

**Delek Drilling - Limited Partnership**  
**(the “Partnership”)**

December 27, 2020

To  
The Israel Securities Authority  
22 Kanfei Nesharim Street  
Jerusalem

To  
Tel Aviv Stock Exchange Ltd.  
2 Ahuzat Bayit Street  
Tel Aviv

Dear Sir/Madam,

**Re: Estimate regarding the Partnership’s taxable income and the payments derived therefrom for the 2020 Tax Year**

The Partnership hereby respectfully submits the following updates pertaining to the 2020 tax year (the “**2020 Tax Year**”):

1. General Partner’s Estimation of the Partnership’s Taxable Income for the 2020 Tax Year

In accordance with the provisions of the Partnership’s partnership and trust agreements of July 1, 1993, as amended from time to time, and after consultation with the Partnership’s auditors and tax advisors, in the General Partner’s estimation, according to an estimate made thereby (subject to the limitations and reservations specified below), according to estimated unaudited figures and based on various assessments and assumptions, including with respect to the estimate of the revenues and expenses expected by December 31, 2020, the taxable annual business income estimated for tax purposes in respect of the 2020 Tax Year, may amount to a sum total of approximately ILS 488.4 million, i.e., approximately ILS 0.4160335 per participation unit (the “**Taxable Income Estimate**”).

It is clarified and emphasized that the Taxable Income Estimate is only an initial estimate and merely an approximation and that the final taxable income of an eligible holder in respect of the holding of a participation unit at the end of the 2020 Tax Year cannot be determined at this stage, *inter alia*, since the 2020 Tax Year has not yet ended, the Partnership’s financial statements for 2020 have not yet been prepared, and the audit proceedings of the Partnership’s books by the Partnership’s accountants and the Tax Authority have not yet been conducted for the 2020 Tax year.

It is further clarified that the Partnership’s taxable income for the tax years 2016, 2017, 2018 and 2019 has not yet been conclusively determined, and that such conclusive determination may have a material affect on the amount of the Partnership’s taxable income for 2020. For further details with respect to the Partnership’s taxable income in the tax years 2016, 2017, 2018 and 2019, including in connection with the administrative objection for tax year 2017 and the appeal for tax year 2016, see Sections 7.22.3-7.22.6 of Chapter A of the Partnership’s periodic report for 2019 released on March 30, 2020 (Reference No.: 2020-01-032010) (the “**Periodic Report for 2019**”), paragraph 9(c) of the report of the second quarter report as of June 30, 2020, released on August 20, 2020 (Reference No.: 2020-01-091527) and paragraph 8(c) of the report of the third quarter report as of September 30,

2020, released on November 18, 2020 (Reference No.: 2020-01-115504) (the “**Q3/2020 Report**”).

After completion of the audit as noted above, and upon the determination of the amount of taxable income for an eligible holder in respect of the 2020 Tax Year, a certificate for the purpose of calculation of the taxable income of an eligible holder is expected to be issued, subject to extension of the tax regulations as specified in Section 5 below.

2. Advance Tax Payments

In accordance with Section 19 of the Taxation of Profits from Natural Resources Law, 5771-2011 (“**Section 19**”), and based on the Taxable Income Estimate for 2020, the Partnership has been required to pay advance tax payments in the sum of approx. ILS 112.3 million, i.e., approx. ILS 0.0956973 per participation unit.

Insofar as, when the tax report for 2020 is submitted, it transpires that the Partnership has made advance payments in sums that exceed the sums required under Section 19, the Partnership shall apply to the Tax Authority for a refund of such excess amounts (see Section 4 below).

3. Tax Payments according to the Taxable Income Estimate for the 2020 Tax Year and Balancing Payments to Holders which are not “Individuals”

In accordance with the resolution of the board of directors of the General Partner of the Partnership, tax payments in respect of the Partnership’s taxable income for the 2020 Tax Year shall be withheld similarly to the manner in which the tax was withheld in the 2019 tax year as follows:

- a. Further to the description in Note 20A to the financial statements as of December 31, 2019 that were released as part of the periodic report for 2019, according to the Supreme Court decision with respect to Section 19 (the “**Court Decision**”), tax payments in respect of the Partnership’s taxable income under Section 19, as well as balancing payments paid to holders which are bodies corporate, do not constitute a “distribution” within its definition by law.

In light of the Court Decision, and since the tax rates imposed on a holder who is an individual are higher than the tax rates imposed on a holder who is a body corporate, in addition to the making of tax payments in accordance with Section 19 (the “**Tax Payments**”), the Partnership shall also make balancing payments to holders which are bodies corporate, such that for every participation unit a fixed and uniform sum will be paid (either as a tax payment for a holder who is an individual or as a balancing payment for a holder who is a body corporate), with no difference between an individual holder and a body corporate holder (the “**Balancing Payments**”, and together with the Tax Payments: the “**Payments**”).

- b. The Payments shall be made in the following manner:

- (1) The aggregate amount of the Payments shall be in the approximate amount of ILS 117.2 (the “**Aggregate Amount**”), i.e., approximately ILS 0.0998676 per participation unit. The Aggregate Amount was calculated, *inter alia*, based on the Taxable Income Estimate, the maximum tax rates imposed on holders who are individuals, and taking into account the advance tax payments made and that will be made by the Partnership for the 2020 Tax

Year in accordance with the provisions of Section 19, as specified in Section 2 above.

- (2) Out of the Aggregate Amount, the Partnership shall transfer to the TASE members (through the TASE Clearing House), the share of the unregistered holders<sup>1</sup>, and the TASE members shall act as follows:
  - For a holder which is a body corporate<sup>2</sup> – No tax will be withheld (such sum will constitute a balancing payment);
  - For a holder who is an individual<sup>3</sup> – Tax will be withheld at the rate of approximately 100%<sup>4</sup>.
- (3) It is clarified that in accordance with the Court Decision, the Payments made as noted above shall not constitute a distribution within the definition thereof in the law. However, for operational purposes only, the transfer of the Payments to the holders and to the Tax Authority will be handled by the TASE members through the mechanism used for the distribution of profits. Accordingly:
  - The “**Record Date**” (the cum date) for eligibility for payments shall be December 31, 2020.
  - The ex-date shall be December 31, 2020.
  - The actual date of performance of the Payments shall be January 20, 2021.
- (4) It is clarified that, in accordance with Section 19, insofar as it transpires in the future that the tax withholdings and/or tax payments made by the Partnership constituted excess tax payments, the Partnership (and not the TASE Clearing House and/or the TASE members) will be responsible for the discussions with the Tax Authority with respect to any refund to derive (if any) from such excess payments.

The foregoing does not derogate from the right of any taxpayer to apply to the Tax Authority according to such taxpayer’s personal specific circumstances.

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<sup>1</sup> Meaning unit holders that hold the units through Israel Discount Bank Registration Company Ltd. The Payments for registered holders shall be made by the Limited Partner (the trustee).

<sup>2</sup> For this purpose, a “body corporate” – Including an exempt mutual fund, provident funds and a public institution. Foreign residents are treated as Israeli residents.

<sup>3</sup> For this purpose, an “individual” – Including a taxable mutual fund and a partnership. Foreign residents are treated as Israeli residents. For the purpose of tax withholding, no loss from any source whatsoever may be offset against this income. It is noted that, for an individual who provides a certificate of full exemption from tax withholding which is valid as of December 31, 2020 to a TASE member, to such TASE member’s satisfaction, no tax shall be withheld (subject to the TASE member’s possibility of applying such full exemption). The required certificate for this purpose is a certificate in accordance with the Income Tax Regulations (Deduction from Payments for Services and Assets), 5737-1977 (registered holders shall provide such certificate to the Trustee by January 17, 2021).

<sup>4</sup> Due to technical-operational limitations of the TASE Clearing House, the accurate tax withholding rate for individuals is 99.99999%.

4. Additional Balancing Payments

In accordance with Section 19, over the course of 2021, the General Partner is supposed to submit to the Tax Authority a self-assessment report of the Partnership's taxable income in 2020. If and to the extent that it transpires that the total of taxable income under the self-assessment is higher than the Taxable Income Estimate, the Partnership shall pay at such time the additional tax due as a result of such difference. Likewise, when the final tax assessment for 2020 is received in the future, then, to the extent that it transpires that the total taxable income under the final assessment is higher than the total of taxable income for which tax payments have already been made, the Partnership shall pay the additional tax due as a result of such difference ("**Assessment Differences**").

For details regarding the Partnership's petition to the Court related to the implementation of Section 19, refer to Note 4.O of the financial statements as of September 30, 2020 which were released as part of the Q3/2020 report.

**In view of the foregoing, it is emphasized that as long as it is not decided by the court how the Partnership should act, there remains uncertainty with respect to the making of Balancing Payments, both in respect of the past period (the tax years 2015 and 2016) and in respect of the Assessment Differences the existence and amount of which (if any) shall only be revealed in the future, including with respect to the manner and timing of making such Balancing Payments (if at all).**

5. It is further noted that the Income Tax Regulations (Rules for the Calculation of Tax in respect of the Holding and Sale of Participation Units in an Oil Exploration Partnership), 5749-1988 were in force and effect until June 30, 2015 and that, as of the date hereof, the effect thereof has not yet been extended. With regard to publication of the draft Income Tax Regulations (Rules for the Calculation of Tax in respect of the Holding and Sale of Participation Units in an Oil Exploration Partnership) (Amendment), 5781-2020, refer to Note 4.R of the financial statements as of September 30, 2020 which were released as part of the Q3/2020 report.
6. **Every holder should examine, with the assistance of professional advisors, his taxation situation and the need for preparations in accordance with the recommendations of such professional advisors. The Partnership is neither responsible nor shall bear any liability in connection with the reports of the unit holders and/or the amendment thereof and/or the implications of the amendment thereof.**

**Caution concerning forward-looking information:**

**The Partnership's Taxable Income Estimate for the 2020 Tax Year is based on a mere assessment and constitutes forward-looking information within the meaning thereof in the Securities Law, 5728-1968, since the 2020 Tax Year has not yet ended, the Partnership's financial statements for 2020 have not yet been prepared, and the audit proceedings of the Partnership's books by the Partnership's accountants and the Tax Authority have not yet been conducted for the 2019 Tax year. Furthermore, the Partnership's taxable income for the tax years 2016, 2017, 2018 and 2019 has not yet been conclusively determined, which may have a material impact on the amount of the Partnership's taxable income in 2020. It is therefore clarified that this is merely an assessment and that the final determination of the Partnership's taxable income in 2020 may materially differ from the aforesaid estimate and**

may also be affected, *inter alia*, by accounting, taxation and regulatory aspects that are as yet unknown and by changes in the dollar-shekel exchange rate.

Sincerely,

**Delek Drilling Management (1993) Ltd.,**  
**General Partner of**  
**Delek Drilling – Limited Partnership**  
By Yossi Abu, CEO  
and Yossi Gvura, Deputy CEO