER 31, 2004

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Cautionary Note Regarding Forward-Looking Statements

This annual report 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 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 the notes, 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 annual report, the words "may", "will", "could", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "projects", "potential", or "contemplate" or the negative of these 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 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" contained in Part II, Item 7 of this annual report and "Notes to Financial Statements" contained in Part II, Item 8 of this annual report, 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 annual report 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 and risks discussed in this 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;
- 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, 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;
- 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; and
- 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.

PART I

ITEM 1. BUSINESS

Certain Definitions

Unless the context otherwise requires, all references in this annual report to "Ormat," "the Company," "we", "us", "our company", "Ormat Technologies" or "our" refer to Ormat Technologies, Inc. and its consolidated subsidiaries. The "Senior Secured Notes" refers to Ormat Funding Corp, one of our subsidiaries' 8¼% Senior Secured Notes due 2020 that were issued in February 2004**.**

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 power plants, and we also design, develop and build, and plan to own and operate, recovered energy-based power plants, in each case using equipment that we design and manufacture. We conduct our business activities in two business segments: (i) Power Generation. We develop, build, own and operate geothermal power plants in the United States and other countries around the world and sell the electricity they generate. (ii) Products. In addition, 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, procurement, construction, operation and maintenance of geothermal and recovered energy power plants.

All of the projects that we currently own or operate produce electricity from geothermal energy sources. Geothermal energy is a clean, renewable and generally sustainable form of energy derived from the natural heat of the earth. Unlike electricity produced by burning fossil fuels, electricity produced from geothermal energy sources is produced without emissions of certain pollutants such as nitrogen oxide, and with far lower emissions of other pollutants such as carbon dioxide. Therefore, electricity produced from geothermal energy sources contributes significantly less to local and regional incidences of acid rain, and global warming than energy produced by burning fossil fuels. Geothermal energy is also an attractive alternative to other sources of energy as part of a national diversification strategy to avoid dependence on any one energy source or politically sensitive supply sources.

In addition to our geothermal energy power generation business, we have developed and continue to develop products that produce electricity from recovered energy or so-called "waste heat." Recovered energy or waste heat represents residual heat that is generated as a by-product of gas turbine-driven compressor stations and in a variety of industrial processes, such as cement manufacturing, and is not otherwise used for any purpose. Such residual heat, that would otherwise be wasted, is captured in the recovery process and is used by recovered energy power plants to generate electricity without burning additional fuel and without emissions.

Company Contact and Sources of Information

We file annual, quarterly and periodic reports, proxy statements and other information with the SEC. You may obtain and copy any document we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website at http://www.sec.gov that contains reports, proxy and other information statements, and other information regarding issuers that file electronically with the SEC. Our SEC filings are accessible via the Internet at that website.

Our reports on Form 10-K, 10-Q and 8-K, and amendments to those reports are available at our website www.ormat.com for downloading, free of charge, as soon as reasonably practicable after these reports are filed with the SEC. Our Code of Business Conduct and Ethics, Code of Ethics Applicable to Senior Executives, Audit Committee Charter, Corporate Governance Guidelines, Nominating and Corporate Governance Committee Charter, Compensation Committee Charter, Insider Trading Policy, and amendments thereof are also available at our website

address mentioned above**.** The content of our website, however, is not part of this annual report.

You may request a copy of our SEC filings, as well as the foregoing corporate documents at no cost to you, by writing to the Company address appearing in this report or by calling us at (775) 356-9029.

Our Power Generation Business

We increased our net ownership interest in generating capacity by 162 MW between December 31, 2002 and December 31, 2004, of which 150 MW was attributable to our acquisition of geothermal power plants from third parties and 12 MW was attributable to increased generating capacity of our existing geothermal power plants resulting from plant technology upgrades and improvements to our geothermal reservoir operations. We own and operate or control and operate geothermal projects in the United States, Guatemala, Kenya, Nicaragua, and the Philippines and continue to pursue opportunities to acquire and develop similar projects throughout the world. Most of our projects are located in regions where there is, or is expected to be, demand for additional generating capacity.

In 2004, revenues from our electricity segment were $158.8 million constituting approximately 72.4% of our total revenues in 2004. Revenues from the sale of electricity by our domestic projects were $134.6 million, constituting approximately 84.7% of our total revenues from the sale of electricity, and revenues from the sale of electricity by our foreign projects were $24.3 million, constituting approximately 15.3% of our total revenues from the sale of electricity.

The table below summarizes key information relating to our projects that are currently in operation, under construction and/or subject to enhancement.

Project	Location	Ownership	Commercial Operation Date	Generating Capacity in MW[(1)]	Power Purchaser	Contract Expiration
Projects in Operation						
Domestic						
Ormesa	East Mesa, California	100%	1986/1987	47	Southern California Edison Company	2017/2018
Heber Complex	Heber, California	100%	1985/1993	72	Southern California Edison Company	2015/2023

Steamboat[2]	Steamboat, Nevada	100%	1986/1988/1992	34	Sierra Pacific Power Company	2006/2018/2022
Mammoth[3]	Mammoth Lakes, California	50%	1984/1990	25	Southern California Edison Company	2014/2020
Puna	Puna, Hawaii	100%	1993	25	Hawaii Electric Light Company	2027
Brady	Churchill County, Nevada	100%	1985/1992	20	Sierra Pacific Power Company	2022
Steamboat Hills	Steamboat, Nevada	100%	1988	6	Sierra Pacific Power Company	2018
Total Domestic Projects in Operation:				229		
Foreign						
Leyte[3]	Philippines	80%	1997	49	PNOC - Energy Development Corporation	2007
Momotombo[3]	Nicaragua	100%	mid 1980's	28	DISNORTE/DISSUR	2014
Zunil[3]	Guatemala	21%	1999	24	Instituto Nacional de Electricidad	2019
Olkaria III	Kenya	100%	2000	13	Kenya Power & Lighting Co. Ltd.	2020[4]
Total Foreign Projects in Operation:				114		
Total Projects in Operation:				343		
Projects under Construction and Enhancement						
Desert Peak 2	Churchill County, Nevada	100%	2005[5]	15	Nevada Power Company	N/A[8]
Galena	Steamboat, Nevada	100%	2005[5]	13[6]	Sierra Pacific Power Company	N/A[8]
Desert Peak 3	Churchill County, Nevada	100%	2006[7]	10 - 15	Sierra Pacific Power Company	N/A[8]
OREG 1 Project[16]	North and South Dakota	100%	2006[7]	22	Basin Electric Power Corporation	N/A[14]
Heber Complex:						
Heber 1 and 2	Heber, California	100%	2005[15]	8[11]	Southern California Edison	

Heber 3	Heber, California	100%	2005[15]	10[11]	Company Third Party	
Puna	Puna, Hawaii	100%	2005[5]	5[12]		
Steamboat Hills [10]	Steamboat Hills, Nevada	100%	2007	7		
Mammoth[10]	Mammoth Lakes, California	50%	2006	4		
Ormesa	East Mesa, California	100%	2006	10[13]	Third Party	N/A
Amatitlan	Guatemala	100%	2006[7]	20	Instituto Nacional de Electricidad	N/A[9]
Total Projects under Construction and Enhancement:				**124 - 129**		

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[1] References to generating capacity refer to the net amount of electrical energy available for sale to the power purchaser, in the case of all of our existing domestic projects and the Momotombo and Olkaria III projects (two of our foreign projects), and to the generating capacity that is subject to the "take or pay" power purchase agreements in the case of the Leyte and Zunil projects (another two of our foreign projects). In the case of projects under construction and enhancement, references to generating capacity refer to the net amount of electrical energy that we expect will be available for sale to the relevant power purchasers. This column represents the net generating capacity of the project, not our net ownership in such generating capacity. Such net generating capacity is based on operational data for the 12-month period beginning January 1, 2004 through and including December 31, 2004.

[2] Includes the Steamboat 1/1A project and the Steamboat 2/3 project.

[3] We own and operate all of our projects, except the Momotombo project in Nicaragua, which we do not own but which we control and operate through a concession arrangement with the Nicaraguan government, and the Mammoth project, Leyte project and Zunil project, in which we have a 50%, 80% and 21% ownership, respectively.

[4] The power purchase agreement for the Olkaria III project will expire in 2020 or, if Phase II of the project is constructed and completed, 20 years from the completion of such Phase II. Phase II of this project involves a proposed construction of additional facilities that we expect would add approximately 35 MW of generating capacity to this project.

[5] Projected fourth quarter of 2005.

[6] Incremental megawatts to the Steamboat complex.

[7] Projected.

[8] The power purchase agreement will expire 20 years from the January 1 immediately following the commercial operation date.

[9] The power purchase agreement will expire at the later of 20 years from the commencement of commercial operations or 23 years from the commencement of construction works.

(10) These projects are in their early engineering stage.

(11) We expect to sell an additional 8 MW under the existing power purchase agreement and another 10 MW under a new long-term power purchase agreement with a third party, currently under negotiation.

(12) We expect to sell an additional 5 MW under the existing power purchase agreement.

(13) We expect to sell an additional 10 MW. We are currently negotiating with a third party for the sale of this additional output pursuant to a new long-term power purchase agreement.

(14) The power purchase agreement will expire 25 years after its effective date.

(15) 2MW was completed in the first quarter of 2005, and we expect completion of an additional 16 MW in the last quarter of 2005.

(16) This is a recovered energy project.

All of the revenues that we derive from the sale of electricity are pursuant to long-term power purchase agreements. In the United States, the power purchasers under such agreements are all investor-owned electric utilities. Approximately 79% of our total revenues in 2004 from the sale of electricity by our domestic projects were derived from power purchasers that currently have investment grade credit rating. The purchasers of electricity from our foreign projects are either state-owned entities or recently privatized state-owned entities. We have obtained political risk insurance from the Multilateral Investment Guarantee Agency of the World Bank Group ("MIGA") for all of our foreign projects (other than the Leyte project) in order to cover a portion of any loss that we may suffer upon the occurrence of certain political events covered by such insurance.

Development, Construction and Acquisition. We have experienced significant growth in recent years, principally through the acquisition of geothermal power plants from third parties and the expansion and enhancement of our existing projects. In February 2004, we acquired the Steamboat 2/3 project; in May 2004, we acquired the Steamboat Hills project and in June 2004, we acquired the Puna project. In total, we have increased our net ownership interest in generating capacity from 94 MW as of December 31, 2001 to 302 MW as of December 31, 2004. We currently expect to continue growing our power generation business through:

- the development and construction of new geothermal and recovered energy-based power plants;
- the expansion and enhancement of our existing projects; and
- the acquisition of additional geothermal and other renewable assets from third parties.

As part of these efforts, we regularly monitor requests for proposals from, and submit bids to, investor-owned and others electric utilities in the United States to provide additional generating capacity, primarily in the western United States where geothermal resources are generally concentrated. We also respond to international tenders issued by foreign state-owned electric utilities for the development, construction and operation of new geothermal power plants. In addition, we apply our technological expertise to upgrade the facilities of our existing geothermal power plants and to continuously monitor and manage our existing geothermal resources in order to increase the efficiency and generating capacity of such facilities.

We are currently in varying stages of development of new projects and construction and enhancement of new and existing projects. Based on our current development and construction schedule, which is subject to change at any time and which we may not achieve, we expect to have approximately 97-102 additional MW in generating capacity in the United States by the end of 2006 and approximately 20 additional MW in Guatemala by June 2006. In addition, we have obtained exclusive rights to develop the geothermal resources of a project in China, which, if implemented, is expected to produce approximately 50 MW in generating capacity. Agreements are in place with the Kenya Power & Lighting Co. Ltd. regarding, among other things, (i) the construction of Phase II of the Olkaria III project in Kenya,

(ii) Kenya Power & Lighting Co. Ltd.'s provision of certain collateral, and (iii) its efforts to strengthen government support for Olkaria III project. The request for strengthened government support has not been accepted to date by the Kenyan government. Upon implementation, we expect Phase II to add approximately 35 MW in generating capacity to the current Olkaria III project. In preparation for the release of Phase II, we have recently asked Kenya Power & Lighting Co. Ltd. to provide the necessary collateral. We must notify Kenya Power & Lighting Co. Ltd., by April 17, 2005, whether we will proceed to construct Phase II of the Olkaria III project and, if we notify Kenya Power & Lighting Co. Ltd. that we will not proceed with such construction, then the portion of the current power purchase agreement applicable to Phase II of the Olkaria III project will be terminated (but the current portion applicable to Phase I will be unaffected). If we fail to provide such notification we will be required to construct Phase II and reach commercial operations by May 31, 2007 in order to avoid the application of financial penalties or at the latest by April 17, 2008 in order to avoid termination of the entire power purchase agreement.

Our Products Business

We design, manufacture and sell products for electricity generation and provide the related services described below. Generally, we manufacture products only against customer orders and do not manufacture products for our own inventory.

Power Units for Geothermal Power Plants. We design, manufacture and sell power units for geothermal electricity generation, which we refer to as Ormat Energy Converters or OECs. Our customers include contractors and geothermal plant owners and operators. We recently sold two of our OEC units, with a total gross output of approximately 18 MW, to the Instituto Costarricense de Electricidad in Costa Rica, which is developing the Miravalles V geothermal power project in that country, and we sold one of our OEC units with total gross output of approximately 2 MW for installation at Oserian Farm in Kenya, where farmers grow flowers for export.

Power Units for Recovered Energy-Based Power Generation. We design, manufacture and sell power units used to generate electricity from recovered energy or so-called "waste heat" that is generated as a residual by-product of gas turbine-driven compressor stations and a variety of industrial processes, such as cement manufacturing, and is not otherwise used for any purpose. Our existing and target customers include interstate natural gas pipeline owners and operators, gas processing plant owners and operators, cement plant owners and operators, and other companies engaged in other energy-intensive industrial processes. We have installed one of our recovered energy-based generation units at Enterprise Product's Neptune gas processing plant in Louisiana.

Remote Power Units and other Generators. We design, manufacture and sell fossil fuel powered turbo-generators with a capacity ranging between 200 watts and 5,000 watts, which operate unattended in extreme climate conditions, whether hot or cold. Our customers include contractors installing gas pipelines in remote areas. In addition, we design, manufacture and sell generators for various other uses, including heavy duty direct current generators. Our remote power units were recently installed on a Pemex pipeline in Mexico.

Engineering, Procurement and Construction ("EPC") of Power Plants. We engineer, procure and construct, as an EPC contractor, geothermal and recovered energy power plants on a turnkey basis, using power units we design and manufacture. Our customers are geothermal power plant owners as well as the same customers described above that we target for the sale of our power units for recovered energy-based power generation. Unlike many other companies that provide EPC services, we have an advantage in that we are using our own manufactured equipment and thus have better control over the timing and delivery of required equipment and its costs. Recent examples of our construction

activities include the design and construction of the Mokai and Wairakei geothermal power plants in New Zealand.

Operation and Maintenance of Power Plants. We provide operation and maintenance services for geothermal power plants.

In 2004, our revenues from our products business were $60.4 million, constituting approximately 27.6% of our total revenues.

History

We were formed by Ormat Industries Ltd. (also referred to in this annual report as the "Parent", "Ormat Industries", "the parent company" or "our parent") in 1994 in the state of Delaware for the purpose of investing and holding ownership interests in power projects, as well as constructing and operating power plants owned by us and by third parties. Ormat Industries, which is based in Israel, is an international power systems company whose predecessor, Ormat Turbines Ltd., was founded in 1965 by Lucien and Yehudit Bronicki for the principal purpose of developing equipment for the production of clean, renewable energy. Ormat Industries sold to us its business relating to the manufacturing and sale of energy-related equipment and services. Following this sale, we now hold all of Ormat Industries' power generation products business, and had, as of July 1, 2004, 677 employees. Ormat Industries owns 77.2% of our outstanding common stock.

Industry Background

Geothermal Energy

All of our projects produce geothermal energy. Geothermal energy is a clean, renewable and generally sustainable energy source that, because it does not utilize combustion in the production of electricity, releases significantly lower levels of emissions, principally steam, than those that result from energy generation based on the burning of fossil fuels. Geothermal energy is derived from the natural heat of the earth when water comes sufficiently close to hot molten rock to heat the water to temperatures of 300 degrees Fahrenheit or more. The heated water then ascends toward the surface of the earth where, if geological conditions are suitable for its commercial extraction, it can be extracted by drilling geothermal wells. The energy necessary to operate a geothermal power plant is typically

obtained from several such wells which are drilled using established technology that is in some respects similar to that employed in the oil and gas industry. Geothermal production wells are normally located within approximately one to two miles of the power plant as geothermal fluids cannot be transported economically over longer distances due to heat and pressure loss. The geothermal reservoir is a renewable source of energy if natural ground water sources and reinjection of extracted geothermal fluids are adequate over the long-term to replenish the geothermal reservoir following the withdrawal of geothermal fluids and if the wellfield is properly operated. Geothermal energy projects typically have higher capital costs (primarily as a result of the costs attributable to wellfield development) but tend to have significantly lower variable operating costs, principally consisting of maintenance expenditures, than fossil fuel-fired power plants that require ongoing fuel expenses.

Geothermal Power Plant Technologies

Geothermal power plants generally employ either binary systems or conventional flash systems. In our projects, we also employ our proprietary technology of combined geothermal cycle systems. See "Our Technology."

Binary System

In a plant using a binary system, geothermal fluid, either hot water (also called brine) or steam or both, is extracted from the underground reservoir and flows from the wellhead through a gathering system of insulated steel pipelines to a heat exchanger, which heats a secondary working fluid which has a low boiling point. This is typically an organic fluid, such as isopentane or isobutene, which is vaporized and is used to drive the turbine. The organic fluid is then condensed in a condenser which may be cooled by air or by water from a cooling tower. The condensed fluid is then recycled back to the heat exchanger, closing the cycle within the sealed system. The cooled geothermal fluid is then reinjected back into the reservoir. The binary technology is depicted in the graphic below.

Flash Design System

In a plant using flash design, geothermal fluid is extracted from the underground reservoir and flows from the wellhead through a gathering system of insulated steel pipelines to flash tanks and/or separators. There, the steam is separated from the brine and is sent to a demister in the plant, where any remaining water droplets are removed. This produces a stream of dry steam, which drives a turbine generator to produce electricity. In some cases, the brine at the outlet of the separator is flashed a second time (dual flash), providing additional steam at lower pressure used in the low

pressure section steam turbine to produce additional electricity. Steam exhausted from the steam turbine is condensed in a surface or direct contact condenser cooled by cold water from a cooling tower. The non-condensable gases (such as carbon dioxide) are removed through the removal system in order to optimize the performance of the steam turbines. The condensate is used to provide make-up water for the cooling tower. The hot brine remaining after separation of steam is injected back into the geothermal resource through a series of injection wells. The flash technology is depicted in the graphic below.

In some instances, the wells directly produce dry steam (the flashing occurring under ground). In such cases, the steam is fed directly to the steam turbine and the rest of the system is similar to the flash power plant described above.

Market Opportunity

The geothermal energy industry in the United States experienced significant growth in the 1970s and 1980s, followed by a period of consolidation of owners and operators of geothermal assets in the 1990s. The industry, once dominated by large oil companies and investor-owned electric utilities, now includes several independent power producers. During the 1990s, growth and development in the geothermal energy industry occurred primarily in foreign markets, and only minimal growth and development occurred in the United States. Since 2001, there has been renewed interest in geothermal energy in the United States as production costs for electricity generated from geothermal resources have become more competitive relative to fossil fuel-based electricity generation, due to the increasing cost of natural gas, and as legislative and regulatory incentives, such as state renewable portfolio standards, have become more prevalent.

Electricity generation from geothermal resources in the United States currently constitutes a $1.5 billion-a-year industry (in terms of revenues) and accounts for 19% of all non-hydropower renewable energy-based electricity

generation in the United States. Although electricity generation from geothermal resources is currently concentrated in California, Nevada, Hawaii and Utah, there are opportunities for development in other states such as Alaska, Arizona, Idaho, New Mexico and Oregon due to the availability of geothermal resources and, in some cases, a favorable regulatory environment in such states.

A 2004 forecast of the U.S. Department of Energy projects the addition of geothermal installations with generating capacity totaling 6,840 MW by 2025, based on the assumption that natural

gas prices will remain relatively stable at current levels. This forecast is based on existing, known geothermal resources and does not take into account any positive effects on generating capacity resulting from new technology, such as enhanced utilization of existing geothermal bases and engineered geothermal systems (according to the Energy Information Administration, Annual Energy Outlook 2004).

An additional factor fueling recent growth in the renewable energy industry is global concern about the environment. Power plants that use fossil fuels generate higher levels of air pollution and their emissions have been linked to acid rain and global warming. In response to an increasing demand for "green" energy, many countries have adopted legislation requiring, and providing incentives for, electric utilities to sell electricity generated from renewable energy sources. In the United States, Arizona, California, Colorado, Connecticut, Hawaii, Illinois, Iowa, Maine, Maryland, Massachusetts, Minnesota, Nevada, New Jersey, New Mexico, New York, Pennsylvania, Rhode Island, Texas, Wisconsin and the District of Colombia have all adopted renewable portfolio standards, renewable portfolio goals, or other similar laws requiring or encouraging electric utilities in such states to generate or buy a certain percentage of their electricity from renewable energy sources or recovered heat sources. Eleven of these eighteen states (including California, Nevada and Hawaii, where we have been the most active in our geothermal energy development and in which all of our U.S. projects are located) define geothermal resources as "renewables". Illinois, Kansas and Vermont are debating whether to adopt a renewable portfolio standard.

We believe that these legislative measures and initiatives present a significant market opportunity for us. For example, California generally requires that each investor-owned electric utility company operating within the state increase the amount of renewable generation in its resource mix by 1% per year so that 20% of its retail sales are procured from eligible renewable energy sources by 2017. Presently, approximately 10% of the electricity generated in California is derived from renewable resources (not counting hydroelectricity as renewable power). Nevada's renewable portfolio standard requires each Nevada electric utility to obtain 5% of its annual energy requirements from renewable energy sources in 2004, which requirement increases to 7% in 2005 and thereafter increases by 2% every two years until 2013, when 15% of such annual energy requirements must be provided from renewable energy sources. Hawaii's renewable portfolio standard requires each Hawaiian electric utility to obtain 8% of its net electricity sales from renewable energy sources by December 31, 2005, 10% by December 31, 2010 and 20% by December 31, 2020.

In addition, in some states an entity generating electricity from renewable resources, such as geothermal energy, is awarded Renewable Energy Credits (which we refer to as RECs) that can be sold for cash. RECs have been sold for a wide range of prices during the past year, but because the markets for these RECs still remain limited, the prices have been volatile, and vary greatly from state to state. On October 14, 2004, we entered into agreements with Sierra Pacific Power Company, a utility company in the state of Nevada, to sell RECs resulting from electricity we generate for station use at our Desert Peak, Brady, Steamboat Hills and Steamboat 2/3 projects. The price for such RECs under such agreements is $0.005 per kWh, subject to a reduction to $0.0045 per kWh if we generate less than 80% or more than 120% of a baseline amount. On February 23, 2005 these agreements were approved by the Public Utility

Commission ("PUC").

The federal government also 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. We are also permitted to deduct up to 95% of the cost of the power plant over five years on an accelerated basis, which results in more of the cost being deducted in the first few years than during the remainder of the depreciation period. These two tax benefits collectively offset approximately one-third of the capital cost of each new project. Any unused investment tax credit has a 3-year carry back and a 15-year carry forward.

Under Section 710 of the American Jobs Creation Act of 2004 that was signed into law on October 22, 2004, geothermal power companies are allowed to claim a "production tax credit" of 1.8 cents per kWh on electricity produced from geothermal resources. According to this law, credit can be

claimed on such electricity sold during the first five years after a project achieves commercial operation. Projects put into service from October 22, 2004 through December 31, 2005 qualify for such production tax credit. The owner of the project must choose between this production tax credit and the 10% investment tax credit described above. Any unused production tax credit has a 1-year carry back and a 20-year carry forward.

The Kyoto Protocol entered into force on February 16, 2005, making the emission targets undertaken for the 2008-2012 period by more than 30 developed countries, including the EU members, Russia, Japan, Canada, New Zealand, Norway and Switzerland, legally binding. We expect that the effect of the Kyoto treaty will be to encourage renewable energy installation outside of the United States, as the United States has not ratified the Kyoto treaty.

Outside of the United States, the majority of power generating capacity has historically been owned and controlled by governments. During the past decade, however, many foreign governments have privatized their power generation industries through sales to third parties and have encouraged new capacity development and/or refurbishment of existing assets by independent power developers. These foreign governments have taken a variety of approaches to encourage the development of competitive power markets, including awarding long-term contracts for energy and capacity to independent power generators and creating competitive wholesale markets for selling and trading energy, capacity and related products. Some countries have also adopted active governmental programs designed to encourage clean renewable energy power generation. For example, China, where we are currently developing a project, has in place a five-year Plan for New and Renewable Energy Commercialization Development. The plan's goals include increasing production of geothermal energy as well as providing electricity in remote areas. Several Latin American countries have rural electrification programs and renewable energy programs. For example, Nicaragua, where we operate the Momotombo project, is currently developing a national rural electrification plan with the support of the World Bank. One of the plan's primary goals is the reduction of market barriers to renewable energy technologies useful for remote areas not connected to the main electricity grid. Nicaragua also has a national master plan for geothermal energy, which is intended to facilitate the awarding of concessions for geothermal exploration and development in the country. Guatemala, another country in which we have ongoing operations (the Zunil project) and development activities (the Amatitlan project), recently approved a law which creates incentives for power generation from renewable energy sources by, among other things, providing economic and fiscal incentives such as exemptions from taxes on the importation of relevant equipment and various tax exemptions for companies implementing renewable energy projects. We believe that these developments and governmental plans will create opportunities for us to acquire and develop geothermal power generation facilities internationally as well as create additional

opportunities for us to sell our remote power units and other products.

In addition to our geothermal power generation activities, we have also identified recovered energy power generation as a significant market opportunity for us in the United States and internationally. We are initially targeting the North American market, where we expect that recovered energy-based power generation will be derived principally from compressor stations along interstate pipelines, from midstream gas processing facilities, and from processing industries in general. Several states, as well as the federal government, have recognized the environmental benefits of recovered energy-based power generation. For example, Nevada and Hawaii allow electric utilities to include recovered energy-based power generation in calculating their compliance with the state's renewable portfolio standards. In addition, North Dakota, South Dakota and the Department of Agriculture (through the Rural Utilities Service) have approved recovered energy-based power generation units as renewable energy resources, which qualifies recovered energy-based power generators (whether in those two states or elsewhere in the United States) for federally funded, low interest loans. We believe that the European market has similar potential and we expect to leverage our early success in North America in order to expand into Europe and other markets worldwide. In North America alone, we estimate the potential total market for recovered energy-based generation to be approximately 1,000 MW.

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Competitive Strengths

Competitive Assets. Our assets are competitive for the following reasons:

- Contracted Generation. All of the electricity generated by our geothermal power plants is currently sold pursuant to long-term power purchase agreements, providing generally predictable cash flows.
- Baseload Generation. All of our geothermal power plants supply a part of the baseload capacity of the electric system in their respective markets, meaning that they operate to serve all or a part of the minimum power requirements of the electric system in such market on an around-the-clock basis. Because our projects supply a part of the baseload needs of the respective electric system and are only marginally weather dependent, we have a competitive advantage over other renewable energy sources, such as wind power, solar power or hydro-electric power (to the extent dependent on precipitation), which compete with us to meet electric utilities' renewable portfolio requirements but which cannot serve baseload capacity because of the weather dependence and thus intermittent nature of these other renewable energy sources.
- Competitive Pricing. Geothermal power plants, while site specific, are economically feasible to develop, construct, own and operate in many locations, and the electricity they generate is generally price competitive as compared to electricity generated from fossil fuels or other renewable sources under existing economic conditions and existing tax and regulatory regimes.

Growing Legislative Demand for Environmentally-Friendly Renewable Resource Assets. All of our existing projects produce electricity from geothermal energy sources. Geothermal energy is a clean, renewable and generally sustainable energy source. Unlike electricity produced by burning fossil fuels, electricity produced from geothermal energy sources is produced without emissions of certain pollutants such as nitrogen oxide, and with far lower emissions of other pollutants such as carbon dioxide. Such clean and renewable characteristics of geothermal energy give us a competitive advantage over fossil fuel-based electricity generation as countries increasingly seek to balance

environmental concerns with demands for reliable sources of electricity.

High Efficiency from Vertical Integration. Unlike any of our competitors in the geothermal industry, we are a fully-integrated geothermal equipment, services and power provider. We design, develop and manufacture most of the equipment we use in our geothermal power plants. Our intimate knowledge of the equipment that we use in our operations allows us to operate and maintain our projects efficiently and to respond to operational issues in a timely and cost-efficient manner. Moreover, given the efficient communications among our subsidiary that designs and manufactures the products we use in our operations and our subsidiaries that own and operate our projects, we are able to quickly and cost effectively identify and repair mechanical issues and to have technical assistance and replacement parts available to us as and when needed.

Highly Experienced Management Team. We have a highly qualified senior management team with extensive experience in the geothermal power sector. Key members of our senior management team have worked in the power industry for most of their careers and average over 20 years of industry experience.

Technological Innovation. We own or have rights to use more than 70 patents relating to various processes and renewable resource technologies. All of our patents are internally developed and therefore costs related thereto are expensed as incurred. Our ability to draw upon internal resources from various disciplines related to the geothermal power sector, such as geological expertise relating to reservoir management, and equipment engineering relating to power units, allows us to be innovative in creating new technologies and technological solutions.

No Exposure to Fuel Price Risk. A geothermal power plant does not need to purchase fuel (such as coal, natural gas, or fuel oil) in order to generate electricity. Thus, once the geothermal reservoir has been identified and estimated to be sufficient for use in a geothermal power plant and the drilling of wells is complete, the plant is not exposed to fuel price or fuel delivery risk.

Business Strategy

Our strategy is to continue building a geographically balanced portfolio of geothermal and recovered energy assets, and to continue to be a leading manufacturer and provider of products and services related to renewable energy. We intend to implement this strategy through:

- Development and Construction of New Projects — continuously seeking out commercially exploitable geothermal resources and developing and constructing new geothermal and recovered energy-based power projects in jurisdictions where the regulatory, tax and business environments encourage or provide incentives for such development and which meet our investment criteria;
- Increasing Output from Our Existing Projects — increasing output from our existing geothermal power projects by adding additional generating capacity, upgrading plant technology, and improving geothermal reservoir operations, including improving methods of heat source supply and delivery;
- Acquisition of New Assets — acquiring from third parties additional geothermal and other renewable assets that meet our investment criteria;
-

Technological Expertise — investing in research and development of renewable energy technologies and leveraging our technological expertise to continuously improve power plant components, reduce operations and maintenance costs, develop competitive and environmentally friendly products for electricity generation and target new service opportunities;

- Developing Recovered Energy Projects — establishing a first-to-market leadership position in recovered energy projects in North America and building on that experience to expand into other markets worldwide; and
- Long-term Contracts — entering into long-term contracts with energy purchasers that will provide stable cash flows.

Operations of our Power Generation Segment

How We Own Our Power Plants. We customarily establish a separate subsidiary to own interests in each power plant. Our purpose in establishing a separate subsidiary for each plant is to ensure that the plant, and the revenues generated by it, will be the only source for repaying indebtedness, if any, incurred to finance the construction or the acquisition (or to refinance the acquisition) of the relevant plant. If we do not own all of the interest in a power plant, we enter into a shareholders agreement or a partnership agreement that governs the management of the specific subsidiary and our relationship with our partner in connection with our project. Our ability to transfer or sell our interest in certain projects may be restricted by certain purchase options or rights of first refusal in favor of our project partners or the project's power purchasers and/or certain change of control and assignment restrictions in the underlying project and financing documents. All of our domestic projects, with the exception of the Puna project, which is an Exempt Wholesale Generator ("EWG"), are Qualifying Facilities under the Public Utility Regulatory Policy Act of 1978 ("PURPA") and are eligible for regulatory exemptions from most provisions of the Federal Power Act ("FPA"), certain state laws and regulations, and the Public Utility Holding Company Act ("PUHCA") as set forth in 18 C.F.R. Section 292, Subpart F. As an EWG, the Puna project is exempt from regulation under PUHCA, and does not cause us to be regulated as a holding company under PUHCA. The Puna project is not subject to the FPA.

How We Obtain Development Sites and Geothermal Resources. For domestic projects, we either lease or own the sites on which our power plants are located. In our foreign projects, our lease rights for the plant site are generally contained in the terms of a concession agreement or other contract with the host government or an agency thereof. In certain cases, we also enter into one or more geothermal resource leases (or subleases) or a concession or other agreement granting us the exclusive right to extract geothermal resources from specified areas of land, with the owners (or sublessors) of

such land. A geothermal resource lease (or sublease) or a concession or other agreement will usually give us the right to explore, develop, operate and maintain the geothermal field including, among other things, the right to drill wells (and if there are existing wells in the area, to alter them) and build pipelines for transmitting geothermal fluid. At times, the holder of rights in the geothermal resource is a governmental entity and at times a private entity. Usually, the terms of the lease (or sublease) and concession agreement correspond to the terms of the relevant power purchase agreement. In certain other cases, we own the land where the geothermal resource is located, in which case there are no restrictions on its utilization.

How We Sell Electricity. In the United States, the purchasers of power from our projects are investor-owned electric utility companies. Outside of the United States, the purchaser is typically a state-owned utility or distribution company

or a recently privatized state-owned entity and we typically operate our facilities pursuant to rights granted to us by a governmental agency pursuant to a concession agreement. In each case, we enter into long-term contracts (typically called power purchase agreements) for the sale of electricity or the conversion of geothermal resources into electricity. A project's revenues under a power purchase agreement usually consist of two payments, energy payments and capacity payments. Energy payments are normally based on a project's electrical output actually delivered to the purchaser measured in kilowatt hours, with payment rates either fixed or indexed to the power purchaser's "avoided" costs (i.e., the costs the power purchaser would have incurred itself had it produced the power it is purchasing from third parties, such as us). Capacity payments are normally calculated based on the generating capacity or the declared capacity of a project available for delivery to the purchaser, regardless of the amount of electrical output actually produced or delivered. In addition, most of our domestic projects located in California are eligible for capacity bonus payments under the respective power purchase agreements upon reaching certain levels of generation.

How We Operate and Maintain Our Power Plants. We usually employ one of our subsidiaries to act as operator of our power plants pursuant to the terms of an operation and maintenance agreement. Our operations and maintenance practices are designed to minimize operating costs without compromising safety or environmental standards while maximizing plant flexibility and maintaining high reliability. Our approach to plant management emphasizes the operational autonomy of our individual plant managers and staff to identify and resolve operations and maintenance issues at their respective projects; however, each project draws upon our available collective resources and experience and that of our subsidiaries. We have organized our operations such that inventories, maintenance, backup and other operational functions are pooled within each project complex and provided by one operation and maintenance provider. This approach enables us to realize cost savings and enhances our ability to meet our project availability goals.

We currently operate and maintain approximately 343 MW of generating capacity. Since our recent acquisitions in California and Nevada, as a result of our vertical integration, our proprietary technology and our operational and maintenance expertise, we have been successful in increasing the efficiency and performance of most of our acquired facilities and have been able to use the staff required to operate these facilities more efficiently. For example, we have been able to increase the output of the Brady project by approximately 50% since the date of its acquisition.

Safety is a key area of concern to us. We believe that the most efficient and profitable performance of our projects can only be accomplished within a safe working environment for our employees. Our compensation and incentive program includes safety as a factor in evaluating our employees, and we have a well-developed reporting system to track safety and environmental incidents at our projects.

How We Finance Our Power Plants. Historically, we have funded our projects with a combination of non-recourse or limited recourse debt, parent company loans and internally generated cash. Such leveraged financing permits the development of projects with a limited amount of equity contributions, but also increases the risk that a reduction in revenues could adversely affect a particular project's ability to meet its debt obligations. Leveraged financing also means that distributions of dividends or other distributions by plant subsidiaries to us are contingent on compliance with financial and other covenants contained in the financing documents.

Non-recourse debt refers to debt that is repaid solely from the project's revenues (rather than our revenues or revenues of any other project) and generally is secured by the project's physical assets, major contracts and agreements, cash accounts and, in many cases, our ownership interest in that project affiliate. This type of financing is referred to as "project financing." Project financing transactions generally are structured so that all revenues of a project are

deposited directly with a bank or other financial institution acting as escrow or security deposit agent. These funds then are payable in a specified order of priority set forth in the financing documents to ensure that, to the extent available, they are used first to pay operating expenses, senior debt service and taxes and to fund reserve accounts. Thereafter, subject to satisfying debt service coverage ratios and certain other conditions, available funds may be disbursed for management fees or dividends or, where there are subordinated lenders, to the payment of subordinated debt service.

In the event of a foreclosure after a default, our project affiliate owning the project would only retain an interest in the assets, if any, remaining after all debts and obligations were paid in full. In addition, incurrence of debt by a project may reduce the liquidity of our equity interest in that project because the interest is typically subject both to a pledge in favor of the project's lenders securing the project's debt and to transfer and change of control restrictions set forth in the relevant financing agreements.

Limited recourse debt refers to project financing as described above with the addition of our agreement to undertake limited financial support for the project affiliate in the form of certain limited obligations and contingent liabilities. These obligations and contingent liabilities take the form of guarantees of certain specified obligations, indemnities, capital infusions and agreements to pay certain debt service deficiencies. To the extent we become liable under such guarantees and other agreements in respect of a particular project, distributions received by us from other projects and other sources of cash available to us may be required to be used to satisfy these obligations. To the extent of these limited recourse obligations, creditors of a project financing of a particular project may have direct recourse to us.

How We Mitigate International Political Risk. We generally purchase insurance policies to cover our exposure to certain political risks involved in operating in developing countries. The policies are issued by entities which specialize in such policies, such as MIGA, and from private sector providers, such as Zurich Re, AIG and other such companies. To date, our political risk insurance contracts are with MIGA and Zurich Re. Such insurance policies cover, in general and subject to the limitations and restrictions contained therein, 80%-90% of our revenue loss derived from a specified governmental act such as confiscation, expropriation, riots, the inability to convert local currency into hard currency and, in certain cases, the breach of agreements. We have obtained such insurance for all of our foreign projects in operation except for the Leyte project.

Recent Developments

On December 9, 2004 we received a purchase order in the amount of approximately $16.9 million to supply 102 remote power units for Communications and Cathodic Protection along a pipeline on the Sakhalin Island in the Russian Federation. Delivery of the units is expected to take place between August 2005 and March 2006, with revenue expected to be realized during this time.

On January 4, 2005, through a newly established project subsidiary, we entered into a 25-year Power Purchase Agreement (PPA) with Basin Electric Power Corporation according to which we will supply approximately 22 MW from recovered energy generation power plants. The power plants are to be constructed between 15 and 18 months from the effectiveness of the PPA. The power plants will be constructed on gas compressor stations along a Natural Gas pipeline in North and South Dakota. The PPA has not yet become effective and is subject to certain conditions.

On February 13, 2004, $190 million in aggregate principal amount of the Senior Secured Notes was issued in a capital markets offering subject to Rule 144A and Regulations of the Securities Act, as amended. On March 16, 2005, our subsidiary, Ormat Funding Corp. ("Ormat Funding"), completed an offering to exchange $1,000 principal amount of its Senior Secured Notes that were registered under

the Securities Act of 1933, as amended, for each $1,000 principal amount of its outstanding Senior Secured Notes. Currently, the aggregate principal amount of the Senior Secured Notes outstanding is $189,488,618.

On February 14, 2005 two of our subsidiaries entered into Supply and Engineering Procurement contracts for a new geothermal power plant to be constructed on Sao Miguel Island in the Azores. The contracts are for a total of approximately €19.2 million (approximately US$25 million). Construction on the power plant is expected to be completed within 19 months from the contract date.

As a result of our recent acquisitions, our results of operations for the various periods covered by our consolidated financial statements attached hereto may not be comparable with each other or indicative of future results.

Description of Our Projects

In 2004, revenues from the sale of electricity by our domestic projects were $134.6 million, constituting 84.7% of our total revenues from the sale of electricity, and revenues from the sale of electricity by our foreign projects were $24.3 million, constituting 15.3% of our total revenues from the sale of electricity.

The financing of certain of our projects and the terms of our power purchase agreements and certain other agreements related to our operations are further described in the "Description of Certain Material Agreements" section.

Domestic Projects

Our projects in operation in the United States have a generating capacity of approximately 229 MW. All of our current domestic projects are located in California, Nevada and Hawaii. We also have projects under construction or enhancement in California, Nevada and Hawaii.

The Ormesa Project

The Ormesa project is located in East Mesa, Imperial County, California. The Ormesa project consists of six plants, OG I, OG IE, OG IH (collectively, the OG I plants), OG II, GEM 2 and GEM 3. The various OG I plants commenced commercial operations between 1987 and 1989, and the OG II plant commenced commercial operations in 1988. The GEM 2 and GEM 3 plants commenced commercial operations in April 1989. The OG plants utilize a binary system, and the GEM plants utilize a flash system. The OG I plants have a gross generating capacity of 41 MW; the OG II plant has a gross generating capacity of 19 MW; and the GEM 2 and GEM 3 plants have a gross generating capacity of 34 MW. However, electricity generated by the GEM 2 and GEM 3 plants is not sold under a power purchase agreement because their power is used to provide auxiliary power for wellfield operations at the Ormesa project. The Ormesa project sells its electrical output to Southern California Edison Company under two separate power purchase agreements. In certain circumstances, Southern California Edison Company or its designee has a right of first refusal to acquire the OG I and OG II plants. The Ormesa project was acquired by us in April 2002, was initially re-financed with project finance debt from United Capital and was re-financed again with the proceeds from the issuance by Ormat Funding of its Senior Secured Notes on February 13, 2004. The Senior Secured Notes are collateralized by all of the assets of the Ormesa project (and any and all proceeds arising therefrom) and our project subsidiary, Ormesa LLC, the direct owner of the Ormesa project, has jointly and severally with certain of our other subsidiaries fully and unconditionally guaranteed Ormat Funding's obligations under the Senior Secured Notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a further description of the collateralization of the Senior Secured Notes.

In connection with the power purchase agreements for the Ormesa project, Southern California Edison Company has expressed its intent not to pay the contract rate for the power supplied under the Ormesa power purchase agreement as a result of the supply by the GEM 2 and GEM 3 plants to

the Ormesa project of auxiliary power. We expect to resolve the issue through the sale of the GEM 2 and 3 power that was used to supply auxiliary power to Ormesa to a different offtaker; and we are currently negotiating with a third party the sale of some of the power (10 MW) pursuant to a long-term power purchase agreement.

The Heber Projects

The Heber 1 Project. The Heber 1 project is located in Heber, Imperial County, California. The Heber 1 project includes one power plant, which commenced commercial operations in 1985, and a geothermal resources field. The plant utilizes a dual flash system and has a generating capacity of 38 MW. The Heber 1 project sells its electrical output to Southern California Edison Company under a power purchase agreement. In certain circumstances, Southern California Edison Company and its affiliated entities have a right of first refusal to acquire the power plant. Upon satisfaction of certain conditions specified in the power purchase agreement and subject to receipt of requisite approvals and negotiations between the parties, our project subsidiary will have the right to demand that Southern California Edison Company purchase the power plant. The Heber 1 project was acquired, and was financed with equity and non-recourse debt from Beal Bank, in December 2003.

The Heber 2 Project. The Heber 2 project is also located in Heber, Imperial County, California. The Heber 2 project includes one power plant which commenced commercial operations in 1993. The plant utilizes a binary system and has a generating capacity of 34 MW. The Heber 2 project sells its electrical output to Southern California Edison Company under a power purchase agreement. The Heber 2 project was acquired in, and was financed with equity and non-recourse debt from Beal Bank, in December 2003.

We are currently negotiating with a third party the sale of an additional 10 MW from the Heber complex under a long-term power purchase agreement.

The Steamboat Projects

The Steamboat 1/1A Project. The Steamboat 1/1A project is located in Steamboat Hills, Washoe County, Nevada. The Steamboat 1/1A project includes two power plants which commenced commercial operations in 1986 and 1988, respectively. The Steamboat 1/1A project utilizes a binary system and has a gross generating capacity of 10 MW. The Steamboat 1/1A project sells its electrical output to Sierra Pacific Power Company under two separate power purchase agreements. The Steamboat 1/1A project was acquired in June 2003 using internally generated cash, and was re-financed with the proceeds from the issuance by Ormat Funding of its Senior Secured Notes on February 13, 2004. The Senior Secured Notes are collateralized by all of the assets of the Steamboat 1/1A project (and any and all proceeds arising therefrom) and our project subsidiary, Steamboat Geothermal LLC, the direct owner of the Steamboat 1/1A project, has jointly and severally with certain of our other subsidiaries fully and unconditionally guaranteed Ormat Funding's obligations under the Senior Secured Notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further description of collateralization of the Senior Secured Notes.

The Steamboat 2/3 Project. The Steamboat 2/3 project is also located in Steamboat Hills, Washoe County, Nevada. The Steamboat 2/3 project consists of two power plants which commenced commercial operations in 1992. The Steamboat 2/3 project utilizes a binary system and has a gross generating capacity of 29 MW. The Steamboat 2/3 project sells its electrical output to Sierra Pacific Power Company under two separate power purchase agreements. The Steamboat 2/3 project was acquired in February 2004 using internally generated cash and proceeds from the issuance by Ormat Funding of its Senior Secured Notes on February 13, 2004. The Senior Secured Notes are collateralized by all of the assets of the Steamboat 2/3 project (and any and all proceeds arising therefrom) and our project subsidiary, Steamboat Development Corp., the direct owner of the Steamboat 2/3 project, has jointly and severally with certain of our other subsidiaries fully and unconditionally guaranteed Ormat Funding's obligations under the Senior Secured Notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further description of collateralization of the Senior Secured Notes. A dispute over the purchase price adjustment for an immaterial amount is currently the subject of litigation.

The Steamboat Hills Project. The Steamboat Hills project is also located in Steamboat Hills, Washoe County, Nevada. The Steamboat Hills project is comprised of one plant and commenced commercial operations in 1988. The Steamboat Hills project utilizes a single flash system and water cooled condenser and has a generating capacity of 6 MW, although the capacity under the power purchase agreement is 12.5 MW. The Steamboat Hills project sells its electrical output to Sierra Pacific Power Company pursuant to a power purchase agreement. The project, under the predecessor owner, experienced difficulties operating at full capacity, among other reasons because of a well blow-out. We intend to increase the generating capacity of the Steamboat Hills project by additional drilling and certain other capital expenditures to take full advantage of the power purchase agreement. The Steamboat Hills project was acquired in May 2004 using internally generated cash.

The Mammoth Project

The Mammoth project is located in Mammoth Lakes, California. The Mammoth project is comprised of three plants, G-1, G-2 and G-3. The G-1 plant commenced commercial operations in 1985 and the G-2 and G-3 plants commenced commercial operations in 1990. The Mammoth project utilizes a binary system and has a gross generating capacity of 35 MW. Our project subsidiary, OrMammoth, Inc., owns a 50% partnership interest in Mammoth-Pacific, L.P., which owns 100% of the Mammoth project. The other 50% partnership interest is owned by an unrelated third party. The Mammoth project sells its electrical output to Southern California Edison Company under three separate power purchase agreements. Under the G-1 power purchase agreement, in certain circumstances, Southern California Edison Company or its affiliates has a right of first refusal to acquire the plant. Our 50% ownership interest in the Mammoth project was acquired in December 2003 using internally generated cash and project finance debt from Beal Bank, and was re-financed with the proceeds from the issuance by Ormat Funding of its Senior Secured Notes on February 13, 2004. The Senior Secured Notes are collateralized by a pledge of our 50% ownership interest in Mammoth-Pacific, L.P. and our project subsidiary, OrMammoth Inc. has jointly and severally with certain of our other subsidiaries fully and unconditionally guaranteed Ormat Funding's obligations under the Senior Secured Notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further description of collateralization of the Senior Secured Notes.

The Brady Project

The Brady project is located in Churchill County, Nevada and includes the Brady plant and the Desert Peak 1 plant. The Desert Peak 1 plant is approximately 4.5 miles southeast of the Brady plant. The Brady plant commenced

commercial operations in 1992 and the Desert Peak 1 plant commenced commercial operations in 1985. The Brady project has a gross generating capacity of 32 MW and has in the past utilized a dual flash design. In August 2002, an additional 6 MW binary unit was added to the Brady plant to generate additional power from the brine before its reinjection. The Desert Peak 1 plant utilizes a dual flash design. The Brady project sells its electrical output from the Brady plant and Desert Peak 1 plant to Sierra Pacific Power Company under a power purchase agreement. Our project subsidiary is currently evaluating the replacement of the Desert Peak 1 plant with a new plant that would be more efficient. The new plant may be constructed on the same site as the existing Desert Peak 1 plant. Construction is anticipated to be completed in 2007, at an estimated total project cost of approximately $8 million. The Brady project was acquired in June 2001 using internally generated cash and was re-financed with the proceeds from the issuance by Ormat Funding of its Senior Secured Notes on February 13, 2004. The Senior Secured Notes are collateralized by all of the assets of the Brady project (and any and all proceeds arising therefrom) and our project subsidiary, Brady Power Partners, the direct owner of the Brady project, has jointly and severally with certain of our other subsidiaries fully and unconditionally guaranteed Ormat Funding's obligations under the Senior Secured Notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further description of collateralization of the Senior Secured Notes.

The Puna Project

The Puna project is located in the Puna district, Hawaii. The Puna plant commenced commercial operations in 1993. The Puna plant utilizes an ORMAT geothermal combined cycle system, and has a

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designed generating capacity of 25 MW, although the power purchase agreement is for 30 MW. The ORMAT geothermal combined cycle system consists of a back pressure steam turbine, in which the lower pressure steam exhausted from the turbine is condensed in a binary system. This system assures a higher efficiency of geothermal steam, with a resulting lower steam rate, in resources producing steam above 150psi (10 bar), or even 100psi if the steam has a high non-condensable gas content. The Puna project sells its electrical output to Hawaii Electric Light Company under two power purchase agreements. Although the Puna project has significant geothermal resources, because of existing geological conditions, these resources are difficult to manage. In the past, the Puna project required extensive levels of investment mainly to address problems with the production and injection wells related to the geothermal resources. We intend to increase the output of the Puna project by upgrading the technology of the plant through the addition of Ormat Energy Converters, drilling another production well, and negotiating a new power purchase agreement for the additional generating capacity that will be available as a result of such activities. The Puna project was acquired in June 2004 with the proceeds of parent company loans and short-term bank loans. We currently intend to refinance the acquisition cost of the Puna project by the first half of 2005. In connection with such refinancing we signed a term sheet with an equity investor and we are currently holding negotiations with two financial institutions which we expect to provide debt financing as part of the contemplated a leverage lease financing transaction.

Foreign Projects

Our projects in operation outside of the United States have a generating capacity of approximately 114 MW. We also have projects under construction in Guatemala and projects under development in China and Kenya.

The Leyte Project (The Philippines)

The Leyte project is located in the Philippines, on the Isle of Leyte. The Leyte project consists of 4 power plants. The Leyte plants utilize steam systems, one conventional flash steam plant and three ORMAT manufactured topping steam turbines and have a combined generating capacity of 49 MW. The ORMAT topping steam turbines generate additional power by using the reduction in pressure to the inlet of the conventional flash steam plant, situated downstream, necessitated when the existing steam field produced steam at a higher pressure than can be accommodated by the conventional flash steam plant. Our project subsidiary has an 80% partnership interest in Ormat-Leyte Co. Ltd., which owns 100% of the Leyte project. The remaining 20% partnership interest in Ormat-Leyte Co. Ltd. is held by two unrelated third parties. In August 1995, following a build-operate-transfer agreement, which we refer to as BOT, international tender, Ormat Inc. (which later transferred its interest in the BOT agreement to Ormat-Leyte Co. Ltd.) entered into a BOT agreement with PNOC-Energy Development Corporation, a Philippine company wholly owned by Philippine National Oil Company, a government-owned company. Ormat-Leyte Co. Ltd. has an outstanding non-recourse loan from the Export-Import Bank of the United States the outstanding balance of which was $14.0 million as of December 31, 2004. The loan is due and payable in approximately equal quarterly installments through July 2007.

The Government of The Philippines has initiated the privatization of its electricity industry. However, we cannot foresee when such privatization may be completed. If such privatization is achieved in a manner that jeopardizes PNOC-Energy Development Corporation's or its affiliate's ability to comply with their obligations under the BOT agreement, the parties are required to negotiate an amendment to the power purchase agreement. Should they fail to reach an agreement, PNOC-Energy Development Corporation has the obligation (and our project subsidiary has the right to require PNOC-Energy Development Corporation) to buy out Ormat-Leyte Co. Ltd.'s rights in the project at a price based upon the net present value of the projected cash flow from the project for the remaining term of the BOT agreement.

In July, 2004, a transformer for one of the plants at the Leyte project ceased operating for a period of three months. In addition, in August 2004, one of the generators at the Leyte project also

ceased operating. We have replaced the transformer and sent the generator for repair, which was completed by the second week of January, 2005. As a result of these events, for the year ended December 31, 2004, Ormat-Leyte Co. Ltd experienced a $1.9 million reduction in revenues compared to our expected revenues for that period. Our commercial and business interruption insurance policies have already partially covered, and we expect them to fully cover, subject to deductibles and applicable waiting periods, the costs associated with such replacement and repair as well as to cover the reduction in revenues we experienced as a result of the reduced electricity generation. We are currently in the process of obtaining approval by our insurance carrier for the transformer claim.

The Momotombo Project (Nicaragua)

The Momotombo project is located in Momotombo, Nicaragua. The Momotombo project is comprised of one plant and a geothermal field. The plant was already in existence when we signed the concession agreement for the project in March 1999, and had commenced commercial operations in the mid-1980s utilizing a dual flash system. In 2003, an additional 6 MW binary unit was added, bringing the generating capacity to approximately 28 MW. The Momotombo project has a power purchase agreement with Empresa Distribuidora de Electricidad del Norte (DISNORTE) and Empresa Distribuidora de Electricidad del Sur (DISSUR), two corporations which own the power distribution rights in Nicaragua. Our project subsidiary, which operates the Momotombo project, has an outstanding loan from Bank Hapoalim B.M., the outstanding balance of which was $17.0 million as of December 31, 2004.

The Olkaria III Project — Phase I (Kenya)

The Olkaria III project is located in Naivasha, Kenya. The Olkaria III project is comprised of one plant, which commenced commercial operations in August 2000, and a geothermal field. The plant currently has a generating capacity of approximately 13 MW (Phase I). The parties have been working on the construction of Phase II of this project which we expect, upon completion, would increase the generating capacity of the Olkaria III project to approximately 48 MW. A description of Phase II of this project is set forth below in "Projects under Development." Phase I of the Olkaria III project utilizes a binary system. In November 1998, following an international tender, our project subsidiary entered into a power purchase agreement with the Kenya Power & Lighting Co. Ltd., which was further amended in July 2000 and April 2003. Our project subsidiary leases the site on which the geothermal resources and the plant facilities are located from the Kenyan government, pursuant to an agreement which will expire in 2040. The Kenyan government granted our project subsidiary a license giving it exclusive rights of use and possession of the relevant geothermal resources for an initial period of 30 years, expiring in 2029, which initial period may be extended for two additional five-year terms by us. The Kenyan Minister of Energy has the right to terminate or revoke the license in the event our project subsidiary ceases work in or under the license area during a period of six months, or has failed to comply with the terms of the license or the provisions of the law relating to geothermal resources. Our project subsidiary is obligated to pay the Kenyan government monthly fees and royalties based on the amount of power supplied to the Kenya Power & Lighting Co. Ltd.

The Zunil Project (Guatemala)

The Zunil project is located in Zunil, Guatemala. The Zunil project is comprised of one plant which commenced commercial operations in 1999. The plant utilizes a binary system consisting of Ormat Energy Converters and has a generating capacity of 24 MW. The project is owned by Orzunil I de Electricidad, Limitada, which owns 100% of the Zunil project. Our project subsidiary owns 21% of the outstanding partnership interests of Orzunil I de Electricidad, Limitada. Another of our subsidiaries provides operation and maintenance services to the project. The Zunil project sells its generating capacity to Instituto Nacional de Electrification pursuant to a power supply agreement. As of the date of this annual report, Orzunil I de Electricidad, Limitada has two senior outstanding non-recourse loans, one from International Finance Corporation (IFC) and the other from the Commonwealth Development Corporation (CDC), the aggregate total balance of which was, as of December 31, 2004, $28.9 million. The loans are due and payable in quarterly installments through

November 2011. Each of the IFC and the CDC owns 14% of the issued and outstanding partnership interests of Orzunil I de Electricidad, Limitada. The remaining 51% is owned by an unrelated party.

Projects under Construction or Enhancement

We are in varying stages of construction or enhancement of projects, both domestic and foreign. Based on our current construction and enhancement schedule, we expect to have an additional generating capacity of approximately 97 MW to 102 MW in the United States by the end of 2006 and an additional generating capacity of approximately 20 additional MW in Guatemala by the third quarter of 2006.

The Desert Peak 2 Project

Our project subsidiary is currently constructing the Desert Peak 2 project in Churchill County, Nevada (near the Brady project). The Desert Peak 2 project is expected to have a generating capacity of up to 15 MW and will utilize our Ormat Energy Converters. The electrical output from the project will be sold, and renewable energy and environmental credits will be transferred, to Nevada Power Company under a power purchase agreement that has a 20-year term commencing on the January 1 following the commercial operation date of such power plant. The Desert Peak 2 project is expected to be completed in the fourth quarter of 2005.

The Galena Project

Our project subsidiary is in the process of replacing the equipment currently used in the Steamboat 1 project with new, upgraded equipment. Our project subsidiary will also augment the operation of the Steamboat 1/1A project with additional geothermal resources extracted from the Steamboat 2/3 project's leases that will be diverted for use by the Steamboat 1/1A project.

After such improvements, we will rename the Steamboat 1/1A project as the Galena project. We believe that this upgrade will allow the Galena project to obtain a generating capacity of 20 MW (adding an incremental 13 MW to the existing Steamboat complex). We anticipate that the Galena project will achieve commercial operations in the fourth quarter of 2005 and that the project will sell its electrical output and transfer its renewable energy credits to Sierra Pacific Power Company under a power purchase agreement that has a 20-year term commencing on the January 1 following the commercial operation date of such power plant. Our project subsidiary is coordinating the transition from the Steamboat 1/1A project to the Galena project with Sierra Pacific Power Company.

The Desert Peak 3 Project

The Desert Peak 3 project in Churchill County, Nevada is currently in the engineering stage and is expected to have a generating capacity of 10 MW to 15 MW. Our project subsidiary will sell electrical output from the plant, and transfer the renewable energy and environmental credits, to Nevada Power Company under a power purchase agreement that has a 20-year term commencing on the January 1 following the commercial operation date of the plant and which was signed as part of Nevada Power Company's efforts to comply with Nevada's renewable portfolio standards.

The OREG 1 Project

The OREG 1 project is currently in the engineering stage and is expected to have a generating capacity of 22 MW. Our project subsidiary has entered into a 25-year power purchase agreement with Basin Electric Power Corporation according to which the project will sell electrical output from recovered energy generation power plants. The power plants will be constructed on gas compressor stations along a natural gas pipeline in North and South Dakota.

The power purchase agreement has not yet become effective and is subject to certain conditions, including agreement for the purchase of the recovered energy and a variety of other agreements necessary for the start of construction.

The Amatitlan Project (Guatemala)

Our project subsidiary is currently constructing a geothermal power plant in Amatitlan, Guatemala on a "build, own and operate" or "BOO" basis. The project is comprised of one power plant which we expect will have a generating capacity of 20 MW, and has obtained the rights to various geothermal production and reinjection wells. The Amatitlan

plant will use our Ormat Energy Converters.

The term of the power purchase agreement for the Amatitlan project is 20 years from the date of the commencement of operations at the power plant or 23 years from the date of commencement of the construction works, whichever is later. During a period of two years after the completion of the construction of the power plant, and subject to the signing of an additional agreement with the Instituto Nacional de Electrification and the result of a feasibility test, our project subsidiary may increase the power generating capacity of the power plant to up to an aggregate of 50 MW by drilling additional wells. We anticipate that the Amatitlan project will be completed in 2006.

Other Projects

We are currently pursuing the addition of Ormat Energy Converters for the Heber complex and Ormesa project, the drilling of additional wells for the Heber complex and the Ormesa and Puna projects, and other activities for the Heber complex. We believe that these activities could increase the generating capacity of the Heber complex and the Puna and Ormesa projects collectively by 33 MW, and we are currently in discussions with Southern California Edison Company and another potential purchaser for this additional electrical power. We are also in the early engineering stages of an enhancement program for the Mammoth and Steamboat Hills projects, which we believe could increase the generating capacity of these facilities by 4 MW and 7 MW, respectively.

Projects under Development

We also have projects under development in the United States, China and Kenya. In certain cases, we have obtained concession agreements and/or financing commitments, and in other cases, the projects are in early development stages. We expect to continue to explore these and other opportunities for expansion so long as they continue to meet our business objectives and investment criteria.

The Yunnan Project (China)

OrYunnan Geothermal Co., Ltd., which is a joint venture established between our project subsidiary and Yuan Province Geothermal Development Co., Ltd., owns exclusive rights to develop all of the geothermal resources in Teng Chong County, Baoshan City, in Yunnan Province, southwest China. Our project subsidiary owns 85% of the interests in OrYunnan Geothermal Co. Ltd., which owns all of the ownership interests in the Yunnan project. The area of the geothermal concession is approximately 65 square miles and is located approximately 200 miles southwest of Kunming, the provincial capital of Yunnan, and approximately 40 miles from the border with Myanmar. We estimate the potential of the geothermal resources in the concession area to be between 150 to 200 MW. Initially, our project subsidiary and its partner intend to develop a geothermal field and construct a power plant with a generating capacity of approximately 48 MW, which we estimate will require a capital investment of approximately CNY 940.0 million (approximately $113.4 million calculated at the prevailing exchange rate as at December 31, 2004). As of the date hereof, our project subsidiary is awaiting completion of the Chinese central government approval procedures, following which negotiations with the provincial utility company towards the signing of a power purchase agreement can conclude. On May 29, 2002, our project subsidiary entered into a memorandum of understanding, which we refer to as an MOU, regarding the main terms of the power purchase agreement and other major project agreements with Yunan Electric Power Co., Ltd., a state-owned utility company, concerning the purchase of electric power by the utility company from our project subsidiary on a 30-year basis and the related interconnection arrangements. The MOU estimates that the commercial operation date of the plant is to be January 1, 2006. However, we have been in the development stage

of the OrYunnan Project for several years and this date will have to be extended for an appropriate period following the completion of the Chinese central government's approval.

The Olkaria III Project — Phase II (Kenya)

As previously noted, our project subsidiary in Kenya . has been working towards the construction of Phase II of the Olkaria III project. As of the date hereof, our project subsidiary has drilled wells and commenced preliminary construction activities but has not begun any material construction activities with respect to Phase II. We halted our construction activities due to uncertainty relating to the form of government support (if any) that would be provided for the project and the related collateral package, both of which we requested as pre-conditions for the financing of Phase II. We currently have until April 17, 2005 to notify Kenya Power & Lighting Co. Ltd. whether we will proceed to construct Phase II of the Olkaria III project, in which case the current power purchase agreement with respect to Phase I will remain valid until 2020. In the past, when the Kenya Power & Lighting Co. Ltd. was in a depressed financial state, exacerbated by a prolonged local drought, the enhanced letter of support from the Kenyan Government was considered a necessary prerequisite for the release of Phase II. Since that time, a combination of the resumption of hydro power sourced revenues, a debt to equity conversion which also effectively increased the Kenyan government's stake, a lowering of tariffs by specified suppliers and outside donor funding have improved that entity's financial position. In preparation for the release of Phase II, we have recently requested Kenya Power & Lighting Co. Ltd to post the collateral. At the same time and for the same reasons, we are exploring the possibility of financing and completing Phase II without the additional government support is being positively explored. As previously stated, we currently have until April 17, 2005 to notify Kenya Power & Lighting Co. Ltd. whether we will proceed with the constructing of Phase II of the Olkaria III project. In the event we decide not to proceed with Phase II, and notify Kenya Power & Lighting Co. Ltd about this decision, the current power purchase agreement with respect to Phase I will remain valid until 2020. If we notify Kenya Power & Lighting Co. Ltd. that we will not proceed then the portion of the current power purchase agreement applicable to Phase II of the Olkaria III project will be terminated (but the current portion applicable to Phase I will be unaffected). If we fail to make such notification that we will not proceed, we will be required to construct Phase II and reach commercial operations by May 31, 2007 in order to avoid the application of financial penalties, or at the latest by April 17, 2008 in order to avoid termination of the entire power purchase agreement. . In addition, if we do not proceed with the construction of Phase II, we may lose some or all of our investment relating to Phase II, which is approximately $20.9 million as of December 31, 2004**.**

Geothermal Assets for Future Development in the United States

We have various geothermal leases for future development in the United States. These geothermal leases include the Meyberg lease near Steamboat, Nevada, the Newberry lease in Oregon, the Rhyolite Plateau lease near Mammoth, California, various leases for future development in Puna, Hawaii and various other leases for development in Nevada.

Operations of our Products Segment

Power Units for Geothermal Power Plants. We design, manufacture and sell power units for geothermal electricity generation, which we refer to as Ormat Energy Converters or OECs. Our customers include contractors and geothermal plant owners and operators. Recently, one of our 1.8 MW power units was installed at Oserian Farm in Kenya, where farmers grow flowers for export.

The consideration for the power units is usually paid in installments, in accordance with milestones set in the supply agreement. Sometimes we agree to provide the purchaser with spare parts (or alternatively, with a non-exclusive license to manufacture such parts). We provide the purchaser with at least a 12-month warranty for such products. We usually also provide the purchaser (often, upon receipt of advances made by the purchaser) with a guarantee, which expires in part upon delivery of the equipment to the site and fully expires at the termination of the warranty period.

Power Units for Recovered Energy-Based Power Generation. We design, manufacture and sell power units used to generate electricity from recovered energy or so-called "waste heat" that is generated as a residual by-product of gas turbine-driven compressor stations and a variety of industrial processes, such as cement manufacturing, and is not otherwise used for any purpose. Our existing and target customers include interstate natural gas pipeline owners and operators, gas processing plant owners and operators, cement plant owners and operators, and other companies engaged in other energy-intensive industrial processes. We view recovered energy generation as a significant market opportunity for us, and plan to utilize two different business models in connection with such business opportunity. The first, which is similar to the model utilized in our geothermal power generation business, consists of the development, construction, ownership and operation of recovered energy-based generation power plants. In this case, we will enter into agreements to purchase industrial waste heat, and into long-term power purchase agreements with offtakers to sell the electricity generated by the recovered energy generation unit that utilizes such industrial waste heat. We expect that the power purchasers in such cases will be investor-owned electric utilities or local electrical cooperatives. The first agreement was signed in 2004 and we expect it will become effective in the second quarter of 2005.

Pursuant to the second business model, we construct and sell the power units for recovered energy-based power generation to third parties for use in "inside-the-fence" installations or otherwise. Our customers include gas processing plant owners and operators, cement plant owners and operators and companies in the process industry. The Neptune recovered energy project is an example of such a model. There, we installed one of our recovered energy-based generation units at Enterprise Product's Neptune gas processing plant in Louisiana. The unit utilizes exhaust gas from two gas turbines at the plant and is providing electrical power that is consumed internally by the facility (although a portion of the generated electricity is also sold to the local electric utility).

Our recovered energy generation units qualify as Qualifying Facilities under PURPA for regulatory purposes and, if structured properly, may also be eligible for favorable tax treatment, such as the seven year modified accelerated cost recovery under relevant U.S. federal tax rules.

Remote Power Units and other Generators. We design, manufacture and sell fossil fuel powered turbo-generators with a capacity ranging between 200 watts and 5,000 watts, which operate unattended in extreme climate conditions, whether hot or cold. The remote power units supply energy for remote and unmanned installations and along communications lines and cathodic protection along gas and oil pipelines. Our customers include contractors installing gas pipelines in remote areas. In addition, we manufacture and sell generators for various other uses, including heavy duty direct current generators. Our remote power units were recently installed on a Pemex pipeline in Mexico. The terms of sale of the turbo-generators are similar to those for the power units produced for power plants.

Engineering, Procurement and Construction ("EPC") of Power Plants. We engineer, procure and construct (EPC), as an EPC contractor, geothermal and recovered energy power plants on a turnkey basis, using power units we design and manufacture. Our customers are geothermal power plant owners as well as the same customers described above that we target for the sale of our power units for recovered energy-based power generation. Unlike many other companies that provide EPC services, we have an advantage in that we are using our own manufactured equipment and thus have better control over the timing and delivery of required equipment and its costs. Recent examples of our construction activities include the design and construction of the Mokai and Wairakei geothermal power plants in New Zealand.

The consideration for such services is usually paid in installments, in accordance with milestones set in the EPC contract and related documents. We usually provide performance guarantees or letters of credit securing our

obligations under the contract. Upon delivery of the plant to its owner, such guarantees are replaced with a warranty guarantee, usually for a period ranging from 12 months to 36 months. The EPC contract usually places a cap on our liabilities for failure to meet our obligations thereunder. For example, our subsidiary, Ormat Pacific, Inc., is currently acting as EPC contractor for two geothermal projects in New Zealand owned by Contact Energy Limited and Tuaropaki Power Company Limited, respectively. Ormat Industries has guaranteed Ormat Pacific, Inc.'s obligations

under both agreements. Ormat Systems, our Israeli subsidiary, will supply the equipment and products necessary for the construction and operation of these power plants.

We also design and construct the recovered energy generation units on a turnkey basis, and may provide a long-term agreement to supply non-routine maintenance for such units. Our customers are interstate natural gas pipeline owners and operators, gas processing plant owners and operators, cement plant owners and operators and companies engaged in the process industry.

Operation and Maintenance of Power Plants. We provide operation and maintenance services for geothermal power plants owned by us and by third parties. For example, we provide operations and management services to the Orzunil project in Guatemala, in which we have a minority ownership interest.

In connection with the sale of our power units for geothermal power plants, power units for recovered energy-based power generation and remote power units and other generators, we, from time to time, enter into sales agreements for the marketing and sale of such products pursuant to which we are obligated to pay commissions to such representatives upon the sale of our products in the relevant territory covered by such agreements by such representatives or, in some cases, by other representatives in such territory.

Our manufacturing operations and products are certified ISO 9001, ISO 14001, ASME and TÜV, and we are an approved supplier to many electric utilities around the world.

Backlog

The Company and our wholly owned subsidiaries have a products backlog of $86.4 million as of March 15, 2005 including revenues for the period between January 1, 2005 and March 14, 2005, compared to $107.6 million for delivery as of January 1, 2004. The following is a breakdown of the products segment backlog:

Products Backlog

	Expected Completion of Contract	Expected Sales until End of Contract (millions)
North America		
OPTI Canada *	2006	11.2
Total North America		11.2
Worldwide (Except North America)		
Mokai II, New Zealand	2005	4.3

Wairakei, New Zealand	2005	5.4
Salavatli, Turkey	2005	3.6
Bareket, Turkey	2006	5.4
Sakhalin, Russian Federation	2006	16.9
Sao Miguel, Azores	2006	25.0
Management and operation of Power Plants	2011	11.0
Other Units	2005	3.6
Total Worldwide (Except North America)		75.2
Total Products Backlog		86.4

*Related party

We expect that our revenues from electricity for 2005 from our wholly owned projects will be $170 million and $18 million of revenues from electricity, which is our share in the revenues generated by our subsidiaries accounted for by the equity method.

Our Technology

Our proprietary technology covers power plants operating according to the Organic Rankine Cycle only or in combination with the Steam Rankine Cycle and Brayton Cycle, as well as integration

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of power plants with energy sources such as geothermal, recovered energy, biomass, solar energy and fossil fuels. Specifically, our technology involves original designs of turbines, pumps, and heat exchangers, as well as formulation of organic motive fluids. All of our motive fluids are non-ozone-depleting substances. Using advanced computerized fluid dynamics and other computer aided design, or CAD, software as well as our test facilities, we continuously seek to improve power plant components, reduce operations and maintenance costs, and increase the range of our equipment and applications. In particular, we are examining ways to increase the output of our plants by utilizing evaporative cooling, cold reinjection, performance simulation programs, and topping turbines. In the geothermal as well as the recovered energy (waste heat) area, we are examining two-level recovered energy systems and new motive fluids.

We also construct combined cycle geothermal plants in which the steam first produces power in a backpressure steam turbine and is subsequently condensed in a vaporizer of a binary plant, which produces additional power.

In the conversion of geothermal energy into electricity, our technology has a number of advantages compared with conventional geothermal steam turbine plants. A conventional geothermal steam turbine plant consumes significant quantities of water, causing depletion of the aquifer, and also requires cooling water treatment with chemicals and thus a need for the disposition of such chemicals. A conventional geothermal steam turbine plant also creates a significant visual impact in the form of an emitted plume from the cooling tower during cold weather. By contrast, our binary and combined cycle geothermal power plants have a low profile with minimum visual impact and do not emit a plume when they use air cooled condensers. Our binary and combined cycle geothermal power plants reinject all of the geothermal fluids utilized in the respective processes into the geothermal reservoir. Consequently, such processes generally have no emissions. Accidental or fugitive emissions (that result from minor leaks) of motive fluids are within the limits defined by federal, state and local regulatory standards.

Other advantages of our technology include simplicity of operation and easy maintenance, low RPM, temperature and pressure in the Ormat Energy Converter, a high efficiency turbine and the fact that there is no contact between the turbine itself and often corrosive geothermal fluids.

We use the same elements of our technology in our recovered energy products. The heat source could be exhaust gases from a simple cycle gas turbine, low pressure steam or medium temperature liquid found in the process industry. In most cases, we attach an additional heat exchanger in which we circulate thermal oil to transfer the heat into the Ormat Energy Converter's own vaporizer in order to provide greater operational flexibility and control. Once this stage of each recovery is completed, the rest of the operation is identical to the Ormat Energy Converter used in our geothermal power plants. The same advantages of using the Organic Rankine Cycle apply here as well. In addition, our technology allows for better load following than a conventional steam turbine can exhibit, requires no water treatment as it is air cooled, and does not require the continuous presence of a steam licensed operator on site.

More than 70 United States patents (and about 10 pending patents) cover our products (mainly power units based on the Organic Rankine Cycle) and systems (mainly geothermal power plants and industrial waste heat recovery for electricity production). The systems-related patents cover not only a particular component but rather the overall effectiveness of the plant's systems from the "fuel" (i.e., geothermal fluid, waste heat, biomass or solar) to generated electricity. The duration of such patents ranges from one year to 18 years. No single patent on its own is material to our business.

The products-related patents cover components such as turbines, heat exchanges, seals and controls. The system patents cover subjects such as disposal of non-condensable gases present in geothermal fluids, power plants for very high pressure geothermal resources and use of two-phase fluids. A number of patents cover the combined cycle geothermal power plants, in which the steam first produces power in a backpressure steam turbine and is subsequently condensed in a vaporizer of a binary plant, which produces additional power.

We are also involved in developing new technology to extract heat from the earth by circulating fluid through an enhanced or man-made reservoir created in naturally low permeable or water-poor

rocks. We are undertaking this development in cooperation with GeothermEx Inc., the University of Utah, Energy & Geoscience Institute, the University of Nevada-Reno and the Great Basin Center for Geothermal Energy, with funding support from the United States Department of Energy.

Competition

The power generation industry is characterized by intense competition from electric utilities, other power producers, and marketers. In recent years, the United States in particular has seen increasing competition in power sales, in part due to excess capacity in a number of U.S. markets and an emphasis on short-term markets. Such competition has contributed to a reduction in electricity prices.

In the geothermal power generation sector, our main competitors in the United States are CalEnergy, Calpine and Caithness. Some of these companies are also active outside of the United States. Outside of the United States, aside from these companies, we have not recently encountered competition from any private sector geothermal power developer, but may face competition from national electric utilities or state-owned oil companies.

In the products business, our main competitors are Mitsubishi, Fuji and Toshiba of Japan, GE/Nuevo Pignone and Ansaldo of Italy, Siemens of Germany, Alstom of France and Kaluga of Russia. Recently, two new small players have been trying to penetrate the market. In the remote power unit business, we face competition from Global Thermoelectric, as well as from manufacturers of diesel generator sets.

Siemens of Germany as well as other manufacturers of conventional steam turbines are potential competitors in the recovered energy generation business, although we believe that our recovered energy generation unit has technological and economical advantages over the Siemens/Kalina technology and conventional steam technology. Recently, United Technologies announced the introduction of a small 200 kW Organic Rankine Cycle for recovered energy.

We also compete with companies engaged in the power generation business from renewable energy sources other than geothermal energy, such as wind power, solar power and hydro-electric power.

None of our competitors competes with us both in the sale of electricity and in the products business.

Customers

All of our revenues from the sale of electricity were derived from fully-contracted energy and/or capacity payments under long-term power purchase agreements with governmental and private utility companies. Southern California Edison Company, Sierra Pacific Power Company and Hawaii Electric Light Company have accounted for 41.4%, 12.9%, and 7.1% of revenues, respectively, for the fiscal year ended December 31, 2004. Based on publicly available information, as of December 31, 2004, the issuer ratings of Southern California Edison Company, Sierra Pacific Power Company and Nevada Power Company (a potential power purchaser for the Desert Peak 2 and Desert Peak 3 projects) were Baa1 (stable outlook), B1 (stable outlook) and B1 (stable outlook), respectively, from Moody's Investors Services and BBB+ (stable outlook), B+ (negative outlook), and B+ (negative outlook), respectively, from Standard & Poor's Ratings Services and the issuer rating of Hawaii Electric Light Company was BBB+ (stable outlook) from Standard & Poor's Ratings Services. The credit ratings of any power purchaser may decrease from time to time. There is no publicly available information with respect to the credit rating or stability of the power purchasers under the power purchase agreements for our foreign power projects.

Our revenues from the products business were derived from contractors or owners or operators of power plants, process companies and pipelines, including Mokai and Wairakei which accounted for 51.4% and 30.5%, respectively, of our revenues from the sale of products in 2004.

Raw Materials

In connection with our manufacturing activities, we use raw materials such as steel and aluminium. We do not rely on any one supplier for the raw materials used in our manufacturing activities, as all of such raw materials are readily available from various suppliers.

Employees

As of December 31, 2004, we had 677 employees, of which 228 were in the United States, 295 were in Israel and 154 were located in other countries. We expect that future growth in the number of our employees will be mainly

attributable to the purchase and/or development of new power plants.

None of our employees (other than the Momotombo project employees) are represented by a labor union, and we have never experienced any labor dispute, strike or work stoppage. We consider our relations with our employees to be satisfactory. We believe our future success will depend on our continuing ability to hire, integrate and retain qualified personnel.

We have no collective bargaining agreements with respect to our Israeli employees. However, by order of the Israeli Ministry of Industry, Trade and Labor the provisions of a collective bargaining agreement between the Histadrut (the General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (which includes the Industrialists Association) may apply to some of our non-managerial, finance and administrative, and sales and marketing personnel. This collective bargaining agreement principally concerns cost of living increases, length of the workday, minimum wages, insurance for work-related accidents, procedures for dismissing employees, annual and other vacation, sick pay, determination of severance pay, pension contributions and other conditions of employment. We currently provide such employees with benefits and working conditions which are at least as favorable as the conditions specified in the collective bargaining agreement.

Insurance

We maintain business interruption insurance, casualty insurance, including flood and earthquake coverage, and primary and excess liability insurance, as well as customary worker's compensation and automobile insurance and such other insurance, if any, as is generally carried by companies engaged in similar businesses and owning similar properties in the same general areas and financed in a similar manner. To the extent any such casualty insurance covers both us and/or our projects, on the one hand, and any other person and/or plants, on the other hand, we generally have specifically designated as applicable solely to us and our projects "all risk" property insurance coverage in an amount based upon the estimated full replacement value of our projects (provided that earthquake and flood coverage may be subject to annual aggregate limits depending on the type and location of the project) and business interruption insurance in an amount that also varies from project to project.

We generally purchase insurance policies to cover our exposure to certain political risks involved in operating in developing countries. The policies are issued by entities which specialize in such policies, such as the Multilateral Investment Guarantee Agency (a member of the World Bank Group), and from private sector providers, such as Zurich Re, AIG and other such companies. To date all of our political risk insurance contracts are with the Multilateral Investment Guarantee Agency and with Zurich Re. Such insurance policies cover, in general, and subject to the limitations and restrictions contained therein, 80%-90% of our revenue loss derived from a specified governmental act, such as confiscation, expropriation, riots, the inability to convert local currency into hard currency and, in certain cases, the breach of agreements. We have obtained such insurance for all of our foreign projects in operation except for the Leyte project.

Regulation of the Electric Utility Industry in the United States

The following is a summary overview of the electric utility industry and applicable regulations in the United States and should not be considered a full statement of the law or all issues pertaining thereto.

PURPA

PURPA, in relevant part, exempts renewable electric generating projects that are "Qualifying Facilities" from various regulations under the FPA. There are two types of Qualifying Facilities:

"Qualifying Small Power Production Facilities" and "Qualifying Cogeneration Facilities." Under the FPA as amended by PURPA and the regulations promulgated thereunder, a power production facility is a "Qualifying Small Power Production Facility" if (i) the facility produces no more than 80 MW (on a net capacity basis) or satisfies certain Federal Energy Regulatory Commission ("FERC") certification and construction dates, (ii) the primary energy source of the facility is biomass, waste, renewable resources, geothermal resources or any combination thereof, and at least 75% of the total energy input is from these sources, and (iii) the facility is owned by a person not primarily engaged in the generation or sale of electric power (other than electric power solely from cogeneration facilities or small power production facilities) (i.e., the project company cannot be controlled by, more than 50% of the equity interests of the facility may not be owned by, and more than 50% of the equity benefits cannot be received by an electric utility, an electric utility holding company or a combination thereof or their subsidiaries).

PURPA Qualifying Facilities receive two primary benefits. First, PURPA exempts Qualifying Facilities, such as our domestic projects (other than the Puna project), from the definition of "electric utility company" under PUHCA, most provisions of the FPA and state laws and regulations relating to financial, organization and rate regulation of electric utilities. Second, the regulations promulgated by FERC under PURPA require, in relevant part, that electric utilities (i) purchase energy and capacity made available by Qualifying Facilities, construction of which commenced on or after November 9, 1978, at a rate based on the purchasing utility's full "avoided costs" and (ii) sell supplementary, back-up, maintenance and interruptible power to Qualifying Facilities on a just and reasonable and nondiscriminatory basis. FERC's regulations define "avoided costs" as the "incremental costs to an electric utility of electric energy or capacity or both which, but for the purchase from the Qualifying Facility or Qualifying Facilities, such utility would generate itself or purchase from another source. Utilities may also purchase power at prices other than avoided cost pursuant to negotiations as provided by FERC's regulations. Under an amendment to PURPA and PURPA regulations, FERC has also provided that utility of geothermal small power production facilities (that is, geothermal small power production facilities that would be Qualifying Facilities except that they are owned by a person primarily engaged in the generation or sale of electric energy) are exempt from PUHCA but not state regulation or, if applicable, the FPA.

We expect that our domestic projects will continue to meet all of the criteria required for Qualifying Facilities under PURPA. If any of our domestic projects in which we have an interest loses its Qualifying Facility status or if amendments to PURPA are enacted that substantially reduce the benefits currently afforded to Qualifying Facilities, our operations could be adversely affected. Loss of Qualifying Facility status for one of our domestic projects for having more than 50% utility ownership would make that facility a utility geothermal small power production facility. Such facilities are exempt from PUHCA but are subject to state regulation and, if applicable, the FPA. Loss of Qualifying Facility status for any other reason would also make the facility subject to state regulation and, if applicable, the FPA. In addition, loss of Qualifying Facility status for any reason other than utility ownership would make the facility subject to PUHCA unless it has EWG status or falls within another exemption. If a facility lost Qualifying Facility status for any reason other than utility ownership and was ineligible for EWG status because it made retail sales, we would face the choice between discontinuing the retail sales and filing for EWG status or becoming subject to PUHCA. At present, none of our domestic projects makes retail sales of electricity (other than to affiliates). In the unlikely event that we become a public utility holding company, which could be deemed to occur prospectively or retroactively to the date that any of our plants lost its Qualifying Facility status (assuming that that plant was neither an EWG nor a utility geothermal small power production facility), our other domestic projects could lose Qualifying Facility status because our interests in such projects could be considered to be electric utility holding company interests for purposes of the Qualifying Facility ownership requirements. This could cause all of our projects to become subject to federal and state energy regulations. In addition, a loss of Qualifying Facility status could allow the power purchaser, pursuant to the terms of the particular power purchase agreement, to cease taking and paying for electricity from the relevant project or, consistent with FERC precedent, to seek refunds of past amounts paid. This could cause the loss of some or all contract revenues, result in

significant liability for refunds of past amounts paid, or otherwise impair the value of a project. If a power purchaser were to cease taking and paying for electricity or seek to obtain refunds of past amounts paid, there can be no assurance that the costs incurred in connection with the project could be recovered through sales to other purchasers or that we would have sufficient funds to make such refund payment. In addition, such a loss of status would be an event of default under the financing arrangements currently in place for some of our projects, which would enable the lenders to exercise their remedies and enforce the liens on the relevant project.

In 2003, Congress proposed legislation that, among other provisions, would have had the practical effect of repealing PUHCA and shifting regulatory oversight of holding companies to FERC, and of repealing the mandatory purchase requirements of PURPA. Although the 2003 legislation would not affect existing power purchase agreements for Qualifying Facilities, such legislation or other legislation could (i) repeal or amend PURPA in a manner that substantially reduces the benefits currently afforded Qualifying Facilities, or (ii) otherwise make more burdensome the requirements for the projects to maintain their status as Qualifying Facilities. In such event, operations at the projects or compliance with the terms of the power purchase agreements could be adversely affected, which in turn could reduce our net income and materially and adversely affect our business, financial condition and future results of operation and cash flow.

PUHCA

PUHCA, in relevant part, provides that any corporation, partnership or other entity or organized group that owns, controls or holds power to vote 10% or more of the outstanding voting securities of a "public utility company" (which is defined to include an "electric utility company" or a "gas utility company"), or of a company that is a "holding company" of a public utility company or public utility holding company, is subject to registration with the Securities and Exchange Commission and to regulation under PUHCA, unless exempted by a Securities and Exchange Commission ("SEC") rule, regulation or order. An entity may also be deemed to be a holding company if the Securities and Exchange Commission determines, after providing notice and an opportunity for a hearing, that such entity exercises a controlling influence over the management or policies of any public utility or holding company as to make it necessary or appropriate in the public interest or for the protection of investors or consumers that such entity be regulated as a holding company. Unless an exemption is obtained, PUHCA requires registration for a holding company of a public utility company and requires a public utility holding company to limit its utility operations to a single integrated utility system and to divest any other operations not functionally related to the operation of the utility system. In addition, a public utility company that is a subsidiary of a registered holding company under PUHCA is subject to financial and organizational regulation, including approval by the SEC of its financing transactions.

Under current federal law, we are not subject to regulation as a holding company under PUHCA and will not be subject to such regulation as long as the plants in which we have an interest are (i) Qualifying Facilities, (ii) "Exempt Wholesale Generators" (as defined in PUHCA) or (iii) subject to another exemption or waiver, such as status as an electric utility geothermal small power production facility.

FPA

Under the FPA, FERC has exclusive rate-making jurisdiction over wholesale sales of electricity and transmission in interstate commerce. These rates may be based on a cost of service approach or may be determined through competitive bidding or negotiation. If a project were to lose its Qualifying Facility status, the rates set forth in its power purchase agreement would have to be filed with FERC and would be subject to review by FERC under the

FPA, unless the project is located in Hawaii, Alaska or the parts of Texas that are not deemed to be interstate commerce, in which case state regulations would apply. Under FERC policy, the rates under those circumstances could be no higher than the rate or price the relevant power purchaser would have paid for energy had it not been required to purchase from such project under PURPA's mandatory purchase requirements, i.e., such

power purchaser's economy energy (incremental) cost during the period of non-compliance with Qualifying Facility requirements, unless the applicable power purchase agreement otherwise provides for alternative rates to apply in the event of such loss of Qualifying Facility status and FERC accepts such alternative rates.

State Regulation

Our projects in California and Nevada, by virtue of being Qualifying Facilities and because they engage in wholesale sales of electricity to public electric utilities in California and Nevada, are not subject to rate, financial and organizational regulations applicable to public electric utilities in those states. The projects each sell or will sell their electrical output to public electric utilities (either Sierra Pacific Power Company, Nevada Power Company or Southern California Edison Company) which are regulated by their respective state public utility commission. Sierra Pacific Power Company and Nevada Power Company are regulated by the Public Utility Commission of Nevada, which we refer to as NPUC. Southern California Edison Company and a small portion of Sierra Pacific Power Company in the Lake Tahoe area are regulated by the California Public Utility Commission, which we refer to as CPUC. Since the NPUC and the CPUC regulate the retail rates through which the purchasing utilities recover their payments to our facilities from the retail electric customers of the public electric utilities under their jurisdiction, it is important for the purchasing electric utilities to obtain approval by their respective public utility commissions of their agreements with our projects. It is also important for the public electric utilities to be allowed continued recovery in their retail electric rates of the cost paid to our projects for electricity.

The NPUC has previously approved the agreements for each of our existing projects located in Nevada and has continuously allowed recovery of the costs of the electricity from those projects in the retail electric rates charged by Sierra Pacific Power Company. The NPUC, pursuant to a delegation of authority from FERC, also sets the avoided cost basis for updating the rates in several of our contracts. While we have no reason to believe that the NPUC will not continue to allow such recovery and continue to set the appropriate avoided cost rate, we cannot guarantee a specific avoided cost rate level or recovery in rates by the regulated public utility. The inability to recover the full cost of the electricity from our project by a public utility could adversely impact the ability of the public utility to pay for the electricity from a project, but such adverse treatment is unlikely given the pre-approval of the agreements. Further, we believe that federal law requires the state commissions to permit full recovery of PURPA-based wholesale rates by the purchasing utility, but we are aware of no judicial decisions in California, Nevada, or Hawaii upholding this principle.

Under Hawaii law, non-fossil generators are not public utilities. Hawaii law provides that a geothermal power producer is to negotiate the rate for its output with the public utility purchaser. If such rate cannot be determined by mutual accord, the Hawaii Public Utility Commission will set a just and reasonable rate. If a non-fossil generator in Hawaii is a Qualifying Facility, federal law applies to such Qualifying Facility and the utility is required to purchase the energy and capacity at full avoided cost.

Foreign Regulation of the Electric Utility Industry

The following is a summary overview of certain aspects of the electric industry in the foreign countries in which we have an operating geothermal power project and should not be considered a full statement of the laws in such countries or all of the issues pertaining thereto.

Nicaragua. In 1998 two laws were approved by Nicaraguan authorities, Law No. 272-98 and Law No. 271-98, which define the structure of the new energy sector in the country. Law No. 272-98 provides for the establishment of a National Energy Commission, which we refer to as CNE, that is responsible for setting policies, strategies and objectives for such sector and approving indicative plans therefor. Law No. 271-98 formally assigned regulatory, supervisory, inspection and oversight functions to the Nicaraguan Institute of Energy, which we refer to as INE. The Nicaraguan government currently owns all of the commercial activities in the energy sector through Empresa Nacional de Electricidad ("ENEL").. The Nicaraguan energy sector has recently been restructured and partially

privatized. Following such restructuring and privatization, the government has retained title and control of the transmission assets and has created the Empresa Estatal de Transmision ("ENTRESA"), which is in charge of the operation of the transmission system in the country and of the new wholesale market. As part of the recent restructuring of the energy sector, most of the distribution facilities previously owned by the Nicaraguan Electricity Company, the government-owned vertically-integrated monopoly, were transferred to two companies, Empresa Distribuidora de Electricidad del Norte ("DISNORTE") and Empresa Distribuidora de Electricidad del Sur ("DISSUR"), which in turn were privatized and acquired by an affiliate of Union Fenosa, a large Spanish utility. Following such privatization, the power purchase agreement for our Momotombo project was assigned by the Nicaraguan Electricity Company to DISNORTE and DISSUR. A subsidiary of the Nicaraguan Electricity Company, ENTRESA, owns the transmission grid . In addition, a National Dispatch Center was created to work with ENTRESA and provide for dispatch and wholesale market administration. On October 2002, Law No.443 was enacted by the National Congress related specifically to Geothermal resources for energy production. This law regulates the granting of exploration and exploitation concessions for geothermal fields. The INE adopted this law.

Guatemala. The General Electricity Law of 1996 created a wholesale electricity market in Guatemala and established a new regulatory framework for the electricity sector. The law created a new regulatory commission, the National Electric Energy Commission ("CNEE") and a new wholesale power market administrator, the Administrator of the Wholesale Market ("AMM"), for the regulation and administration of such sector. The CNEE functions as an independent agency under the Ministry of Energy and Mines and is in charge of regulating the electricity law, overseeing the market and setting rates for transmission services and for electricity service to medium and small customers. All distribution companies must supply electricity to such customers pursuant to long-term contracts with electricity generators. Large customers can contract directly with the distribution companies, electricity generators or power marketers, or buy energy in the spot market. Guatemala has approved a Law of Incentives for the Development of Renewable Energy Projects in order to promote the development of renewable energy projects in Guatemala. Such law provides certain benefits to companies utilizing renewable energy, including a 10-year corporate income tax exemption and a 10-year business tax exemption.

Kenya. Kenya's Electric Power Act of 1997 restructured the electricity sector in such country. Among other things, the Act provides for the licensing of electricity power producers and public electricity suppliers or distributors. The Kenya Power & Lighting Co. Ltd. is the only licensed public electricity supplier and has a monopoly in the transmission and distribution of electricity in the country. The Act permitted Independent Power Producers ("IPPs") to install power generators and sell electricity to Kenya Power & Lighting Co. Ltd., which is owned by various private and government entities and which currently purchases energy and capacity from two other IPPs in addition to our

Olkaria III project. The Act also created the Electricity Regulation Board, as an independent regulator for the electricity sector. Kenya Power & Lighting Co. Ltd.'s retail electricity rates are subject to approval by the Electricity Regulation Board.

Philippines. The Philippine's Electric Power Industry Reform Act of 2001 created the Energy Regulatory Commission, which is an independent quasi-judicial regulatory body mandated to promote competition, encourage market development, ensure customer choice and penalize abuse of market power in the restructured electricity industry. The Energy Regulatory Commission is responsible for the enforcement of the rules and regulations governing the operations of the electricity spot market and the activities of the spot market operator and other participants to ensure a greater supply and rational pricing of electricity. In addition, the Energy Regulatory Commission determines, fixes, and approves transmission and distribution wheeling charges and retail electricity rates for the captive market of a distribution utility through a methodology that it establishes and enforces. The Energy Regulatory Commission also monitors and takes measures to penalize abuse of market power and anti-competitive or discriminatory behavior by any electric power industry participant.

Permit Status

While our power generation operations produce electricity without emissions of certain pollutants such as nitrogen oxide, and with far lower emissions of other pollutants such as carbon dioxide, some of our projects do emit air pollutants in quantities that are subject to regulation under applicable environmental air pollution laws. Such operations typically require air permits. Especially critical to our geothermal operations are those permits and standards applicable to the construction and operation of geothermal wells and brine reinjection wells. In the United States, injection wells are regulated under the federal Safe Drinking Water Act Underground Injection Control, which we refer to as UIC, program. Our injection wells typically fall into UIC Class V, one of the least regulated categories, because fluids are reinjected to enhance utilization of the geothermal resource. Our projects are required to comply with numerous domestic and foreign federal, regional, state and local statutory and regulatory environmental standards and to maintain numerous environmental permits and governmental approvals required for their operation. Some of the environmental permits and governmental approvals that have been issued to the projects contain conditions and restrictions, including restrictions or limits on emissions and discharges of pollutants and contaminants, or may have limited terms.

Our operations are designed and conducted to comply with applicable permit requirements. Non-compliance with any such requirements could result in fines or other penalties. We are not aware of any non-compliance with such requirements that would be likely to result in fines or penalties; however, the Heber 1 and 2 projects received a notice from the California Division of Oil, Gas and Geothermal Resources that the pressure levels at some of the geothermal fluid injection wells were too high, and the California Regional Water Quality Control Board and the Colorado River Basin Region has notified the Heber 1 and 2 projects that recent tests have resulted in lower-than-required survival rates for bioassay toxicity tests conducted on the cooling tower blowdown water discharged under the NPDES (National Pollutant Discharge Elimination System) permit. In order to address the pressure levels at the Heber 1 and 2 projects, the Heber 1 and 2 projects proposed the construction and operation of a pipeline to carry geothermal injection fluid to other project injection wells, which proposal has been accepted as an appropriate solution to the pressure level by the California Division of Oil, Gas and Geothermal Resources. The pipeline was completed in the first quarter of 2005. With the cooperation of the California Regional Water Quality Control Board, Colorado River Basin Region, the Heber 1 and 2 projects are also conducting more frequent monitoring and bioassays, and conducting a Toxicity Identification Evaluation (TIE) study in an effort to determine the source of the apparent cooling tower

blowdown water toxicity. If the source of the toxicity is not identified, or cannot easily be corrected, the Heber 1 and 2 projects may instead inject the cooling tower blowdown water into the geothermal injection reservoir, as do other geothermal projects in the Imperial Valley.

As of the date of this annual report, all of the material permits and approvals required to operate our projects have been obtained and are currently valid, except for the fact that certain permits for some of the projects are held in the name of predecessor owners and for those permits which must be transferred or reissued to the correct entity, we believe this will occur in the ordinary course and we have already filed some of these applications. Typically, permit transfers or the reissuance of permits in connection with a change of ownership are routine administrative matters.

Environmental Laws and Regulations

Geothermal operations can produce significant quantities of brine and scale, which builds up on metal surfaces in our equipment with which the brine comes into contact. These waste materials, most of which are currently reinjected into the subsurface, can contain various concentrations of hazardous materials, including arsenic, lead, and naturally occurring radioactive materials. We also use various substances, including isobutene, isopentane, and industrial lubricants, that could become potential contaminants and are generally flammable. Hazardous materials are also used and generated in connection with our equipment manufacturing operations in Israel. As a result, our projects are subject to numerous domestic and foreign federal, state and local statutory and regulatory standards

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relating to the use, storage, fugitive emissions and disposal of hazardous substances. The cost of any remediation activities in connection with a spill or other release of such contaminants could be significant.

Although we are not aware of any mismanagement of these materials, including any mismanagement prior to the acquisition of some of our projects, that has impaired any of the project sites, any disposal or release of these materials onto project sites, other than by means of permitted injection wells, could result in material cleanup requirements or other responsive obligations under applicable environmental laws. We believe that at one time there may have been a gas station located on the Mammoth project site (which we lease), but because of significant surface disturbance and construction since that time further physical evaluation of the former gas station site has been impractical. We believe that, given the subsequent surface disturbance and construction activity in the vicinity of the suspected location of the service station, it is likely that the former facilities and any associated underground storage tanks would have already been encountered if they still existed.

ITEM 2. PROPERTIES

We lease our corporate offices at 980 Greg Street, Sparks, Nevada 89431. We also occupy an approximately 66,000 square meter office and manufacturing facility located in the industrial park of Yavne, Israel, which we sublease from Ormat Industries. See "Certain Relationships and Related Transactions." We also lease small offices in each of the countries in which we operate.

We believe that our current facilities are adequate for our operations as currently conducted. If additional facilities are required, we believe that we could obtain additional facilities at commercially reasonable prices.

Each of our projects is located on property leased or owned by us or one of our subsidiaries, or is a property that is subject to a concession agreement.

Information and descriptions of our plants and properties are included in Item 1, "Business", of this annual report.

ITEM 3. LEGAL PROCEEDINGS

There were no material developments in any legal proceedings to which the Company is a party during the fiscal year 2004, other than the settlement with IID as described below.

In August 2003, Ormesa LLC agreed to enter into binding arbitration with the Imperial Irrigation District, which we refer to as the IID, in connection with the IID's claim that Ormesa LLC was obligated to pay scheduling and transmission charges (including those applicable to the GEM 2 and GEM 3 plants) through the effective date of relinquishment of nominated capacity for the GEM 2 and GEM 3 plants. The amount in dispute was $529,000. Ormesa LLC contended that it was not obligated to pay the subject charges for the GEM 2 and GEM 3 plants after the January 1, 2003 effective date of the Energy Services Agreement that Ormesa LLC entered into with the IID. In December, 2004, a Settlement Agreement and Mutual Release between IID and Ormesa LLC was reached, under which Ormesa LLC paid the sum of US$330,630 in full settlement of the claim.

As a result of our acquisition of the Steamboat 1 and 1A plants, our subsidiary Steamboat Geothermal LLC has become a party to litigation pending in the Second Judicial District Court in Washoe County, Nevada with Geothermal Development Associates and Delphi Securities, Inc. In April 2002, these plaintiffs initiated a lawsuit against the former owner and operator of the Steamboat 1/1A project. The plaintiffs dispute amounts owed to them pursuant to an agreement, dated July 14, 1985, pursuant to which Geothermal Development Associates assigned all of its right, title, and interest in the subject geothermal leasehold property in exchange for a net operating royalty interest in the revenues of the Steamboat 1 plant. The plaintiffs allege damages based upon three separate theories: (i) that the actions of the former owner in developing the Steamboat 1A plant have decreased the output of the Steamboat 1 plant; (ii) that general, administrative, and corporate expenses included by the former owner in the calculation of the net royalty amount were overstated

for the years 2000 and 2001; and (iii) that, in addition to its royalty interest in the revenues from the Steamboat 1 plant, plaintiffs are entitled to a net revenue royalty interest from the Steamboat 1A plant. The matter was originally set for a trial in September 2003, but the trial date was adjourned in order to allow the plaintiffs to obtain substitute counsel. Initial evidentiary disclosures as well as some initial discovery requests, had been made before the trial was adjourned. No dispositive motions are pending before the Court and the trial date has not been rescheduled. We have initiated settlement discussions with the plaintiffs. As part of such discussions, we have received a letter from the plaintiffs in which they assert that, in addition to the amounts they claim are owed to them, they are also entitled to a reasonable net operating royalty payment from our Galena project. We believe that such assertion is without merit, and that any outcome of such litigation or settlement discussions will not have a material impact on our results of operations. We estimate that the aggregate amount of all liabilities resulting from such litigation will not exceed $1 million, and we have recorded a provision in that amount in our financial records.

From time to time, we (including our subsidiaries) are a party to various other 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 U.S. generally accepted accounting principles. 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 or cash flows.

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

There were no matters submitted to a vote by our sole stockholder, Ormat Industries, during the fourth quarter of 2004. On October 21, 2004, prior to the initial public offering of the Company's common stock, Ormat Industries acted on several matters by unanimous written consent. The following matters were acted upon:

1) Second Amended and Restated Certificate of Incorporation — The sole stockholder approved the Second Amended and Restated Certificate of Incorporation.
2) Second Amended and Restated By-laws — The sole stockholder approved the Second Amended and Restated By-laws.
3) Rights Agreement — The sole stockholder approved the Rights Agreement.
4) Ormat Technologies, Inc. 2004 Incentive Compensation Plan — The sole stockholder approved the Ormat Technologies, Inc. 2004 Incentive Compensation Plan.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange under the symbol "ORA". Public trading of our stock commenced on November 11, 2004. Prior to that, there was no public market for our stock. The approximate number of holders of record of our common stock was two at March 15, 2005. On March 15, 2005, our stock's closing price as reported on the New York Stock Exchange was $15.31 per share.

We have adopted a dividend policy pursuant to which we currently expect to distribute at least 20% of our annual profits available for distribution by way of quarterly dividends. In determining whether there are profits available for distribution, our Board of Directors will take into account our business plan and current and expected obligations, and no distribution will be made that in the judgment of our Board of Directors would prevent us from meeting such business plan or obligations.

Notwithstanding this policy, dividends will be paid only when, as and if approved by our Board of Directors out of funds legally available therefor. The actual amount and timing of dividend payments will depend upon our financial condition, results of operations, business prospects and such other matters as the board may deem relevant from time to time. Even if profits are available for the payment of dividends, the Board of Directors could determine that such profits should be retained for an extended period of time, used for working capital purposes, expansion or acquisition of businesses or any other appropriate purpose. As a holding company, we are dependent upon the earnings and cash flow of our subsidiaries in order to fund any dividend distributions and, as a result, we may not be able to pay dividends in accordance with our policy. Our Board of Directors may, from time to time, examine our dividend policy and may, in its absolute discretion, change such policy.

We did not declare any cash dividends on the common stock for fiscal year 2003. In fiscal year 2004, we declared, approved and authorized the payment of a dividend to our stockholders of record on October 21, 2004, related to the year 2004 profits in the aggregate amount of $2.5 million ($0.1025 per share). The dividend was paid on March 2, 2005**.** On March 22, 2005, by a unanimous written consent of our Board of Directors we declared, approved and

authorized the payment of an additional dividend of $0.03 per share, based on the number of shares issued and outstanding at March 22, 2005, which should not change until the date of payment, on account of fourth quarter profits, to all issued and outstanding shares of common stock on April 4, 2005, payable on April 18, 2005.

Ormat Technologies, Inc. (ORA) – High and Low Prices for the Fourth Quarter Period, Ending December 31, 2004, and until March 15, 2005:

Fourth Quarter 2004:

High: $ 18.70

Low: $ 15.20

January 1- March 15, 2005:

High: $ 16.50

Low: $ 15.01

Equity Compensation Plan Information

For information on our equity compensation plans, refer to Item 12 "Security Ownership of Certain Beneficial Owners and Managments."

Unregistered Sales of Equity Securities and Use of Proceeds

On June 30, 2004, we issued 1,160,714 shares of our common stock to Ormat Industries in connection with the conversion of a $20.0 million loan to equity. We have relied on the private placement exemption pursuant to Section 4(2) of the Securities Act of 1933, as amended, with respect to the issuance of such shares.

On November 10, 2004, the SEC declared effective our registration statement on Form S-1 (File No. 333-117527) ("Registration Statement") for our Initial Public Offering. Under the Registration Statement, we registered and sold 7,187,500 shares of our common stock. All of the 7,187,500 shares sold in that offering were sold at $15.00 per share. The offering closed on November 16, 2004. The underwriting syndicate was managed by Lehman Brothers Inc., Deutsche Bank Securities Inc., RBC Capital Markets Corporation, and Wells Fargo Securities LLC.

The aggregate gross proceeds from the sale of 7,187,500 shares of common stock were $107.8 million. The aggregate net proceeds to us after the offering were $97.0 million, after deducting an aggregate of $7.5 million in underwriting discounts and commissions paid to the underwriters and $3.3 million in other expenses incurred in connection with the offering.

As of the date of this filing, we invested our net proceeds in interest-bearing investment-grade instruments and bank deposits**.**

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected consolidated financial data for the years ended and at the dates indicated. We have derived the selected consolidated financial data for the years ended December 31, 2004, 2003 and 2002 and as of December 31, 2004 and 2003 from our audited consolidated financial statements set forth in Part II Item 8 of this annual report. We have derived the selected consolidated financial data for the years ended December 31, 2001 and 2000, and as of December 31, 2002, 2001 and 2000 from our audited consolidated financial statements not included herein.

The information set forth below should be read in conjunction with Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements set forth in Part II Item 8 of this annual report.

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Electricity Segment:					
Energy and capacity	$ 100,281	$ 77,752	$ 65,491	$ 33,956	$ 20,780
Lease portion of energy and capacity	58,550	—	—	—	—
Total Electricity Segment	158,831	77,752	65,491	33,956	20,780
Products Segment	60,399	41,688	20,138	13,959	27,780
	219,230	119,440	85,629	47,915	48,560
Cost of revenues:					
Electricity Segment:					
Energy and capacity	63,300	46,726	33,482	12,536	8,556
Lease portion of energy and capacity	26,442	—	—	—	—
Total Electricity Segment	89,742	46,726	33,482	12,536	8,556
Products Segment	46,336	29,494	17,293	17,454	22,709
	136,078	76,220	50,775	29,990	31,265
Gross Margin	83,152	43,220	34,854	17,925	17,295
Operating expenses (income):					
Research and development expenses	2,175	1,391	1,503	1,729	2,260
Selling and marketing expenses	7,769	7,087	6,051	6,535	3,624
General and administrative expenses	11,609	9,252	7,073	5,444	6,632
Gain on sale of geothermal resource rights	(845)	—	—	—	—
Operating income	62,444	25,490	20,227	4,217	4,779

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(in thousands, except per share data)				
Other income (expense):					
Interest income	1,316	607	609	1,323	1,499
Interest expense	(42,785)	(8,120)	(6,179)	(4,333)	(3,700)

Foreign currency translation and transaction gain (loss)	(146)	(316)	(323)	305	25
Other non-operating income(1)	112	464	1,195	300	7,884
Income from continuing operations before income taxes, minority interest and equity in income of investees	20,941	18,125	15,529	1,812	10,487
Income tax provision	(6,609)	(2,506)	(6,135)	(3,065)	(494)
Minority interest in earnings of subsidiaries	(108)	(519)	(1,194)	(645)	(550)
Equity in income of investees	3,567	559	314	166	69
Income (loss) from continuing operations	17,791	15,659	8,514	(1,732)	9,512
Discontinued operations:					
Loss from operations of discontinued activities in Kazakhstan	—	—	(3,114)	(4,681)	(2,911)
Loss on sale of Kazakhstan operations	—	—	(6,444)	—	—
Income (loss) before cumulative effect of change in accounting principle	17,791	15,659	(1,044)	(6,413)	6,601
Cumulative effect of change in accounting principle (net of tax benefit of $125,000)	—	(205)	—	—	—
Net income (loss)	$ 17,791	$ 15,454	$ (1,044)	$ (6,413)	$ 6,601
Basic and diluted income (loss) per share:					
Income (loss) from continuing operations	$ 0.72	$ 0.67	$ 0.37	$ (0.07)	$ 0.41
Loss from discontinued operations	—	—	(0.41)	(0.20)	(0.13)
Cumulative effect of change in accounting principle	—	(0.01)	—	—	—
Net income (loss)	$ 0.72	$ 0.66	$ (0.04)	$ (0.27)	$ 0.28
Weighted average number of shares outstanding	24,806	23,214	23,214	23,214	23,214
Balance Sheet Data (at end of year):					
Cash and cash equivalents	$ 36,750	$ 8,873	$ 36,684	$ 13,202	$ 10,071
Working capital (deficit)	50,341	2,677	(79,853)		