

## AUDIT COMMITTEE CHARTER

*Note: This charter was adopted as of October 21, 2004 and will take effect on, and not before, the effective date of the Corporation's registration statement on Form S-1.*

### 1. STATUS

The Audit Committee (the "**Committee**") is a committee of the Board of Directors (the "**Board**") of Ormat Technologies, Inc. (the "**Corporation**").

### 2. PURPOSE

The Audit Committee is appointed by the Board for the primary purposes of:

- Assisting the Board in its oversight responsibilities as they relate to the Corporation's accounting policies and internal controls, financial reporting process and legal and regulatory compliance, including, among other things:
  - ❖ the balance, transparency and integrity of the Corporation's published financial statements;
  - ❖ the Corporation's compliance with legal and regulatory requirements with respect to accounting policies, internal controls and financial reporting;
  - ❖ the effectiveness of the Corporation's internal financial controls;
  - ❖ review of the independent auditors' qualifications and independence;
  - ❖ review of the effectiveness of the Corporation's internal audit function and the Corporation's independent auditors; and
  - ❖ review of the effectiveness of the Corporation's policies with respect to risk assessment and risk management;
- Maintaining, through regularly scheduled meetings, a line of communication between the Board and the Corporation's financial management, internal auditors and independent auditors;
- Deciding whether to appoint, retain or terminate the Corporation's independent auditors and to pre-approve all audit, audit-related and other services, if any, to be provided by the independent auditors; and

- Preparing the report to be included in the Corporation's annual proxy statement, as required by the Securities and Exchange Commission's ("**SEC**") rules.

### **3. COMPOSITION AND QUALIFICATIONS**

The Committee shall be appointed by the Board based on recommendations of the Nominating and Corporate Governance Committee, and shall be comprised of three or more Directors (as determined from time to time by the Board). The Chairperson of the Committee shall be appointed by the Board of Directors. All members of the Committee shall meet the independence requirements under the rules of the New York Stock Exchange, Inc. and under Section 301 of the Sarbanes-Oxley Act of 2002 ("**SOA**") and the rules promulgated thereunder. Each member of the Committee shall be financially literate and at least one member of the Committee shall have accounting or related financial management expertise, as each such qualification is interpreted by the Board in its business judgment. In addition, to the extent practicable, at least one member of the Committee shall be an "audit committee financial expert" as such term is defined by the SEC.

No director may serve as a member of the Committee if such director serves on the audit committees of more than two other public companies unless the Board determines that such simultaneous service would not impair the ability of such director to serve effectively on the Committee, and discloses this determination in the Corporation's annual proxy statement. No member of the Committee may (except in his or her capacity as a member of the Committee, the Board or any other Board committee) receive, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation, other than fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service to the Corporation (provided that such compensation is not contingent in any way on continued service).

### **4. RESPONSIBILITIES**

The Committee will:

- (1) Review and discuss the annual audited financial statements and the Corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" with management and

the independent auditors. In connection with such review, the Committee will:

- Discuss with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (as may be modified or supplemented or replaced) and the matters in the written disclosures required by Independence Standards Board Standard No. 1 relating to the conduct of the audit;
- Review significant changes in accounting or auditing policies;
- Review with the independent auditors any problems or difficulties encountered in the course of their audit, including any change in the scope of the planned audit work and any restrictions placed on the scope of such work and management's response to such problems or difficulties;
- Review with the independent auditors, management and the senior internal auditing executive the adequacy of the Corporation's internal controls, and any significant findings and recommendations with respect to such controls;
- Review reports required to be submitted by the independent auditor concerning: (a) all critical accounting policies and practices used; (b) all alternative treatments of financial information within generally accepted accounting principles ("GAAP") that have been discussed with management, the ramifications of such alternatives, and the accounting treatment preferred by the independent auditors; and (c) any other material written communications with management;
- Review (a) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies; and (b) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analysis of the effects of alternative GAAP methods on the financial statements and the effects of regulatory and

accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation and require the Board to make improvements based on any such issues or analyses; and

- Discuss policies and procedures concerning earnings press releases and review the type and presentation of information to be included in earnings press releases (paying particular attention to any use of "pro forma" or "adjusted" non-GAAP information and the requirements of Regulation G), as well as financial information and earnings guidance provided to analysts and rating agencies.
- (2) Review and discuss the quarterly financial statements and the Corporation's disclosures provided in periodic quarterly reports including "Management's Discussion and Analysis of Financial Condition and Results of Operations" with management, the senior internal auditing executive and the independent auditor. The Committee must meet separately with management, the senior internal auditing executive and the independent auditor periodically, at least once each fiscal quarter under ordinary circumstances and more frequently as circumstances may require.
- (3) Oversee the external audit coverage. The Corporation's independent auditors are ultimately accountable to the Committee, which has the direct authority and responsibility to appoint, retain, compensate, terminate, select, oversee, evaluate and, where appropriate, replace the independent auditors. In connection with its oversight of the external audit coverage, the Committee will:
- Have authority to appoint and replace (subject to stockholder approval, if deemed advisable by the Board) the independent auditors;
  - Have authority to approve the engagement letter and the fees to be paid to the independent auditors;
  - Pre-approve all audit and non-audit services to be performed by the independent auditors and the related fees and terms for such services other than prohibited nonauditing services promulgated under the rules and regulations of the SEC (subject to the inadvertent *de minimus* exceptions set forth in SOA and the SEC rules);

- Obtain confirmation and assurance as to the independent auditors' independence, including ensuring that they submit on a periodic basis (not less than annually) to the Committee a formal written statement delineating all relationships between the independent auditors and the Corporation. The Committee is responsible for actively engaging in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and for taking appropriate action in response to the independent auditors' report to satisfy itself of their independence;
  - At least annually, obtain and review a report by the independent auditors describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the independent auditors' independence), all relationships between the independent auditors and the Corporation;
  - Meet with the independent auditors prior to the annual audit to discuss planning and staffing of the audit;
  - Review and evaluate the performance of the independent auditors and the lead partner of the independent auditors, as the basis for a decision to reappoint or replace the independent auditors;
  - Set clear hiring policies for employees or former employees of the independent auditors;
  - Assure regular rotation of the lead audit partner, as required by the Securities Exchange Act of 1934, as amended, and consider whether rotation of the independent auditor is required to ensure independence; and
  - Meet with the independent auditors at least once a year without management present.
- (4) Oversee internal audit coverage. In connection with its oversight responsibilities, the Committee will:

- Review the appointment or replacement of the senior internal auditing executive and performance of the internal audit function;
  - Review, in consultation with management, the independent auditors and the senior internal auditing executive, the plan, scope, procedures and timing of internal audit activities;
  - Review internal audit activities and budget;
  - Review significant reports to management prepared by the internal auditing department and management's responses to such reports; and
  - Review of any difficulties the internal auditor encountered while conducting audits, including any restrictions on the scope of their work or access to required information.
- (5) Review with the independent auditors and the senior internal auditing executive the adequacy of the Corporation's internal controls, and any significant findings and recommendations with respect to such controls.
  - (6) Resolve any differences and disputes in financial reporting between management and the independent auditors.
  - (7) Discuss with management earnings press releases and review generally the type and presentation of information to be included in earnings press releases (with particular attention to any use of "pro forma," or "adjusted" non-GAAP information and the requirements of Regulation G).
  - (8) Review generally with management the type and presentation of financial information and earnings guidance provided to analysts and rating agencies.
  - (9) Establish and oversee procedures for (a) receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
  - (10) Discuss policies and guidelines to govern the process by which risk assessment and risk management is undertaken.

- (11) Meet at least annually with management to review and assess the Corporation's major financial risk exposures and the manner in which such risks are being monitored and controlled.
- (12) Review periodically with the Corporation's senior management (a) legal and regulatory matters which may have a material effect on the financial statements, and (b) the Corporation's process for monitoring compliance with laws and regulations affecting financial reporting and the Code of Business Conduct and Ethics.
- (13) Report regularly to the Board with respect to Committee activities.
- (14) Obtain assurance from the independent auditors that the audit of the Corporation's financial statements was conducted in a manner consistent with Section 10A of the Securities Exchange Act of 1934, as amended, which sets forth certain procedures to be followed in any audit of financial statements required thereunder.
- (15) Prepare the report of the Committee required by the rules of the SEC to be included in the proxy statement for each annual meeting.
- (16) Review and reassess annually the performance of the Committee and adequacy of this Committee Charter and recommend any proposed changes to the Board.

## **5. PROCEDURES**

### **(1) *Action***

The Committee shall meet at least once during each fiscal quarter or more frequently as circumstances require. The Chairperson of the Committee or the secretary of the Committee will convene a meeting on receipt of a request by the external or internal auditors. The Chairperson of the Committee or the secretary of the Committee shall circulate (a) the agenda and supporting documentation to the Committee members a reasonable period in advance of each meeting and (b) the minutes of meetings to members of the Board and the Committee. The Chairperson of the Committee or the secretary of the Committee shall keep and maintain the minutes of meetings.

Meetings of the Committee may be held telephonically or by video conference. A majority of the members of the entire Committee shall

constitute a quorum. The Committee shall act on the affirmative vote of a majority of members present at a meeting at which a quorum is present. Without a meeting, the Committee may act by unanimous written consent of all members. However, the Committee may delegate to one or more of its members the authority to grant pre-approvals of audit and permitted non-audit services, provided the decision is reported to the full Committee at its next scheduled meeting.

As a minimum, a member of the Committee shall attend the Board meeting at which the financial statements are approved. The Committee may invite such members of management and other persons to its meetings as it may deem desirable and appropriate.

(2) ***Resources and Authority***

The Committee shall have unrestricted access to members of management, employees, and resources, and shall have the authority necessary to discharge its duties and responsibilities, including the authority to (a) select, retain, terminate and approve the fees and other retention terms of independent counsel or other experts or consultants, as it deems appropriate, without seeking special approval of the Board or management; and (b) consult with other Board committees.

(3) ***Fees***

The Corporation shall provide for appropriate funding, as determined by the Committee, for payment of compensation: (a) to outside legal, accounting (including the independent auditors of the Corporation) or other advisors employed by the Committee; and (b) for ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

(4) ***Limitations***

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with GAAP. This is the responsibility of management and the independent auditors.