Opportunities In View Of The Global Energy Market

Delek Drilling Limited Partnership
Avner Oil Exploration Limited Partnership

December 2015

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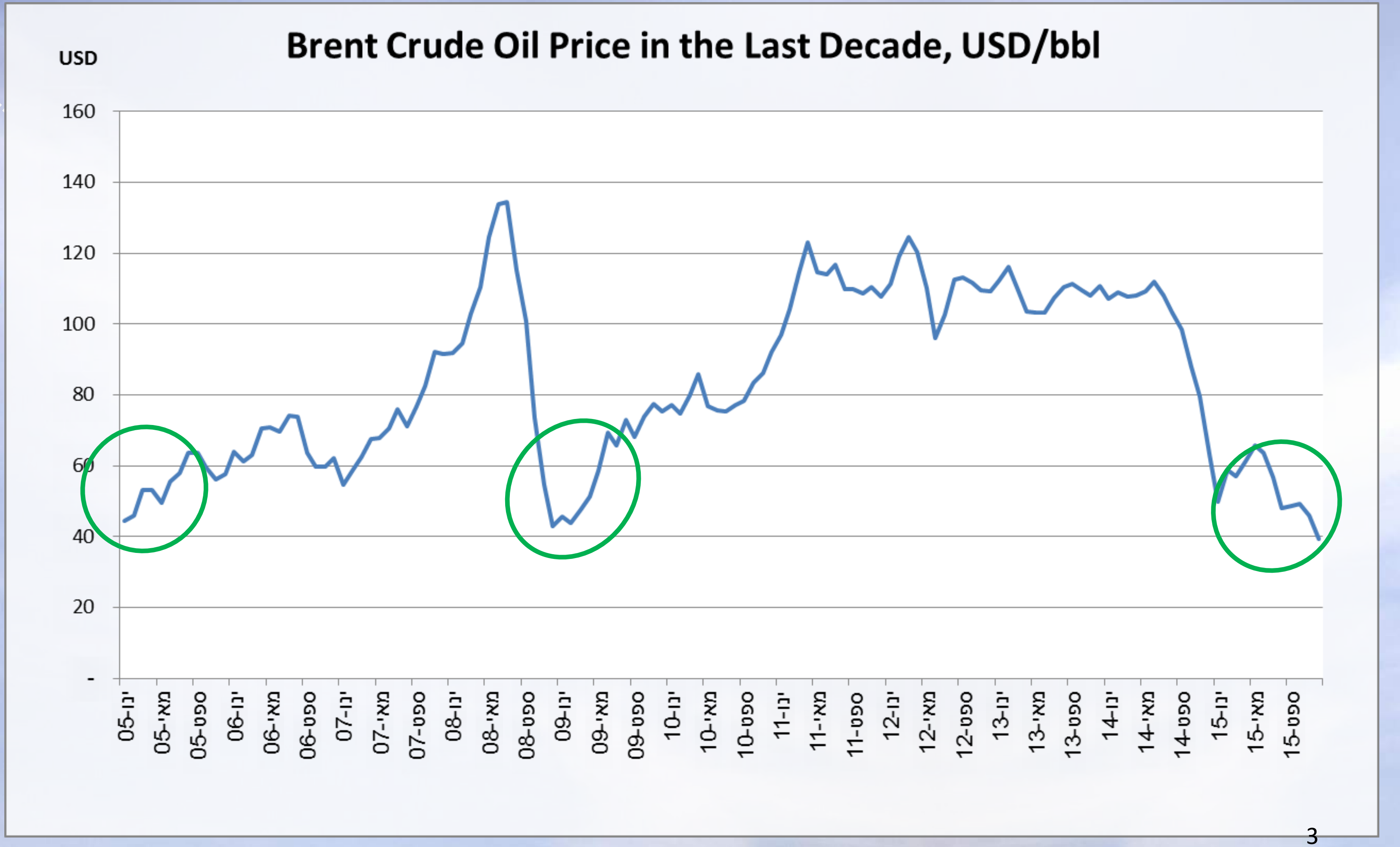
Delek Drilling

Avner Oil Exploration

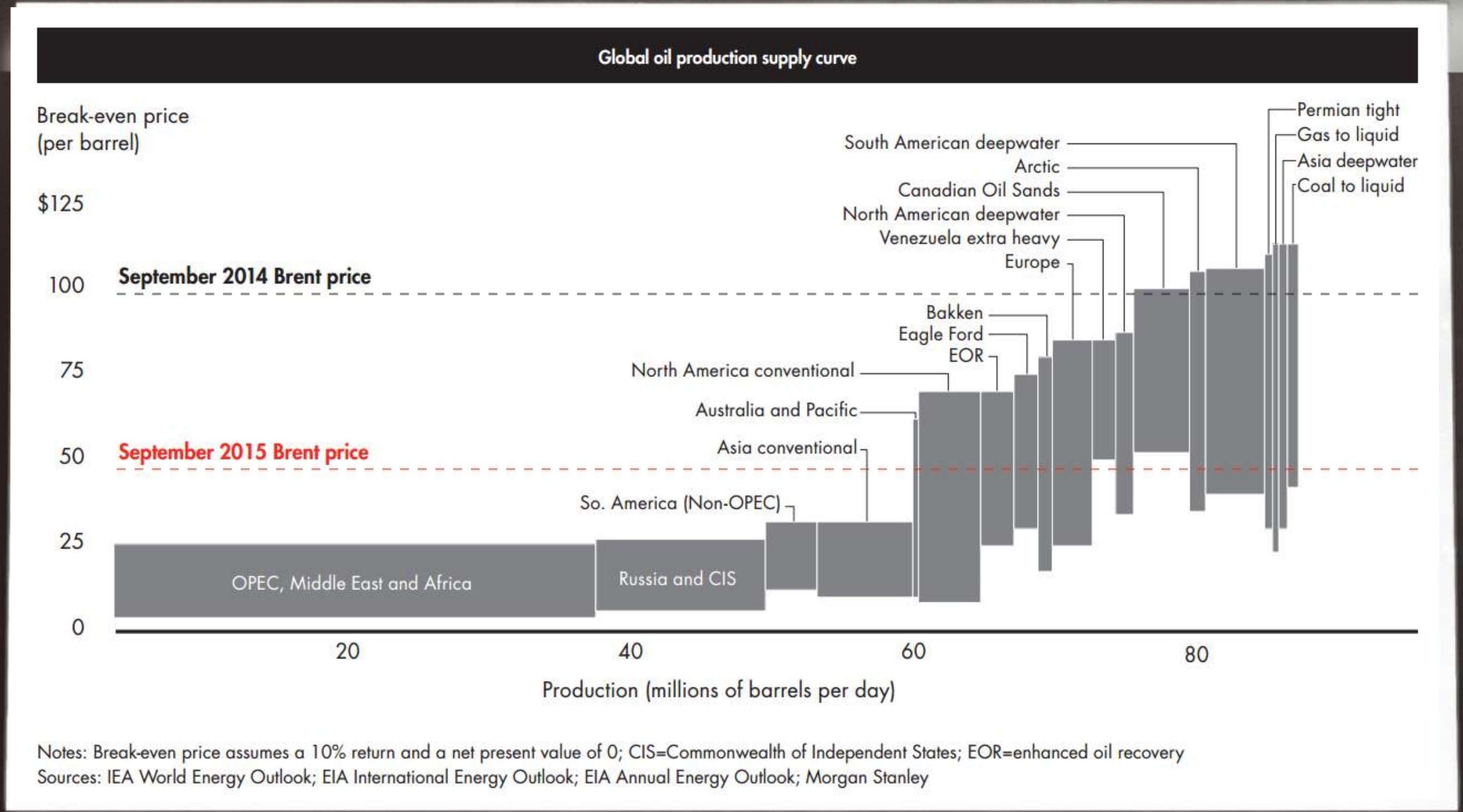
An Opportunity Of Once In A….



Source: Bloomberg

The Effect Of the Oil Price On Production Volumes

A Low Price Generates a Floor Price

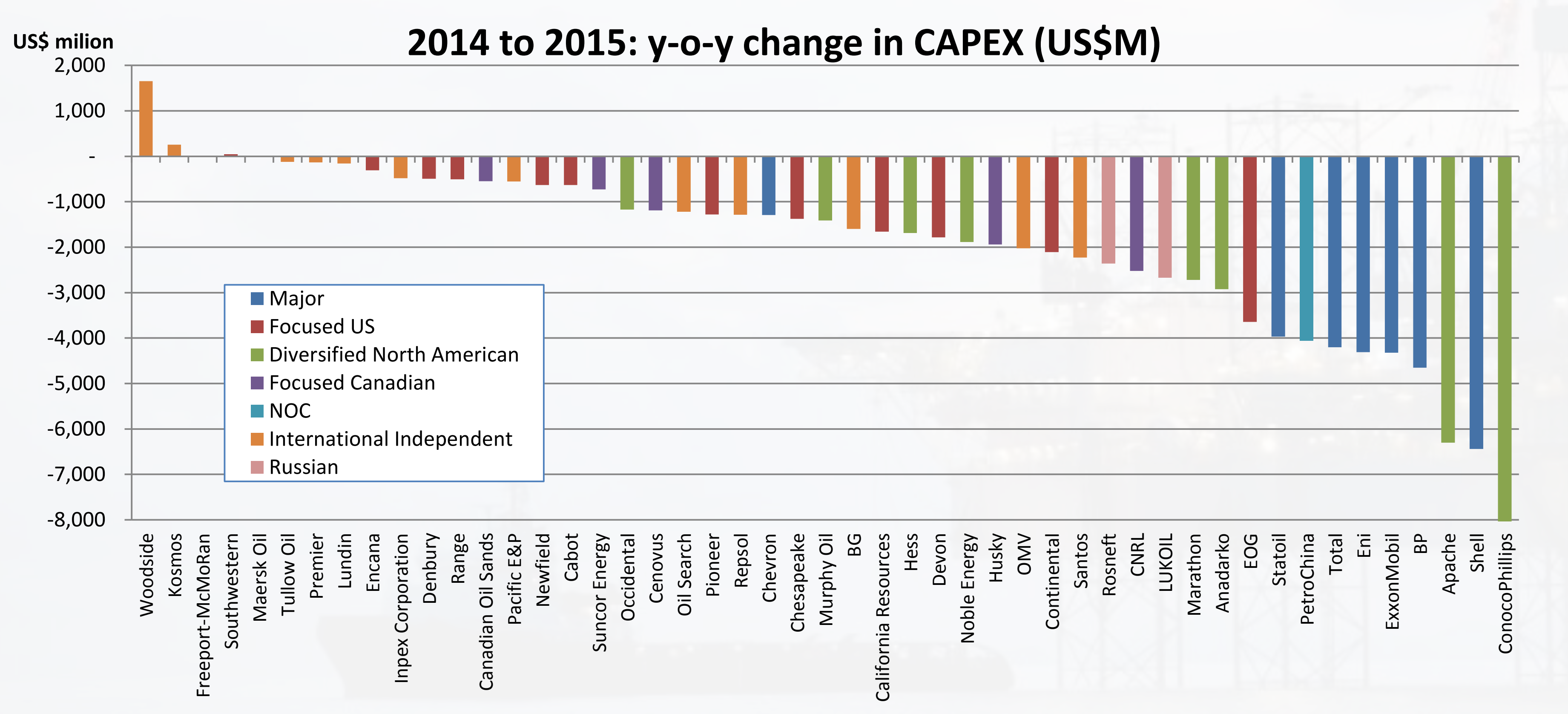


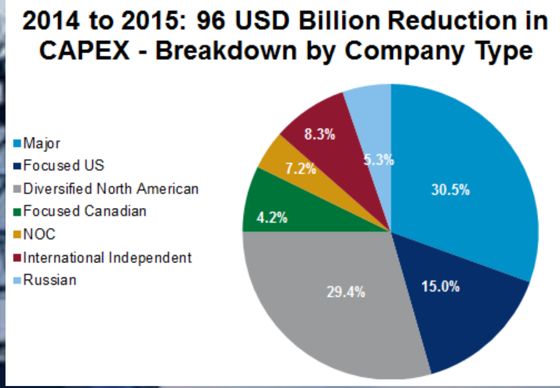
- Oil price has continued to decline recently
- A low oil price will remove various production segments below the threshold of economic merit
- **This will create an effective oil floor price and a trend change**

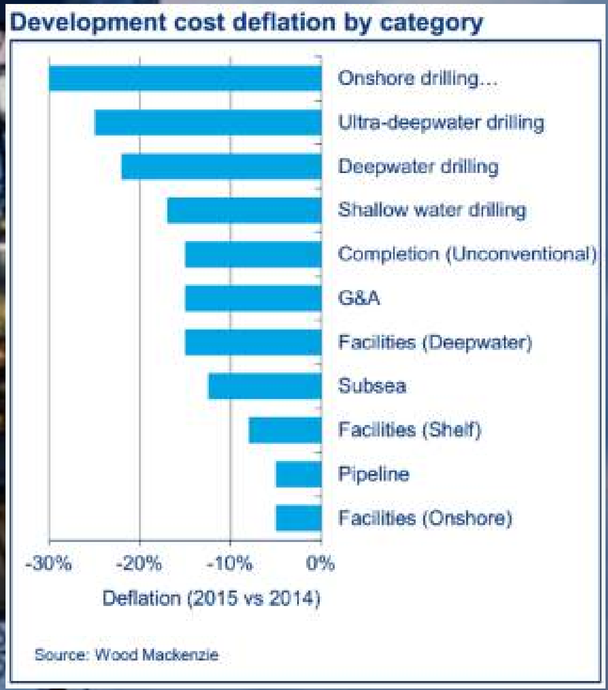
Source: Bain & Company

Prominent CAPEX Reductions In The Oil and Gas Industry

- CAPEX reductions in 2015 compared with 2014 (full year vs. full year) –
  - Reported CAPEX reductions total approx. $96 billion; reduction of approx.24%.
  - Approx. 30% of reductions are by Majors; approx. 29% are by diversified north American O&G companies
- The goal is cash flow neutrality at low oil prices
- **CAPEX reductions are expected to lead to a reduction in the global oil and gas production capacity in the mid and long terms**



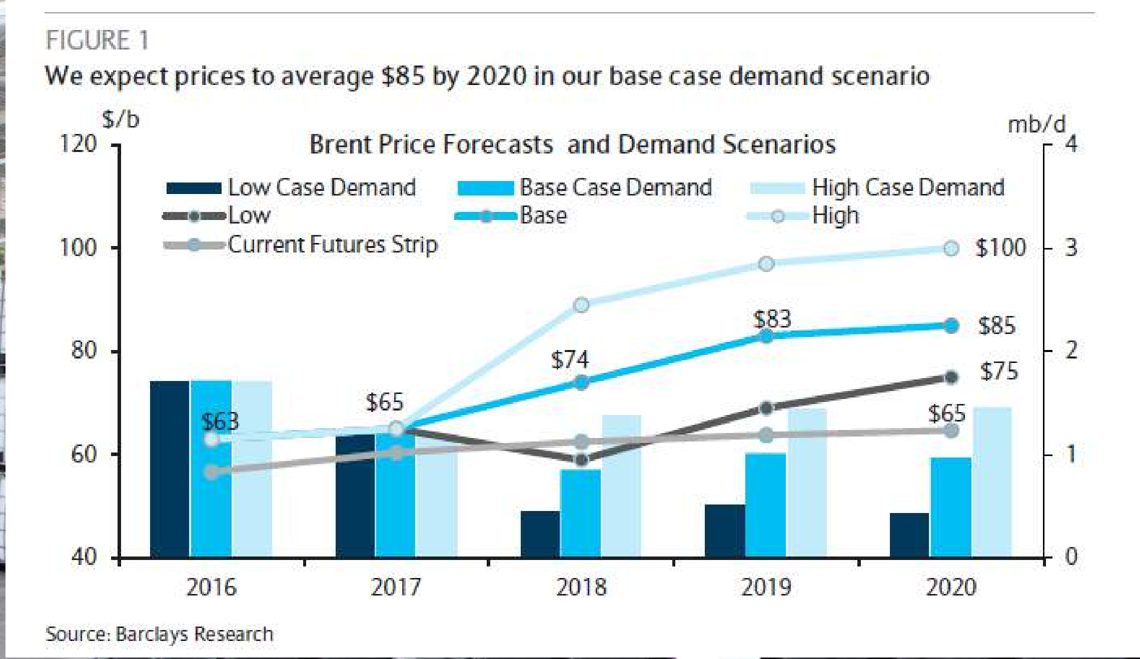


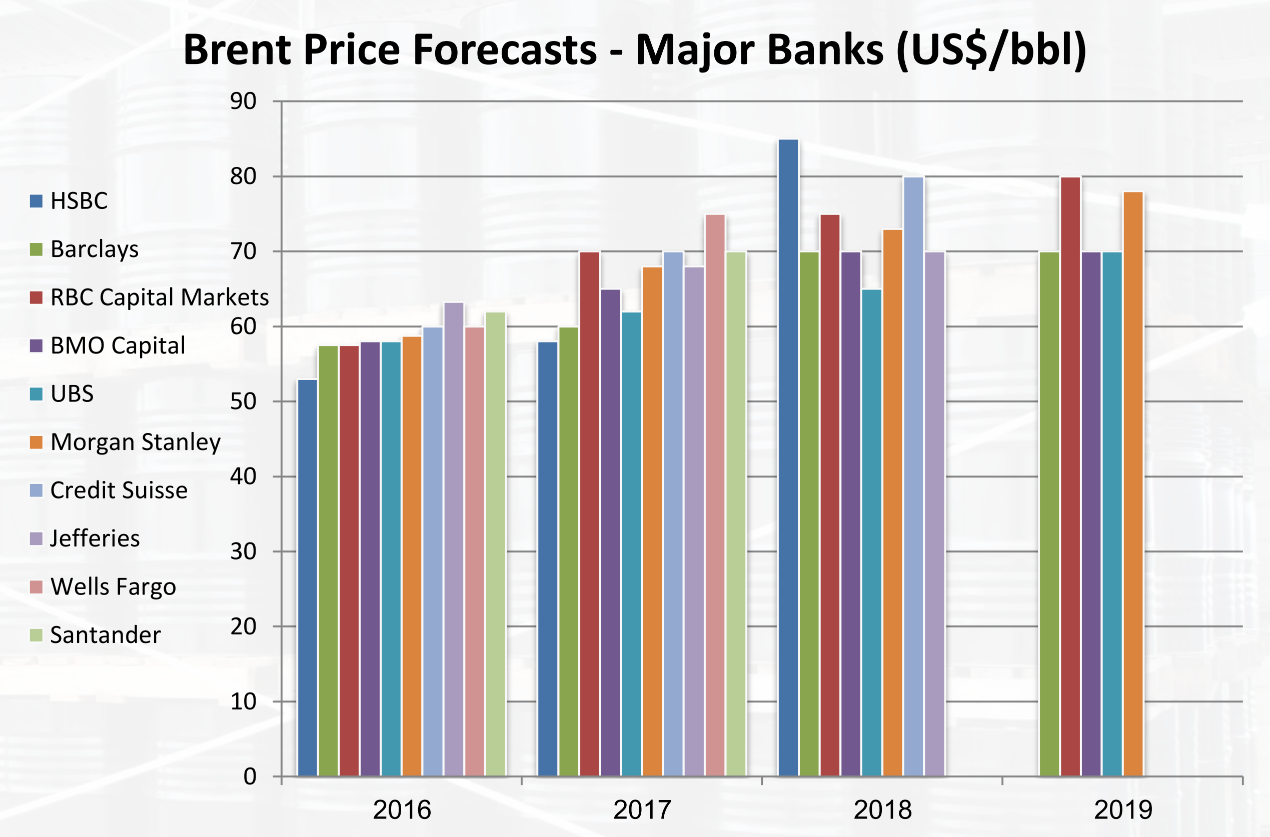


Source: Wood Mackenzie

Mid-Term Oil Price Forecast

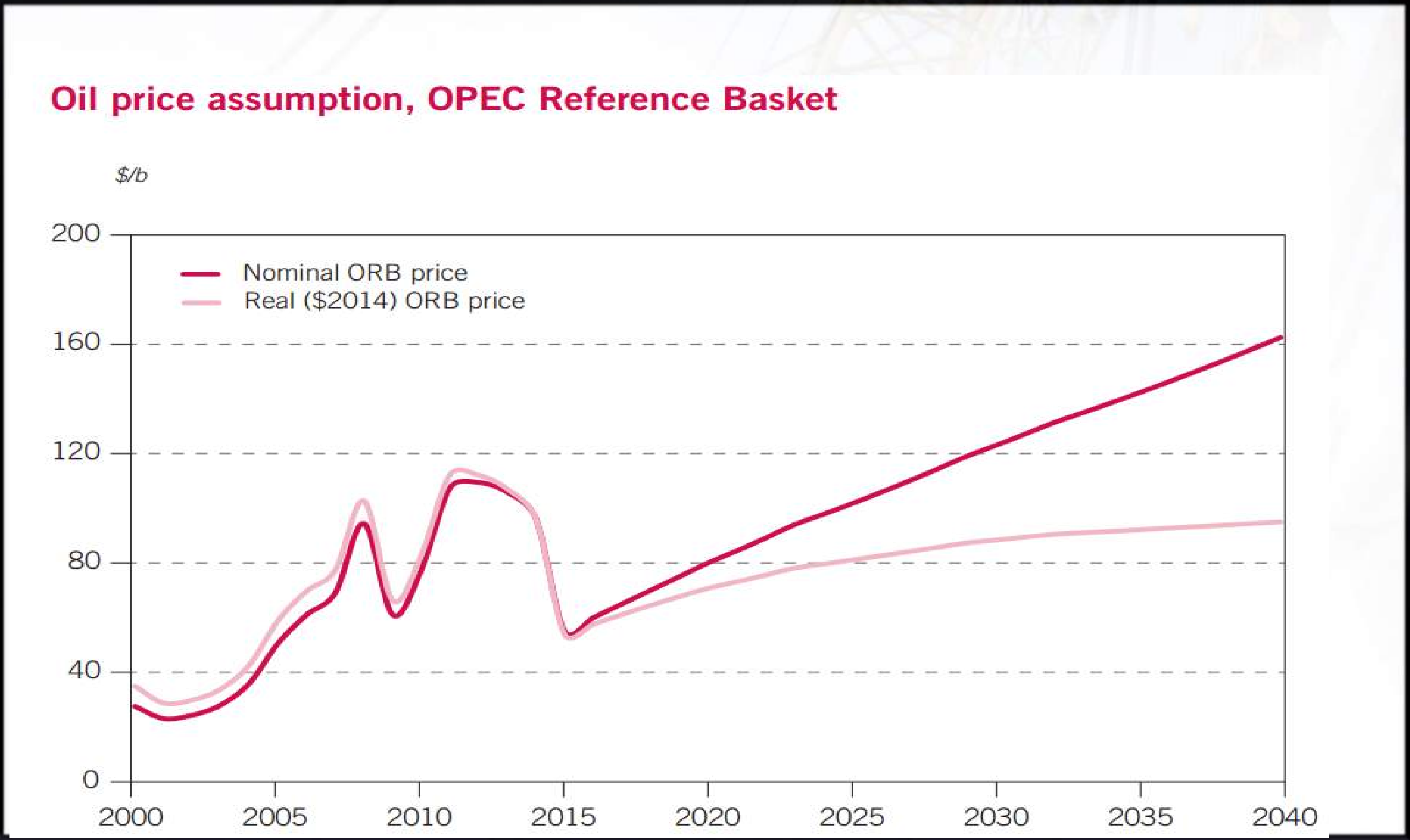
Barclays Capital, October 2015: High, Base, Low





Source: Banks

OPEC – A Clear Forecast For The Future

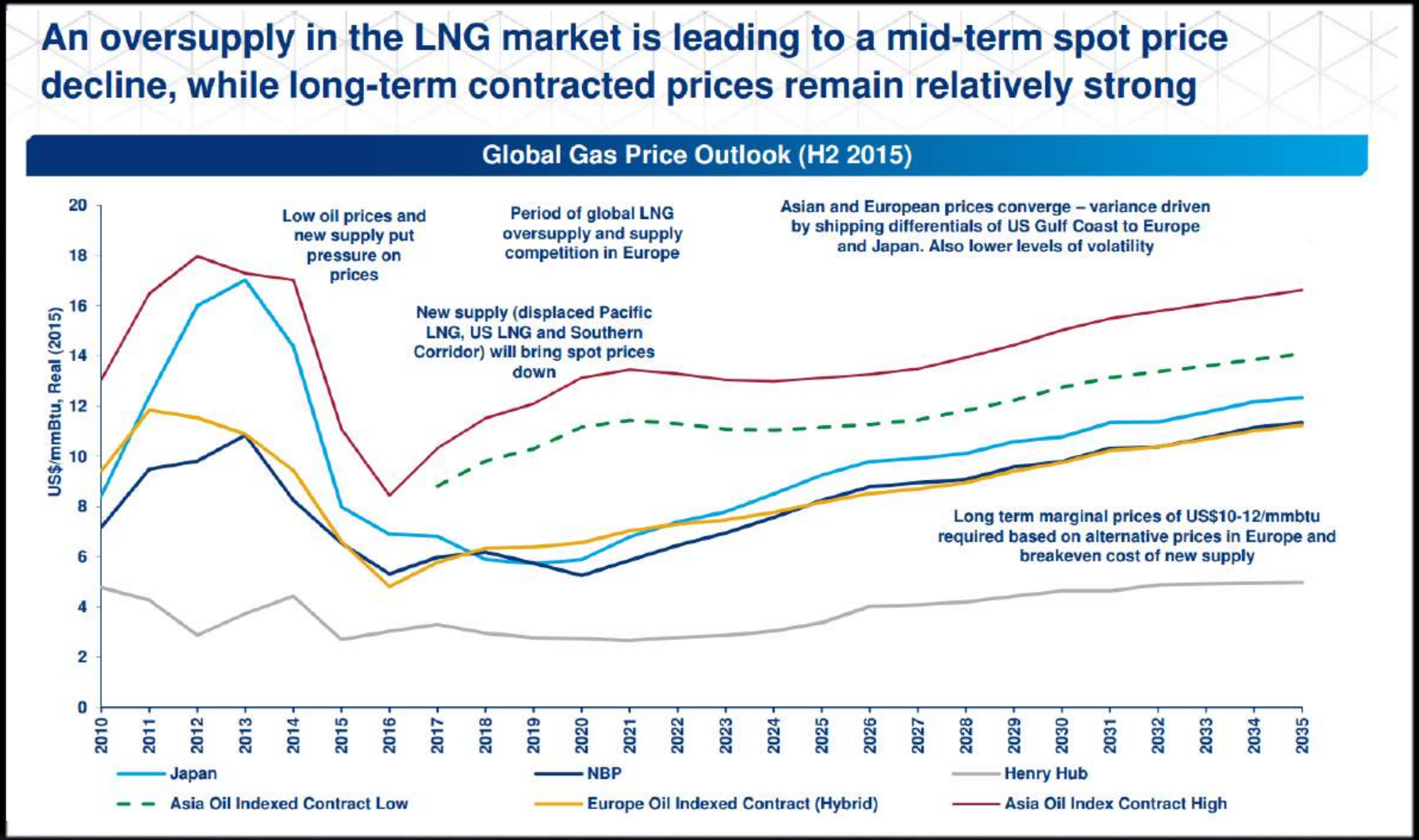


Sources: OPEC

- Nominal oil price is expected to increase to:
  - Approx. $89 per barrel in 2018
  - Approx. $93.9 in 2019
  - Approx. $97.7 in 2020
  - More than $100 in 2021 and onward
- Reflecting an average real oil price (2014) of approx. $87 between 2018 and 2040

Source: OPEC

Outlook On LNG And Natural Gas Prices



Oversupply in the short term

Price increase in the mid and long terms

Sources: Wood Mackenzie

Opportunities In View of the Global Energy Market

This is the time to invest in the development of projects in Israel

This is the time to get prepared to gas exports from Israel to the LNG facilities in Egypt

This is the time to take opportunities to acquire petroleum assets abroad (by Delek Group)

Vision Of The Israeli Gas Market In 2020 Following The Gas Framework Approval

- Creating energy security: Redundancy in gas supply to the domestic market from three separate producing reservoirs
- Supply capacity of approx. 40 BCM/Y to the domestic market and to export
- New competitors in exploration and natural gas supply operations

Leviathan and Tamar Expansion

Taking Off

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December 2015

The Gas Framework Approved:

2016 – Turning Point and Year of Enterprise

Moving forward on three parallel tracks

Commercial Agreements

Leviathan
- Domestic market
- BG – liquefaction terminal in Egypt
- Jordan – national electricity company
- Egyptian domestic market

Tamar
- Domestic market
- Jordanian Dead Sea factories
- UFG
- Egyptian domestic market

Engineering-Planning

Leviathan

Optimization of the development plan

Tamar

Optimization of Tamar expansion based on UFG agreement

Financing

Leviathan

Entering into financing agreements with a consortium of international banks

Tamar

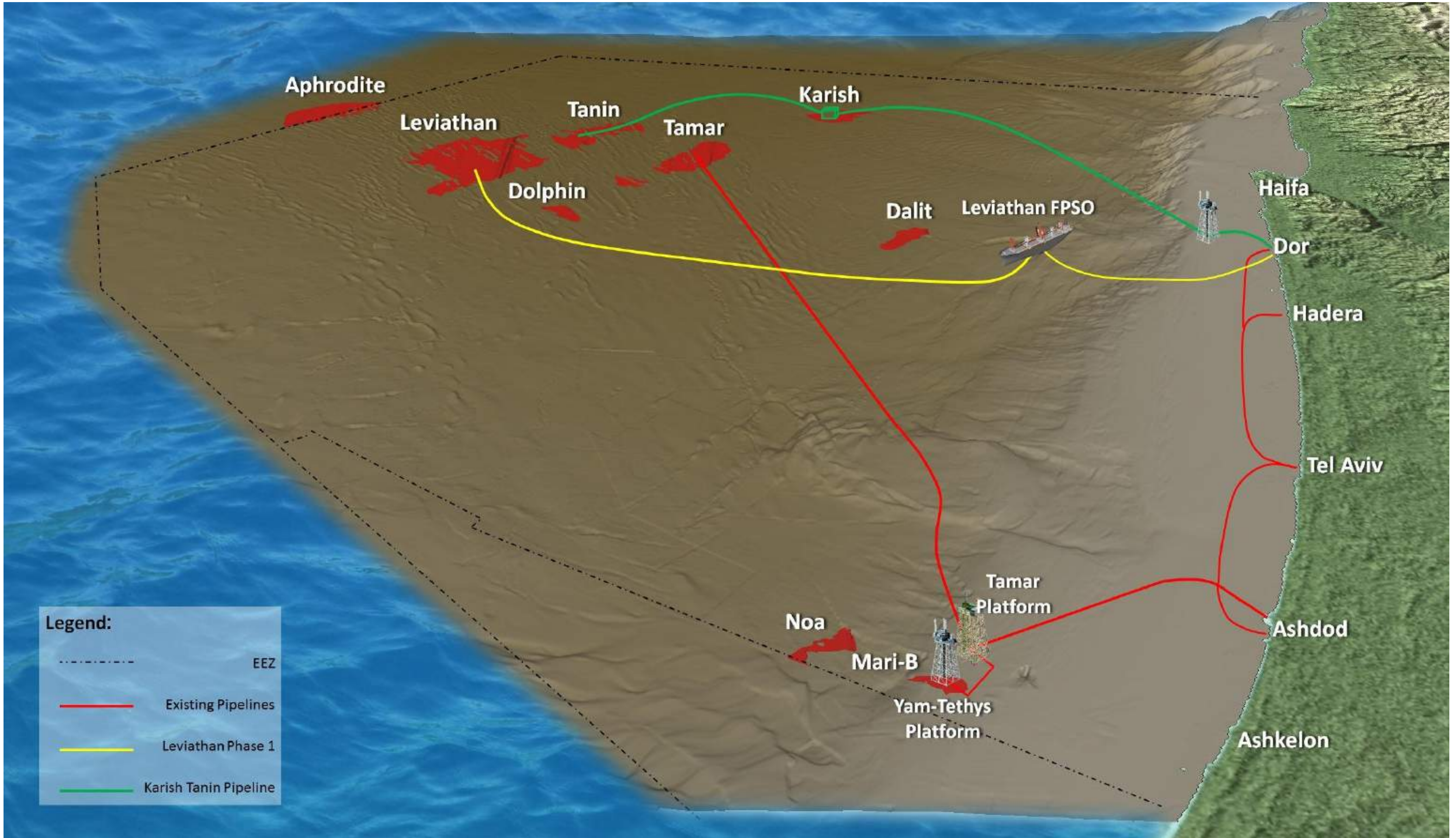
Expansion of Tamar Bond or additional financing based on projected UFG cash flow

Target:

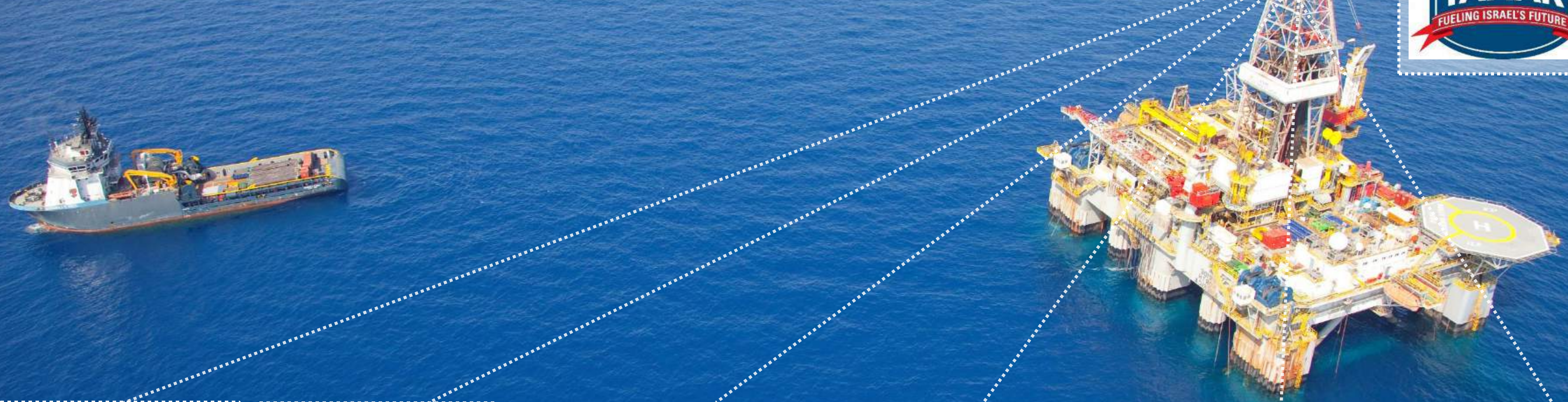
Investment decisions on Leviathan's development and Tamar's expansion in 2016

Vision Of The Israeli Gas Market In 2020 Following The Gas Framework Approval

- Energy security: Redundancy in gas supply to the domestic market from three separate producing reservoirs
- Potential gas supply of approx. 40 BCM/Y to the domestic market and to export



Tamar Field



Continuous increase in domestic demand and sales from Tamar

2016 – start up year of natural gas export to industrial consumers in Jordan

Potential for the expansion of use of natural gas in the domestic market due to reduction in coal use

Advanced negotiations with the Italian-Spanish consortium Union Fenosa Gas (UFG) on a natural gas export agreement to the Damietta LNG facility in Egypt in the amount of 4.5-7.5 BCM/Y

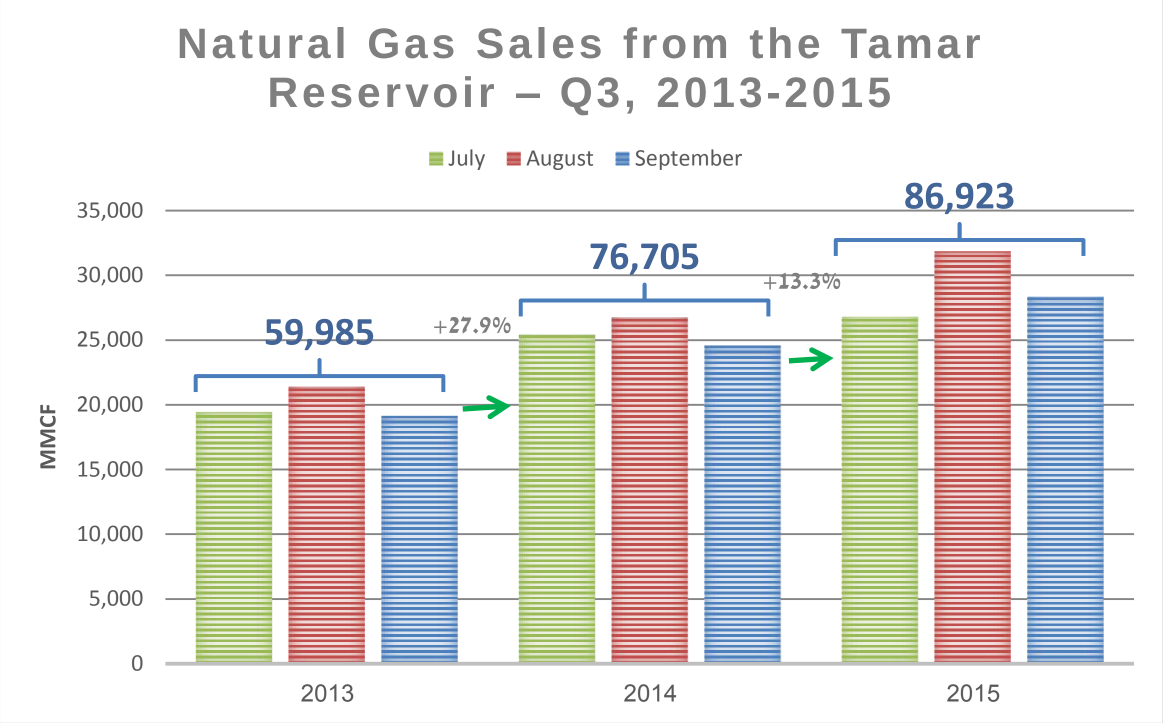
Expansion of maximum production capacity to approx. 20.4 BCM/Y - in advanced planning stages

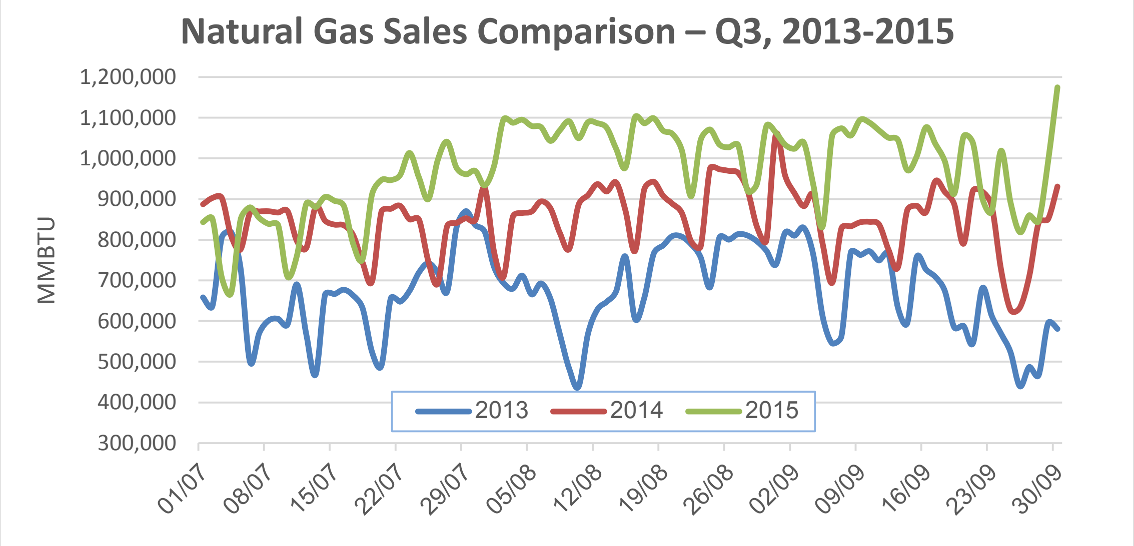
Examination of cost reduction options for Tamar Expansion in view of current market opportunities

Tamar Project: Q3/2015

New record of gas sales to Israeli market

- Q3/2015 saw a new record of natural gas sales to the Israeli market – approx. 2.48 BCM (approx. 86.9 BCF)
- Increase of approx. 13.3% in sales compared to Q3/2014
- Even this increased sales volume failed to satisfy the full demand in the Israeli market.
- LNG import volume increased and costly and polluting liquid fuels were used to meet the domestic market demand



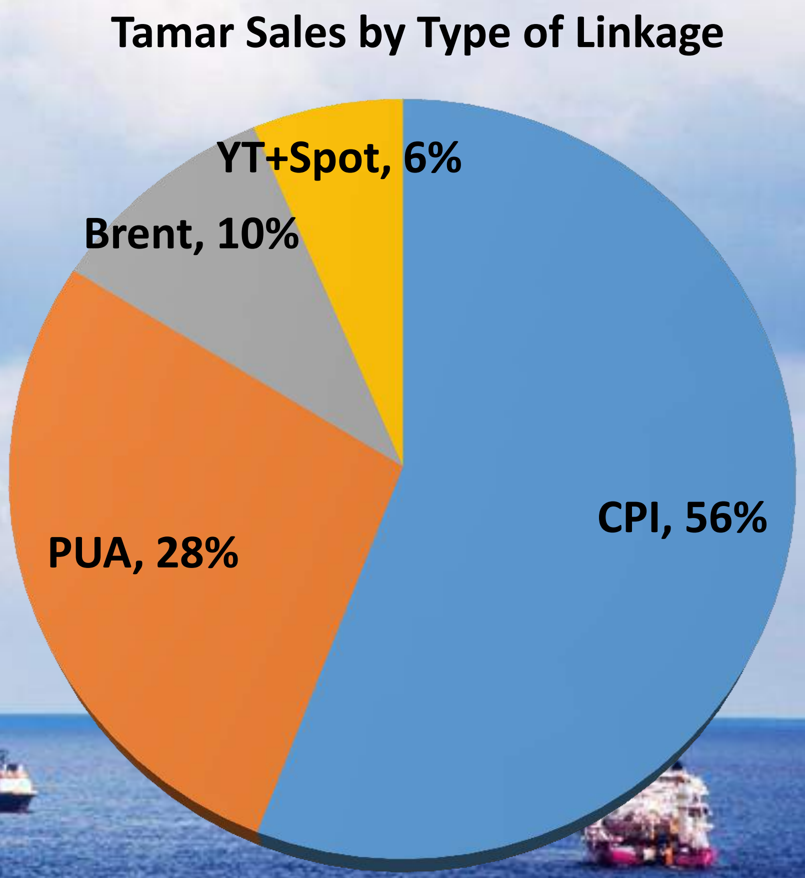


Sales in Q3/2015
Breakdown by Indexation

Domestic Market Gas Price

- Gas price in the Israeli market is mostly linked to the American Consumer Price Index (CPI)
- Approx. 28% of sales are under agreements linked to the electricity production tariff (PUA)
- Approx. 10% of sales are under agreements linked to the oil barrel price with a fixed floor price

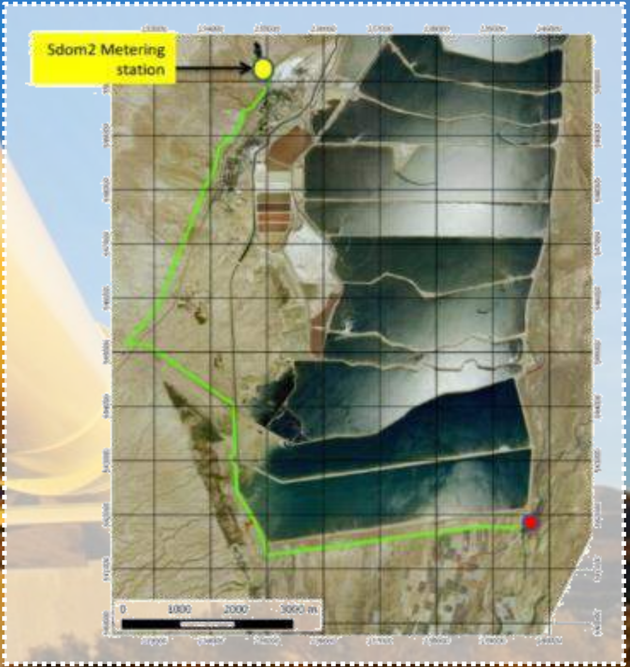
Natural gas from Tamar	2014	2015		
	Q4	Q1	Q2	Q3
Average price of natural gas unit (USD per MCF)	5.51	5.45	5.33	5.35



2016

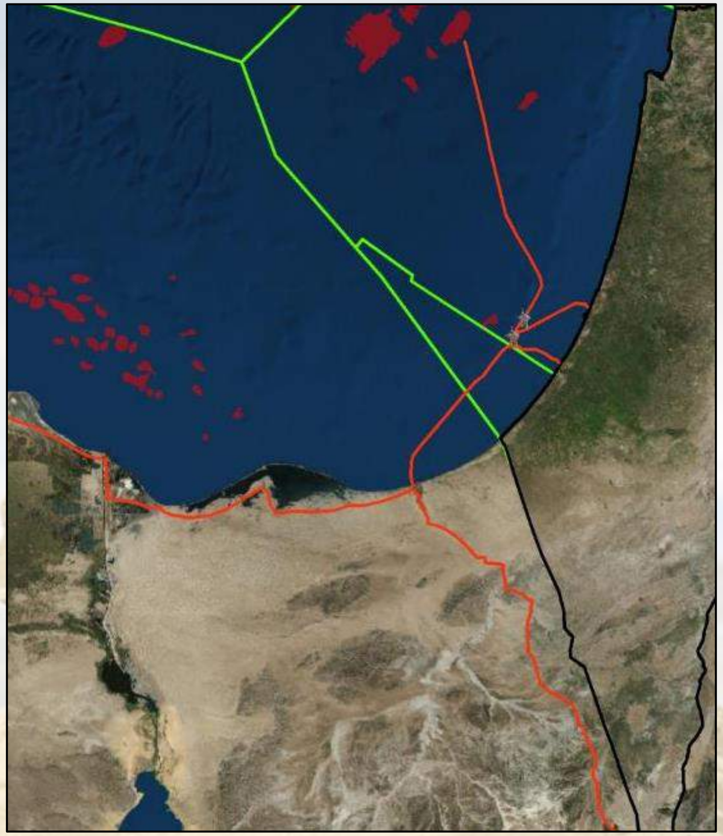
Target year for initiation of gas export from Tamar to Jordan, according to the export license granted

Route of planned pipeline for connecting the Israeli transportation system to Arab Potash and Jordan Bromine companies:



Natural Gas Supply To Egyptian Domestic Market Based On EMG Infrastructure

- In March 2015 an agreement was signed for natural gas sale from Tamar to Dolphinus Holdings
- Natural gas supply is based on existing infrastructure (EMG pipeline)
- A 7-year agreement that includes a minimum-supply undertaking of 5 BCM during the first 3 years
- Daily amount of up to 250,000 MMBTU
- Gas supply in this agreement is based on the excess volume of gas from Tamar after supplying Israeli market demand (interruptible-type agreement)
- Price linked to Brent with a fixed floor price
- A license to export from the Tamar project to the Egyptian domestic market has been obtained
- The agreement is subject, *inter alia*, to a transmission agreement being signed between Dolphinus and EMG



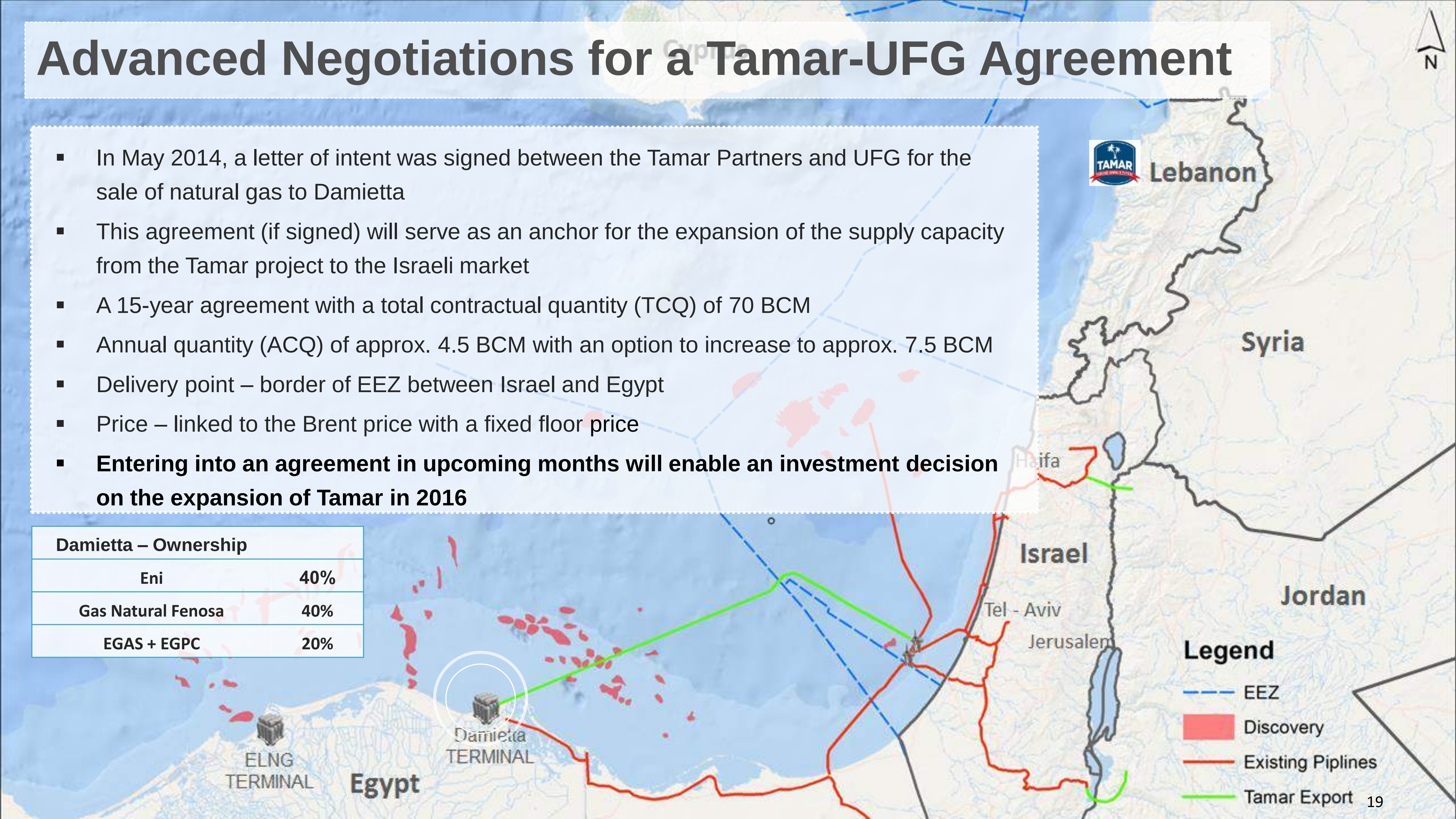
Status:

- According to the buyer's estimation, gas supply under this agreement is expected to commence in the upcoming months

Advanced Negotiations for a Tamar-UFG Agreement

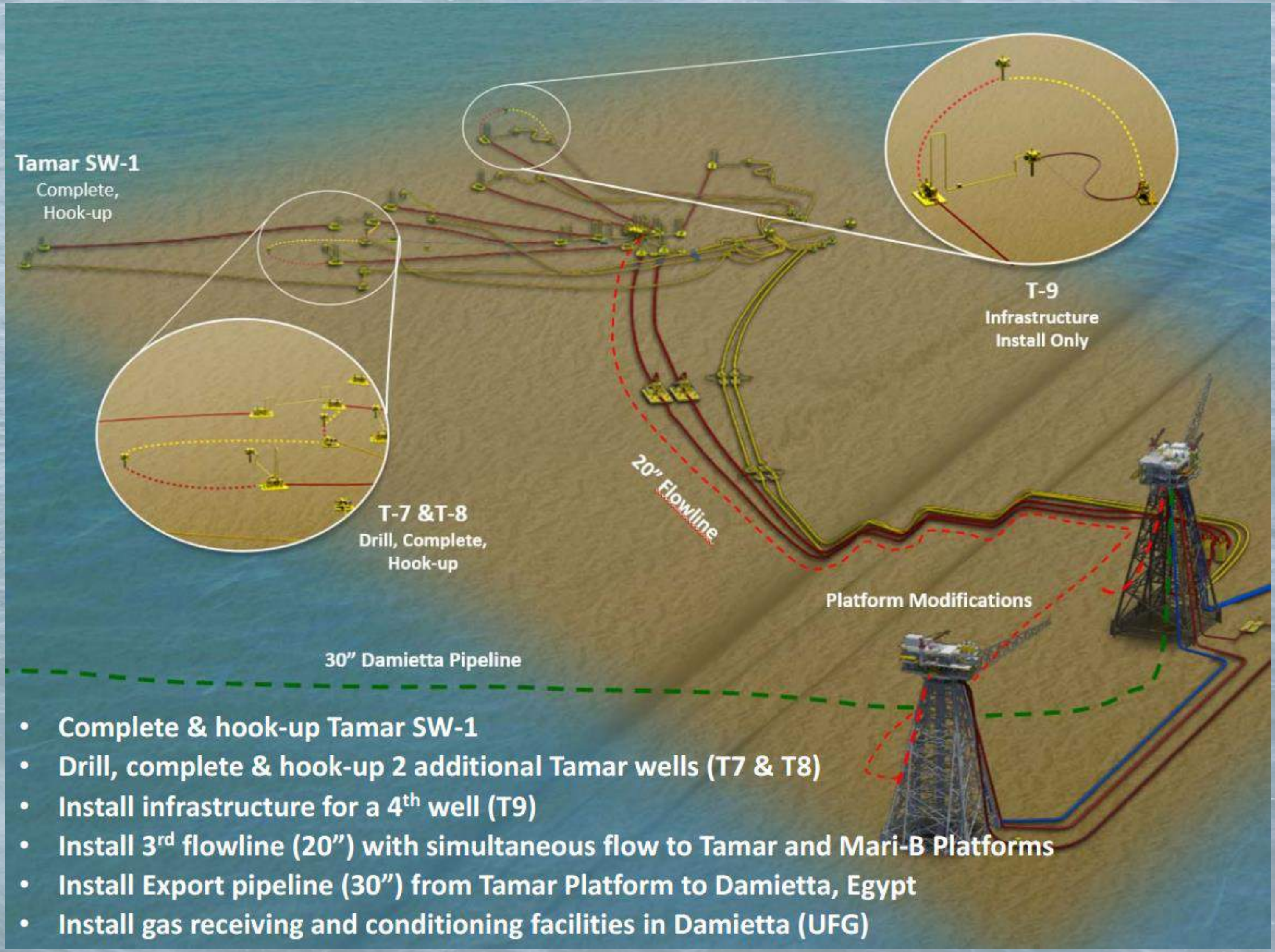
- In May 2014, a letter of intent was signed between the Tamar Partners and UFG for the sale of natural gas to Damietta
- This agreement (if signed) will serve as an anchor for the expansion of the supply capacity from the Tamar project to the Israeli market
- A 15-year agreement with a total contractual quantity (TCQ) of 70 BCM
- Annual quantity (ACQ) of approx. 4.5 BCM with an option to increase to approx. 7.5 BCM
- Delivery point – border of EEZ between Israel and Egypt
- Price – linked to the Brent price with a fixed floor price
- **Entering into an agreement in upcoming months will enable an investment decision on the expansion of Tamar in 2016**

Damietta – Ownership	
Eni	40%
Gas Natural Fenosa	40%
EGAS + EGPC	20%



Tamar's Expansion Following UFG Agreement

- Expansion of maximum production capacity to 20.4 BCM/Y – in advanced planning stages
- Including:
  - A third pipeline (20") from the reservoir to Tamar and Mari-B platforms
  - Development of Tamar SW and additional wells
  - Expansion of Mari-B treatment capacity
  - Export pipeline to Damietta facility
- Cost of expansion project to Tamar Partners estimated at approx. $1.5-2 billion (100%)
- Cost reduction examined in view of the market opportunity



Source: Noble Energy

Development of the Leviathan Reservoir

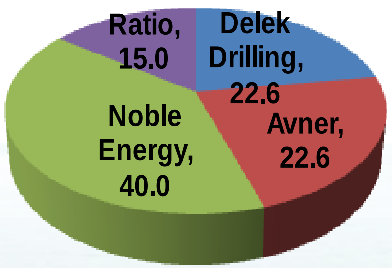
Optimization
of the development plan

Advanced stages of negotiation for natural gas sales agreements

- To the Israeli domestic market
- To the Jordanian electricity company – NEPCO
- To the ELNG liquefaction facility of BG in Egypt
- To the Egyptian domestic market

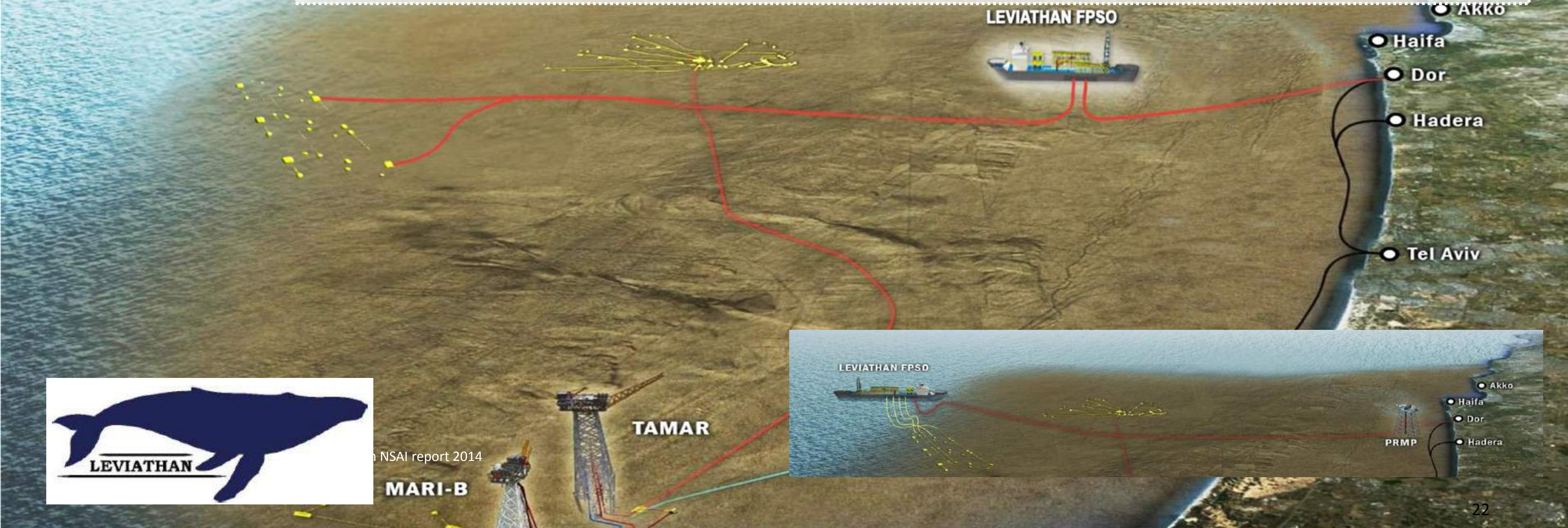
Production capacity
expected development phase 1 – 16-18 BCM/Y

Ownership:



Phase 1 of Leviathan Development
The Target – Production Capacity of 16-18 BCM/Y

- Leviathan contains approx. 621 BCM of natural gas and approx. 39.4 million condensate barrels
- Phase A of development is expected to include the construction of a floating offshore facility (FPSO) to be located approx. 40 km offshore or above the reservoir
- Estimated cost of Phase A of development – $6-7 billion
- Optimization and examination of cost reduction in view of market opportunity are in progress
- Natural gas supply capacity of approx. 1.6 BCF/D (approx. 16 BCM/Y), will possibly increase to 1.8 BCF/D (approx. 18 BCM/Y)



LEVIATHAN

n NSAI report 2014

Leviathan For The Domestic Market

Potential demand in 2020 by sectors

Electricity

Private electricity producers: ~2 BCM/Y

Coal-fired power plant conversion: up to ~6 BCM/Y

Railway electrification project: ~0.5 BCM/Y

Industry and Distribution

Industry and distribution consumers: : ~2-2.5 BCM/Y

Ammonia facility and related products: : ~0.25-0.75 BCM/Y

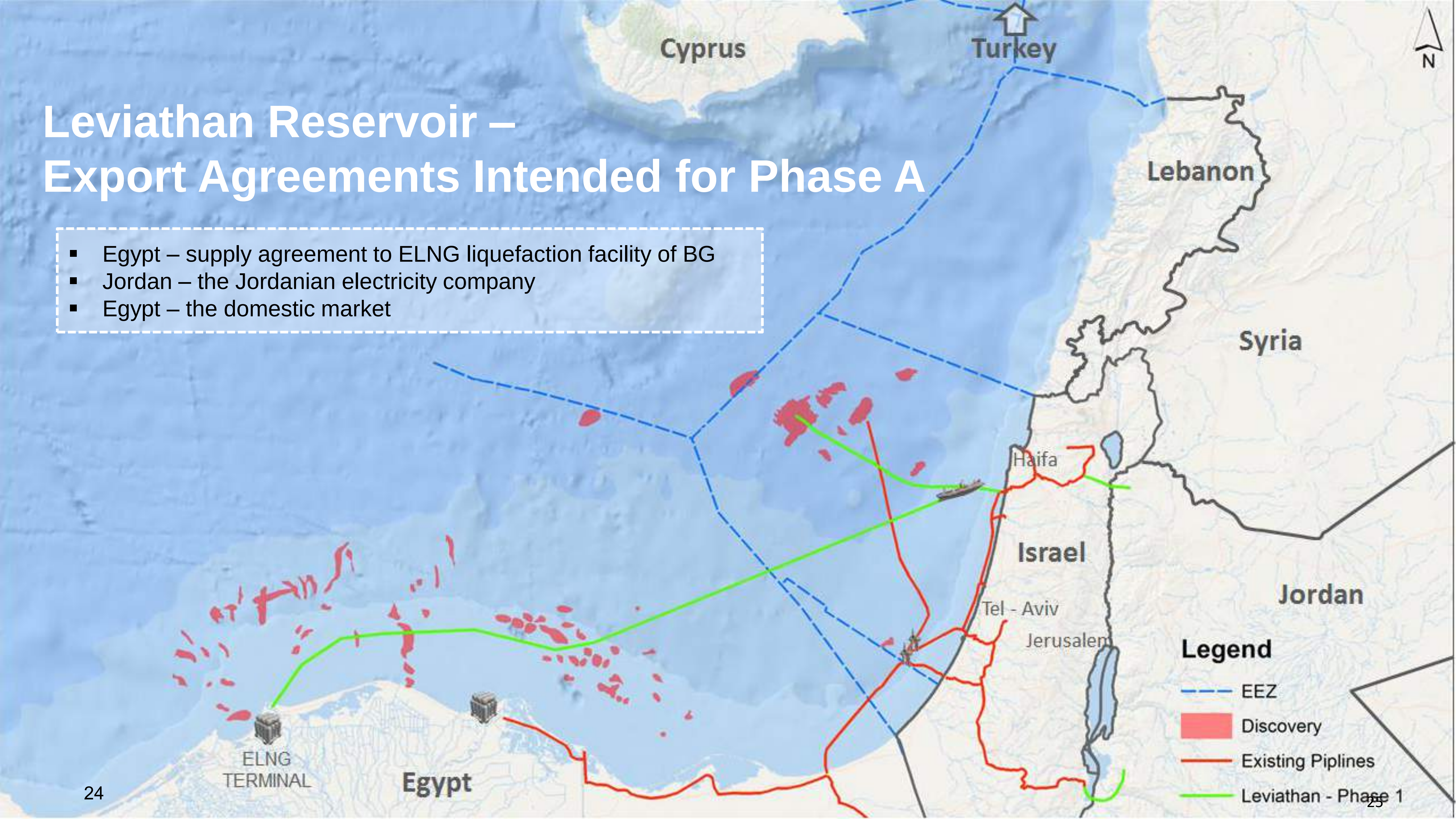
Transportation

Natural gas for transportation 0.2 BCM/Y in 2020 increasing to approx. 2 BCM/Y in 2030

- Beyond the existing Tamar agreements
- Conversion of coal-fired power plants, railway electrification project, ammonia facility, transportation and development of the distribution network that will facilitate connection of additional factories are contingent upon a supportive and promoting policy by the relevant governmental entities

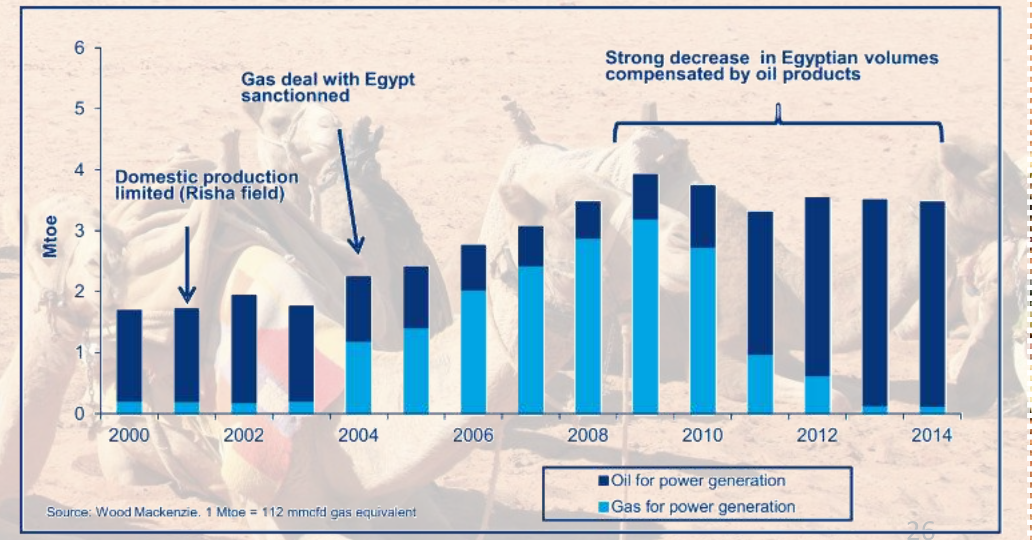
Leviathan Reservoir –
Export Agreements Intended for Phase A

- Egypt – supply agreement to ELNG liquefaction facility of BG
- Jordan – the Jordanian electricity company
- Egypt – the domestic market



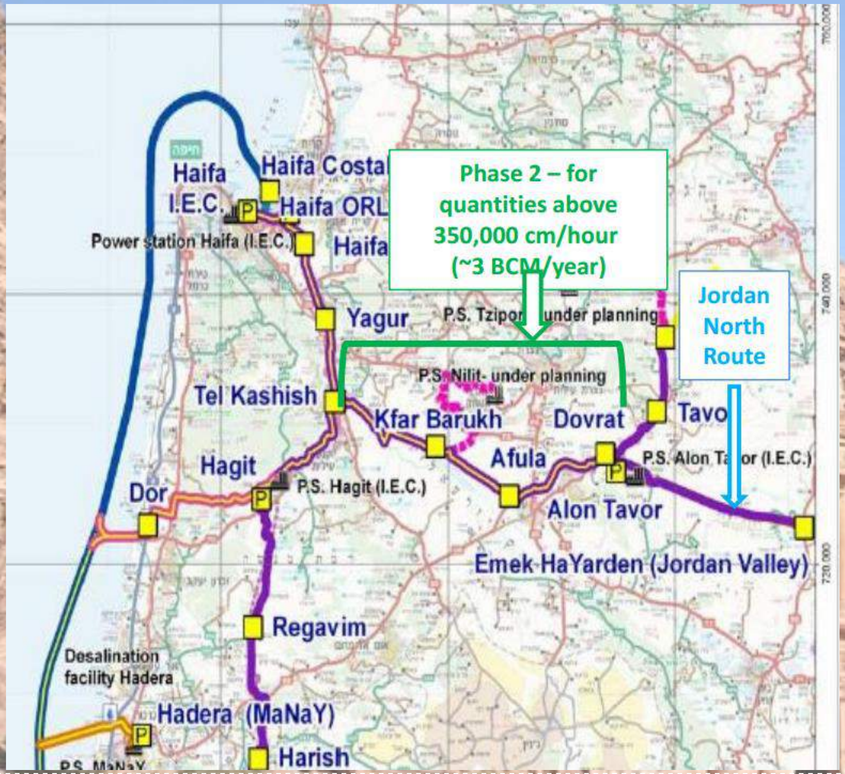
Jordan – Natural Gas Market

- Volume of natural gas consumption in Jordan, 2009 – more than 3 BCM/Y
- Negligible self-production – approx. 0.2 BCM/Y
- Natural gas serves as the basis for approx. 80% of the Jordanian market's electricity generation (under business-as-usual conditions)
- Natural gas from Egypt served as the only source of natural gas supply to Jordan
- 2010 saw the beginning of disruptions in Egyptian natural gas supply; in 2013, Egyptian gas supply stopped almost completely
- NEPCO – the national electricity company owned by the Jordanian Government
- NEPCO signed agreements for LNG import until 2019



Jordan – NEPCO Agreement

- LOI agreement signed with NEPCO – the Jordanian electricity company
- Anchor agreement for the Jordanian energy market, equivalent in importance to the IEC agreement in Israel
- Holds a twofold strategic and geopolitical importance – to Israel and to Jordan
- Term of the agreement – 15 years
- Total quantity (TCQ) – 45 BCM
- Annual supply quantity (ACQ) – 3 BCM/Y with an option to increase annual quantities
- Delivery point – border between Israel and Jordan
- **Agreement expected to include backup by the Jordanian Government for NEPCO's obligations**
- National Outline Plan (TAMA) and detailed plan up to Jordanian border approved
- **Estimated schedule for completion of the transmission pipeline to the Jordanian border and connection to the Jordanian system – Q1/2018**

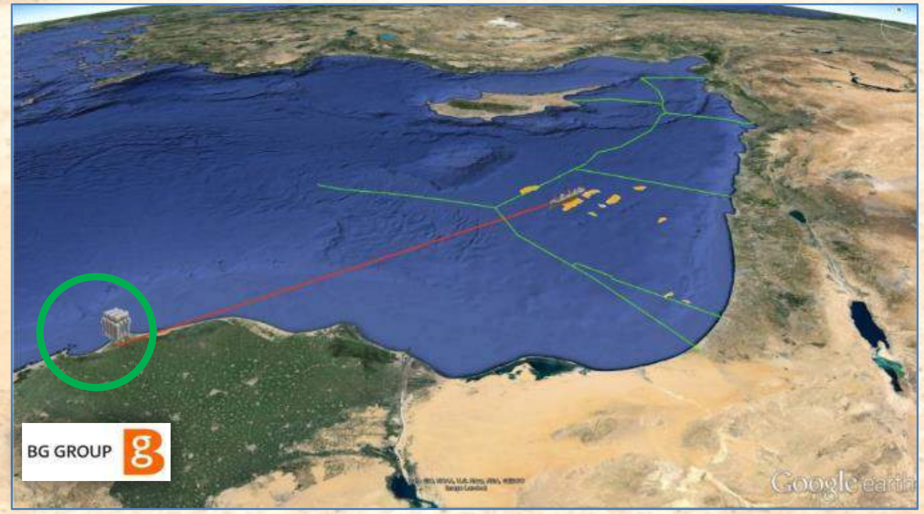


Binding agreement expected to be signed in upcoming months

Sources: INGL

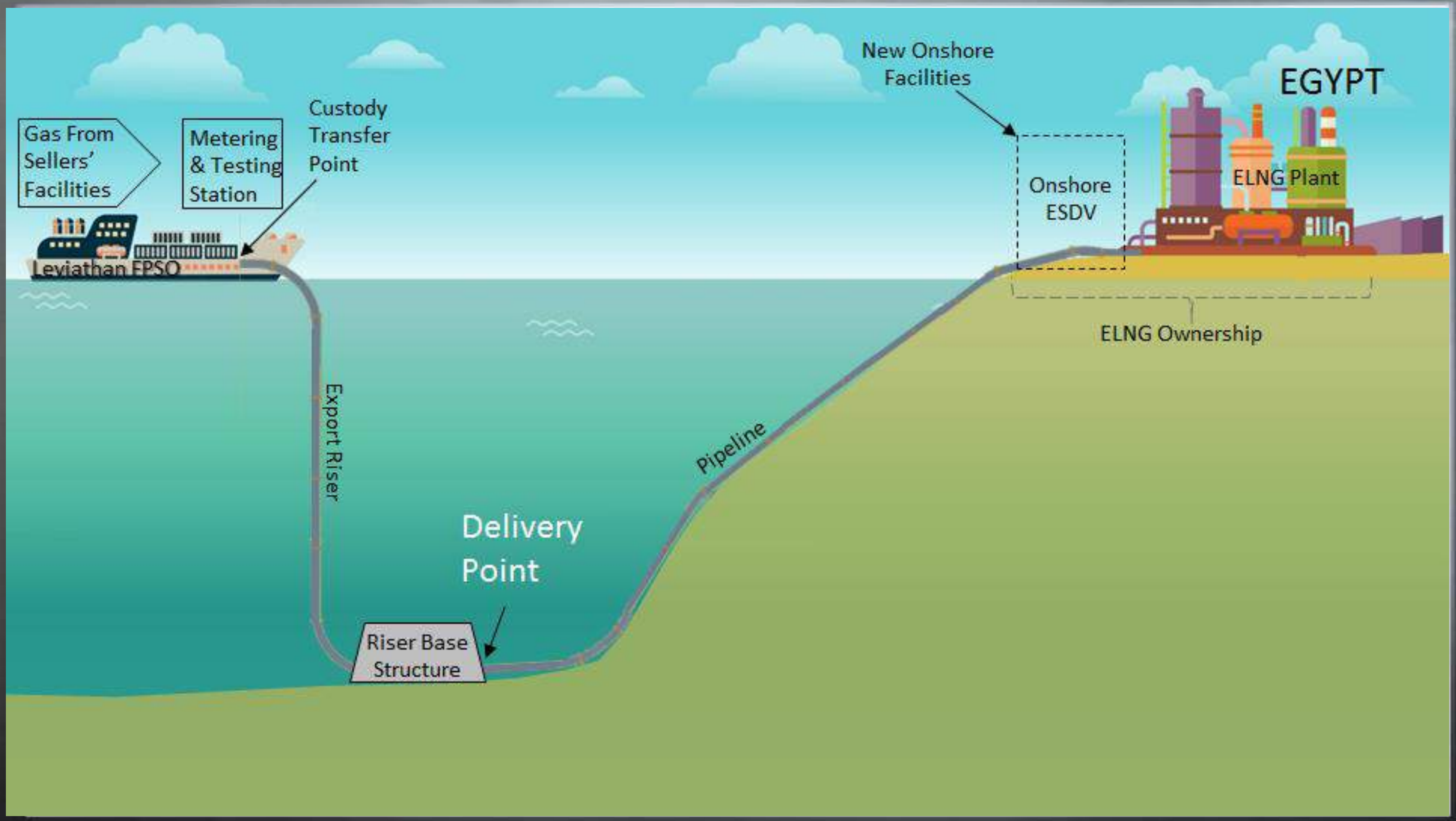
Egypt – Leviathan-BG Agreement

- Export of gas from Leviathan to ELNG
- Anchor agreement for the first stage of Leviathan Reservoir’s development
- ELNG needs more than 11 BCM/Y
- LOI agreement signed with BG for the purchase of natural gas for 15 years
- Gas piping through a designated underwater pipe; delivery point at exit from the FPSO
- TCQ: 105 BCM; ACQ: 7 BCM/Y or more
- **Status: examining the possibility of increasing the annual quantity and the total purchased quantity as well as extending the term of the agreement**
- **Aiming to sign agreement in upcoming months**



Ownership	ELNG 1	ELNG 2
BG	35.5%	38%
PETRONAS	35.5%	38%
GDF Suez	5%	-
EGAS + EGPC	24%	24%

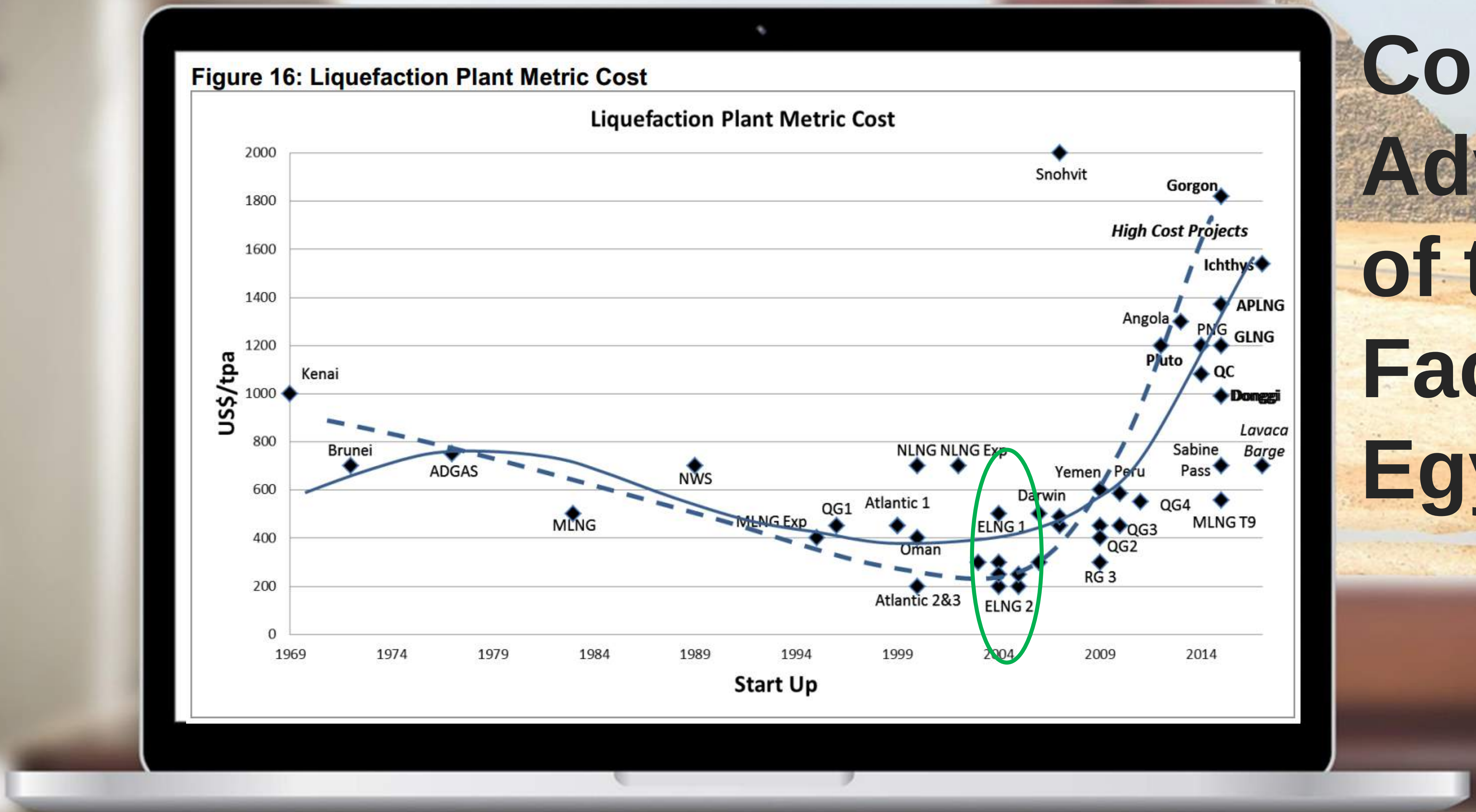
Laying Down the Pipeline from Leviathan to Egypt



Source: Delek and Avner

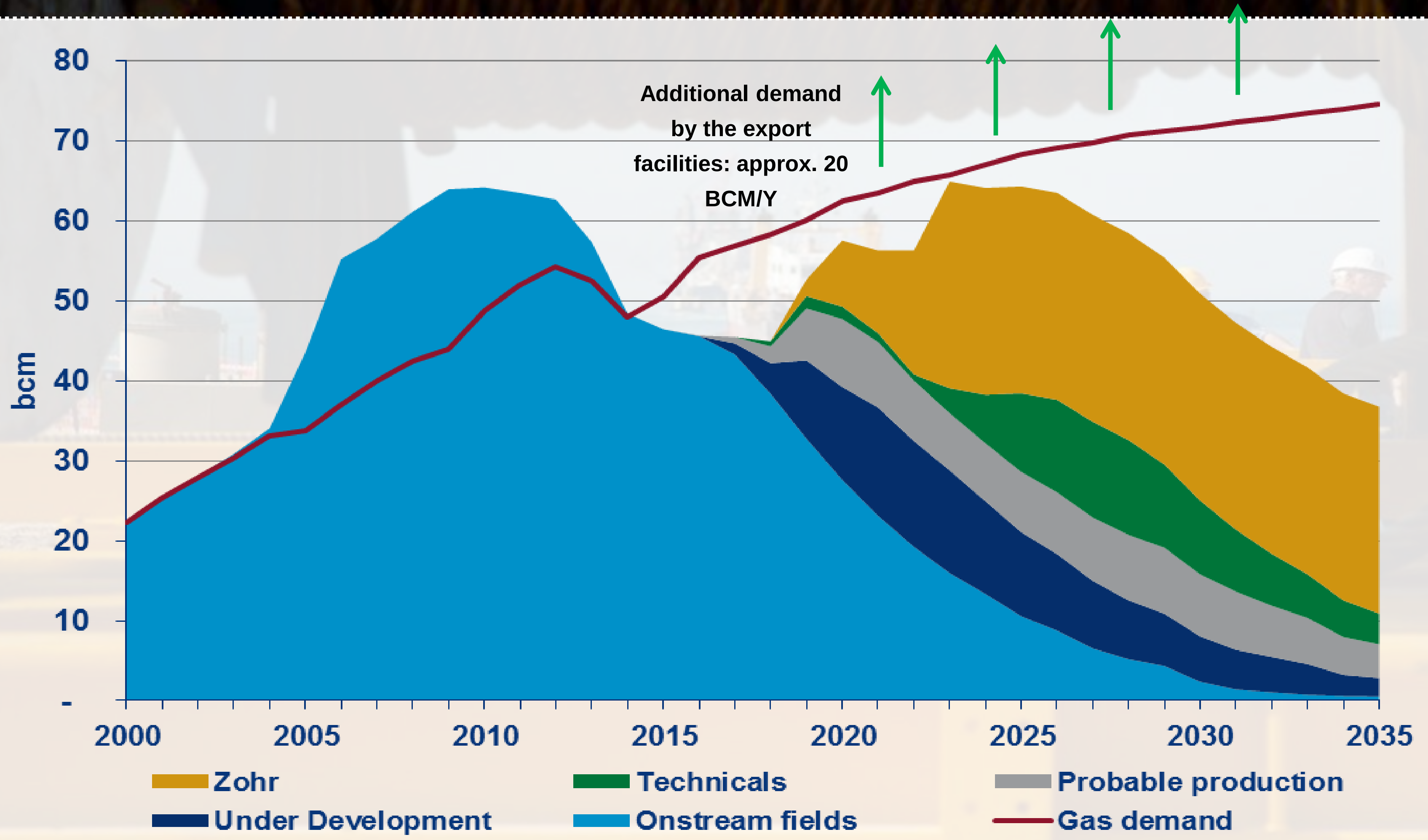
- **Under the amendment** incorporated in the Natural Gas Sector Law (November 2015), the Minister of Energy may grant, without a tender, a license, to a person other than the leaseholder, to construct a pipeline for natural gas export purposes (including to a foreign company)
- **The amendment** allows BG (and other foreign companies) to construct, maintain and operate a pipeline
- **Thereby paving the path** for advancement of the BG agreement.
- **Delivery point** – exit from FPSO

The Competitive Advantage of the LNG Facilities in Egypt



Source: The Oxford Institute for Energy Studies

Zohr – Even Under A Development Scenario Of More Than 25 BCM/Y, Egypt Domestic Demand Remains Un Fulfilled, Much Less The Egyptian LNG Export Facilities Demand

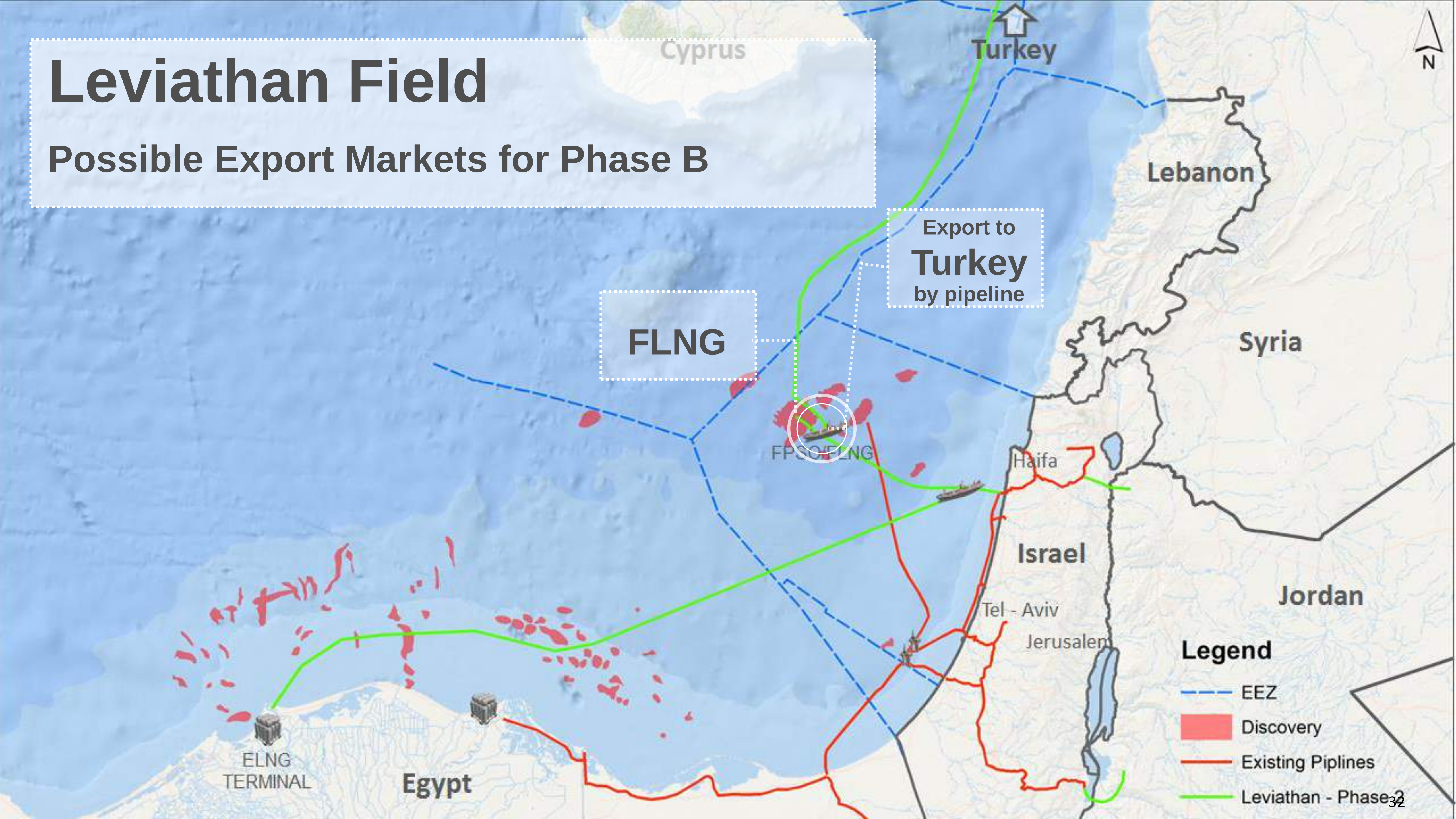


Source: Wood Mackenzie. Yet to find not included. Gas demand excludes exports.

- Aggregate demand compared to local production in Egypt, including production from Zohr reservoir.

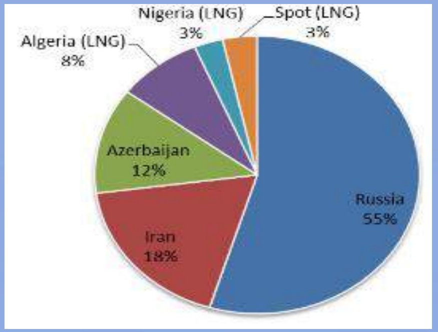
Leviathan Field

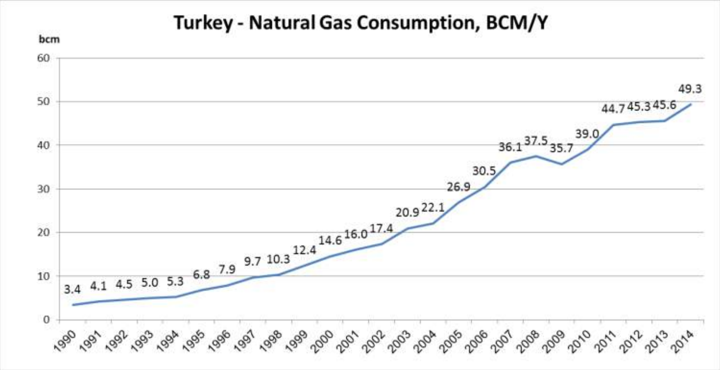
Possible Export Markets for Phase B



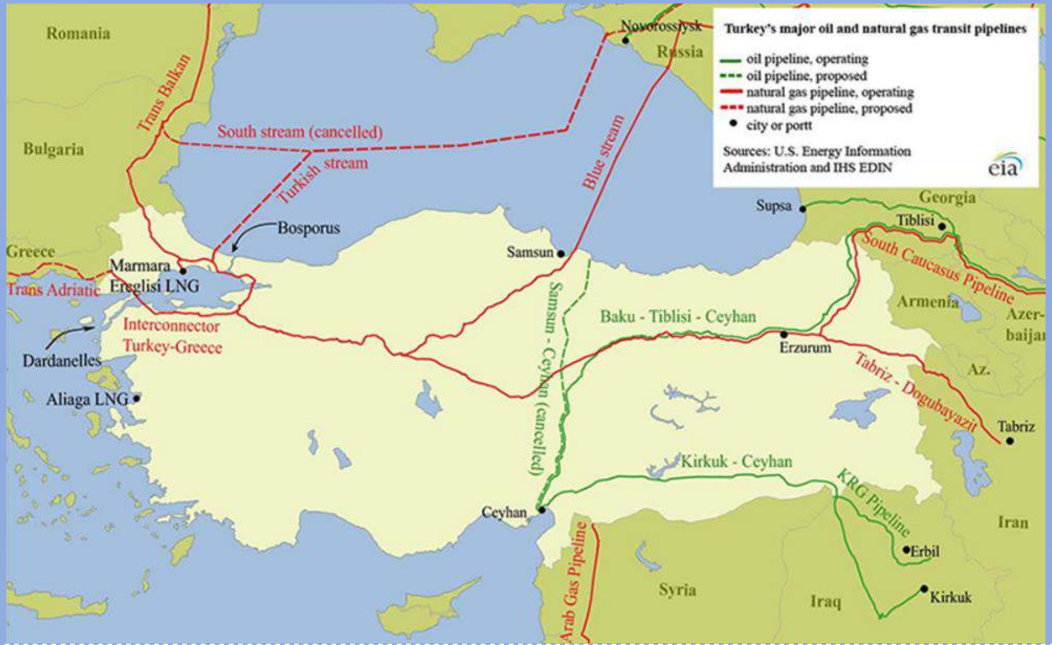
Turkey
Natural Gas Market

Sources of natural gas supply to Turkey, 2014:



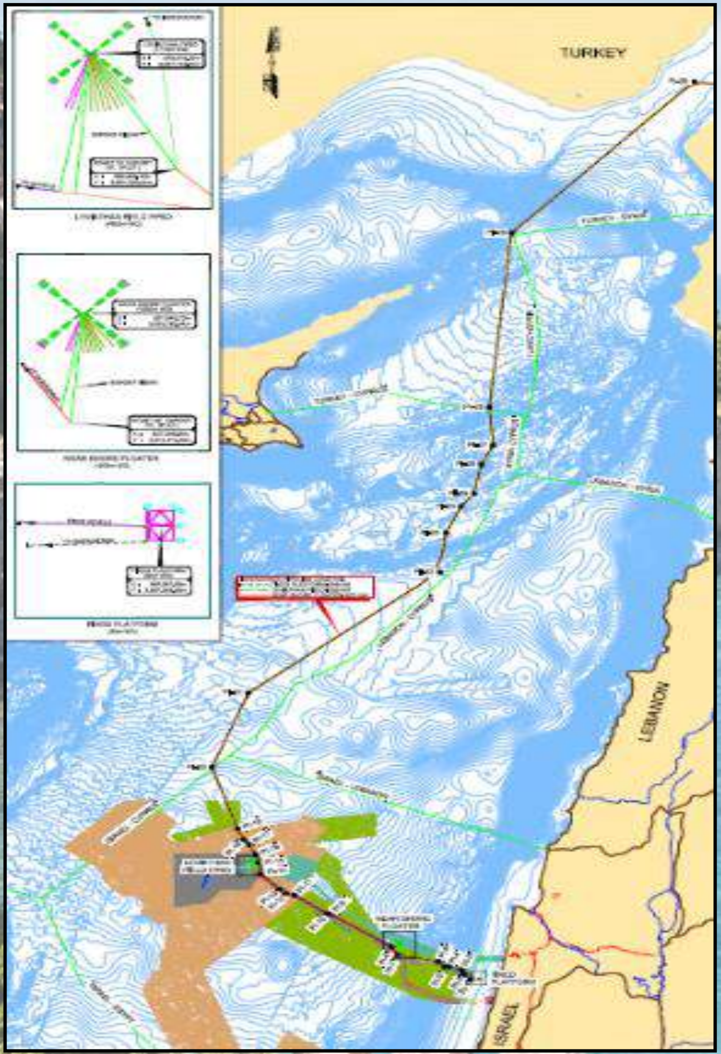


- Ranks 16th in the world in natural gas consumption (2014)
- Amount of natural gas consumption in 2014 – approx. 49.3 BCM
- Annual growth rate of approx. 9.9% in natural gas consumption (2000-2014)
- Turkey is completely dependent on natural gas import – approx. 99% of gas is imported
- Approx. 84.5% imported through pipelines, approx. 14.5% imported as LNG
  - Russia (1) – the West Line, through Ukraine and Bulgaria, 14 BCM/Y
  - Russia (2) – the Blue Stream, through the Black Sea, 16 BCM/Y
  - Iran – Eastern Anatolia Pipeline, 10 BCM/Y
  - Azerbaijan – South Caucasian Pipeline, 6 BCM/Y
- Full capacity of those pipes is used by existing long-term agreements
- **Exhaustion of supply sources limits increase in consumption**



Sources: BP Statistical Review of World Energy June 2015, EIA

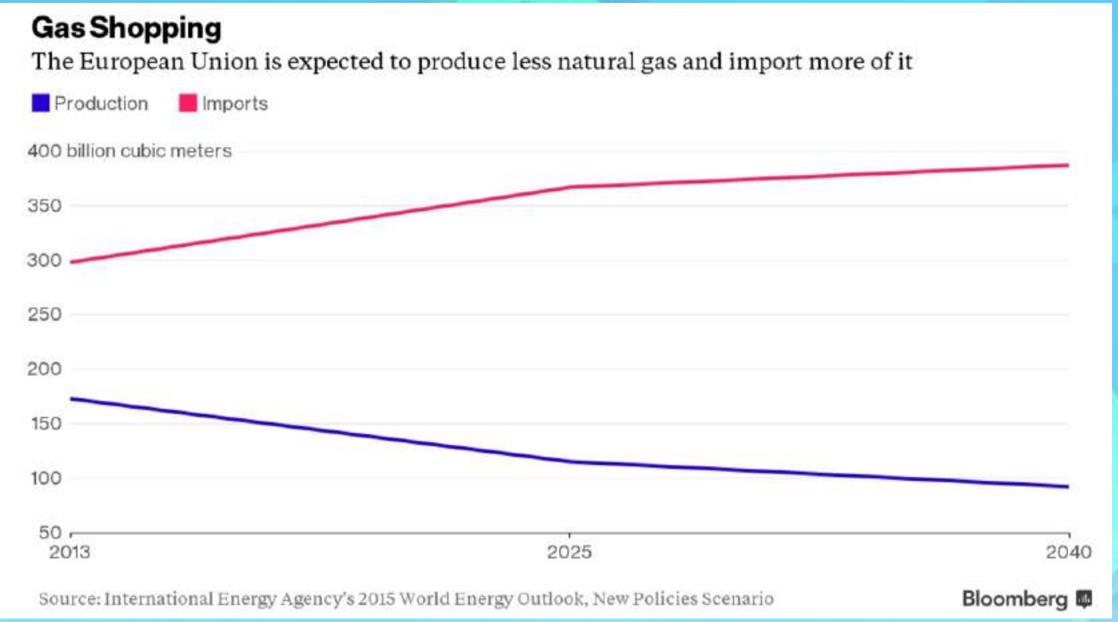
Export Of Israeli Natural Gas To Turkey

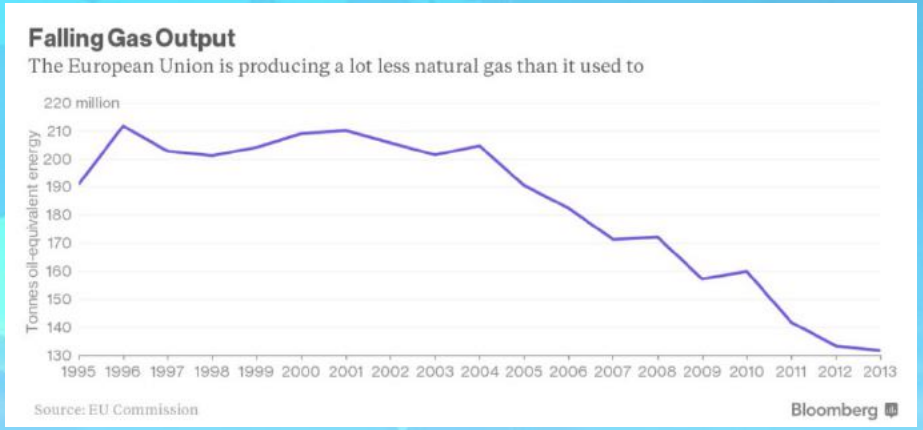


- **Natural gas pipe from Leviathan to Turkey:**
  - Approx. 500-550 km
  - Through Cypriot EEZ
  - Water depth – up to 2,250 m
  - First stage – 8-10 BCM/Y to Turkish market
  - Second stage – additional 8-10 BCM/Y to the European market
- **Discussions have been held with leading Turkish companies**
- **These companies openly appear in the media**
- **There is also ongoing and continuous contact with officials in the Turkish Government**

From Turkey Onwards
The European Potential

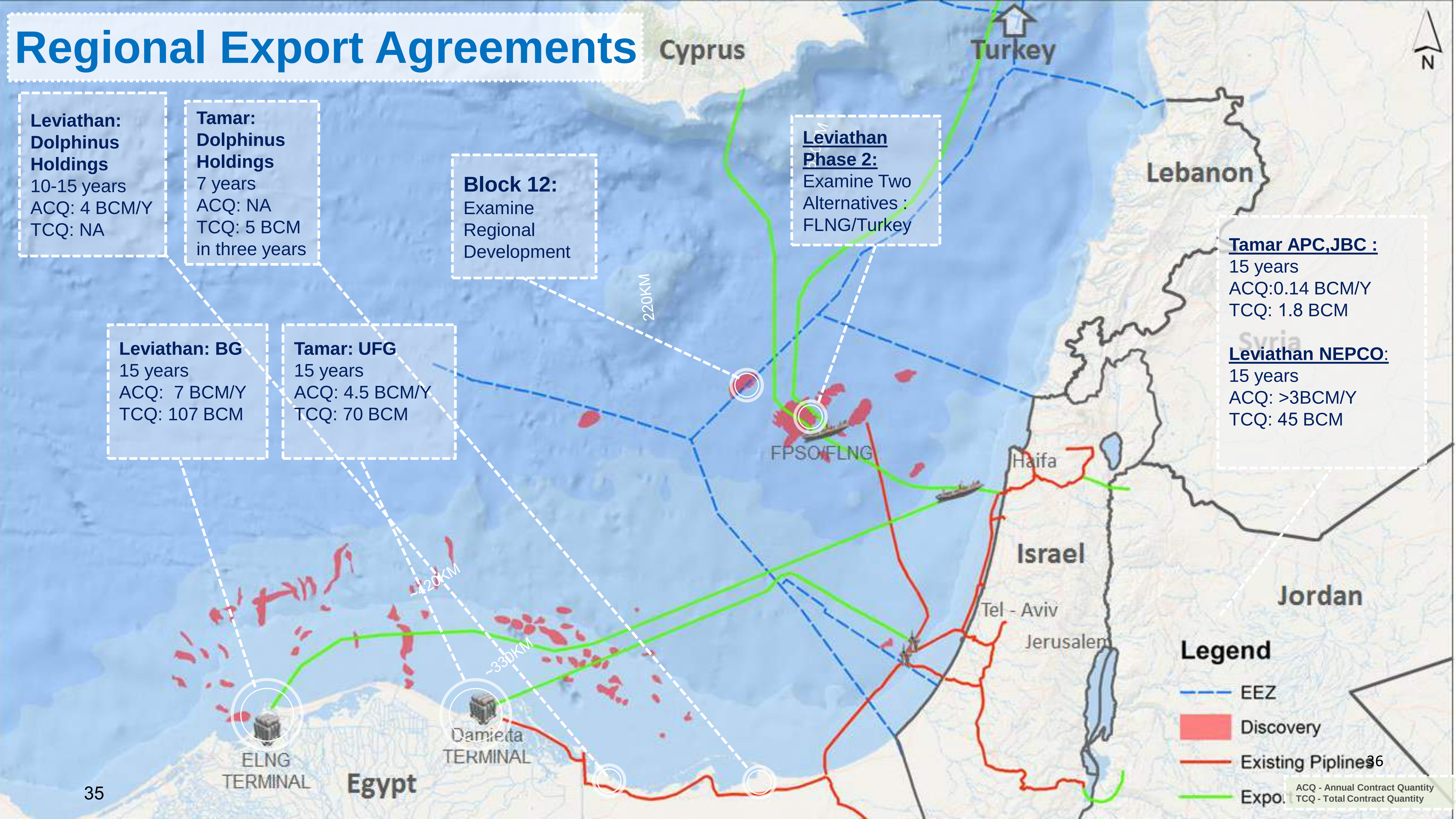
- European natural gas consumption in 2014 totaled approx. 470 BCM/Y
- Approx. 360 BCM of those were imported
- Russian gas currently constitutes approx. 42% of gas import
- European self-production increasingly decreasing
- Dependency on natural gas import expected to grow
- Europe is looking for new natural gas sources





Sources: Bloomberg Business

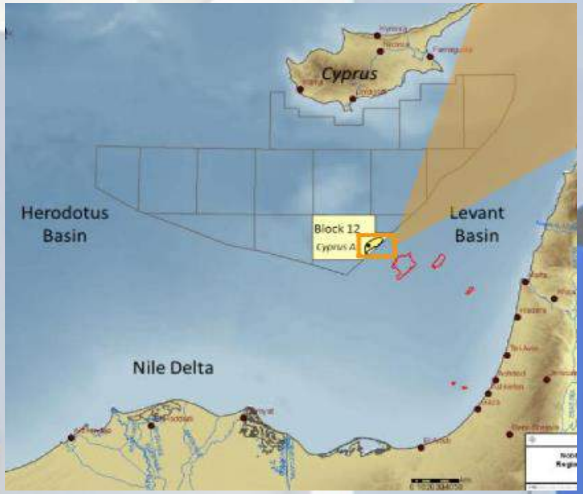
Regional Export Agreements



Cyprus

Block 12, Identity Card

- Significant gas discovery of approx. 4.45 TCF*
- First discovery in Cyprus
- Located approx. 168 km south of Limassol
- Water depth - approx. 1,700 m
- Partners: Noble Energy 35%, BG (British Gas) 35%*, Delek Drilling 15%, Avner Oil Exploration 15%



*Based on best estimate of Contingent and Prospective Resources – NSAI Certified (Nov 2014)

Subject to approval of the conditions precedent in the Noble Energy-BG agreement and approval by the Government of Cyprus

Cyprus – Block 12

Development Plan

- Development plan outline submitted to Cypriot Government in June 2015 with an application for a declaration of commerciality
- Including a floating production facility with a supply capacity of 800 MMCFD
- Gas sale from exit point of production facility, with the pipes owned by a third party

Target Markets

- Cyprus: Domestic market 60-100 MMCFD
- Egypt: Domestic market + supplementation of supply to liquefaction facilities: Damietta, ELNG

- **Marketing**
  - RFP process launched, which includes approaching Egyptian companies – local market and LNG players
  - Process launched vis-à-vis DEFA for gas sale to local market

Financially Ready For The Next Challenge

Leviathan Financing

- The partnerships are in negotiations for credit facility agreements to finance their share in the development of the Leviathan project, in the amount of $2 billion
- Documents will be updated following completion of Gas Framework approval process
- Foreign and local banks show brisk demand to participate in financing

Additional Financing Based On UFG Cash Flow

- Tamar Bond secured by cash flow deriving from all Tamar agreements (present and future)
- Model used in the offering was based on a conservative scenario of up to 9.5 BCM per year
- Once the UFG agreement is signed, an investment decision is adopted and Tamar's expansion is launched, additional financing in a significant amount will be feasible (in the context of Tamar Bond or as financing based on surplus cash after Tamar Bond service) to finance the investments in the expansion of Tamar and the development of Leviathan


Thank You
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