

Delek Drilling Trusts Ltd.

March 5, 2018

Israel Securities Authority
22 Kanfei Nesharim St.
Jerusalem

Tel Aviv Stock Exchange Ltd.
2 Ahuzat Bayit St.
Tel Aviv

Dear Sir/Madam,

Re: **Immediate report regarding the convening of a general meeting of the holders of the participation units**

Pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 and Section 14.1(b) of the trust agreement of July 1, 1993 that was signed between Delek Drilling Trusts Ltd. (the “**Trustee**”) and Fahn Kanne & Co., CPAs, and CPA Micha Blumenthal, together with Gissin & Keidar (the “**Supervisor**”) (as amended from time to time) (the “**Trust Agreement**”), the Supervisor hereby respectfully announces the summoning of a general meeting of the holders of the participation units that were issued by Delek Drilling Trusts Ltd. (the “**Trustee**”), and which confer a working interest in the Trustee’s rights as limited partner (“**Units**” or “**Participation Units**”) in Delek Drilling – Limited Partnership (the “**Partnership**”), as follows:

1. Location and date of the meeting

The meeting will be held on Sunday, March 18, 2018 at 10:00 at the law firm Gissin & Co., at 38 Habarzel St., Entrance B, Tel Aviv. The shortening of the timeframe for convening the meeting was required in view of the issues discussed therein, as specified below.

2. On the meeting’s agenda

2.1. Resolution no. 1 – approval of reimbursement of legal fee expenses in respect of the legal proceeding in connection with the issue of taxation of the Partnership’s profits

Background

2.1.1 Upon the appointment of the Supervisor, Gissin & Keidar, as supervisor of the gas partnership Avner Oil Exploration – Limited Partnership (“**Avner’s Supervisor**”) at the end of 2015, Avner’s Supervisor pointed out the difficulty entailed by the issue of implementation of Section 19(a)(6) of the Taxation of Profits from Natural Resources Law, 5771-2011 (the “**Law**”) and the need for clarification of the implementation and significance thereof vis-à-vis the holders of the Participation Units.

2.1.2 To this end, the Supervisor again requested that the general partner provide information and clarifications both with respect

to the bearing of the tax burden imposed at the Partnership on the holders of the Participation Units and with respect to the making of the required disclosure vis-à-vis the holders of the Participation Units.

- 2.1.3 In this regard, the Supervisor believed (as it also proposed to the Partnership) that payment of the tax mandated by Section 19(a)(6) of the Law would be made in accordance with the language of the Law on a differential basis such that the marginal tax rate that applies to an individual would be paid by the general partner with respect to individuals, and with respect to companies the corporate tax rate for all of the companies that hold Participation Units, with the difference between the tax rate for an individual and the corporate tax rate being transferred to holders that are corporations as a balancing distribution, such that payment of the tax would be differential but the distribution would be equal, in accordance with the requirements of the law.
- 2.1.4 The discussions on this issue were held also with the various authorities – the Tax Assessor for Large Enterprises, the Ministry of Justice, the ISA and TASE – for around one year, and included, from July 2016, intensive discussions, meetings and correspondence with the aim of finding an agreed solution at least for 2016.
- 2.1.5 Ultimately, and in the absence of an agreement between the Supervisor and the Partnership with respect to the manner of implementation of the Law, and out of a concern that the general partner's position with respect to the manner of implementation of Section 19(a)(6) of the Law may prejudice the rights of holders of the Participation Units in the Partnership, on October 30, 2016, Avner's Supervisor approached the Tel Aviv District Court in accordance with the Supervisor's authority by virtue of Section 65W of the Partnerships Ordinance [New Version], 5735-1975 (the "**Partnerships Ordinance**")¹, moving the court to prevent the prejudicial action, and to clarify the proper tax payment arrangement at the Partnership in view of the provisions of the Law and the partnership agreement (O.A. 41282-10-16 Gissin & Keidar Ltd. *et al.* v. Delek Drilling – Limited Partnership *et al.*, the "**Legal Proceeding**"). In the framework of the Legal Proceeding, the Supervisor was represented by the law firms Kabiri Nevo Keidar Blum & Co. and Gissin & Co., Adv. (the "**Attorneys**"), at which the supervisors are partners. Upon

¹ (a) If the supervisor has reasonable grounds to assume that an action is being or is about to be performed of the public limited partnership, of the general partner company or of an officer of any of them, or of the trustee, which may prejudice holders of the Participation Units, it shall approach them requesting that they cease or refrain from such action.

(b) If the request according to Subsection (a) is not granted or the circumstances do not allow such a request, the supervisor may approach the court with a motion to remedy the prejudice or prevent the action; the court may issue an order to prevent the action or any other remedy that it deems fit in the circumstances.

the merger of the Avner Oil Exploration partnership into the Delek Drilling partnership, the parties in the Legal Proceeding were changed, such that the outcome thereof will apply also to the Delek Drilling partnership, and the Attorneys assumed also representation of the supervisor at the merged partnership.

- 2.1.6 After a proceeding that lasted over a year and included several hearings and the parties' summations, in a decision that was issued on November 1, 2017², the court ruled that the correct interpretation for Section 19(a)(6) of the Law is in accordance with the Supervisor's position, that the general partner is required to refrain from issuing a tax credit certificate that is based on a weighted average, and that the imbalance between the investors may be resolved through the performance of a balancing distribution³.
- 2.1.7 Therefore, approval is hereby requested, pursuant to the provisions of Section 65W(c) of the Partnerships Ordinance⁴ and the provisions of Section 11.1 of the Trust Agreement, for payment of the legal fee expenses of the Supervisor in connection with the Legal Proceeding in the sum total of approx. ILS 399 thousand, plus VAT.

The language of the proposed resolution is as follows:

"To approve payment of the Supervisor's legal fees in respect of the Legal Proceeding in the sum total of approx. ILS 399 thousand, plus VAT."

2.2. **Resolution no. 2 – approval of the Supervisor's continued handling of an appeal that shall be filed by the general partner**

On December 13, 2017, the general partner filed an appeal from the decision of the District Court in the Legal Proceeding on the tax issue. In the framework of the appeal, the Supervisor will be represented by the Attorneys, and therefore approval is requested for payment of the fees of the Supervisor's Attorneys in accordance with the rates set forth in the fee statement attached hereto as Annex 1, and in an amount that shall not exceed ILS 150 thousand plus VAT for a period of one year. If the appeal proceedings last more than one year and the fee charges exceed the amount stated above, another request shall be presented to the meeting. It is noted that the decision on this issue is urgent in view of the fact that the Notice of Appeal was filed long ago, and soon the Supervisor is expected to be required to respond to the Notice of Appeal.

² As published in the Partnership's report of November 1, 2017, ref. no.: 2017-01-103584.

³ See Section 11 of the judgment.

⁴ (c) Unless the court rules otherwise, the general partner company will bear any and all expenses incurred by the supervisor according to the provisions of this section, including court fees and legal fees, at such time as the court shall determine.

The language of the proposed resolution is as follows:

“To approve payment of the fees of the Supervisor’s Attorneys in the framework of the appeal from the outcome of the Legal Proceeding, in accordance with the rates set forth in the fee statement attached hereto as **Annex 1**, and in an amount that shall not exceed ILS 150 thousand plus VAT for a period of one year.”

2.3. **Resolution no. 3 – approval of reimbursement of expenses to the Supervisor in respect of receipt of advice from an expert for examination of the date of recovery of the investment in the Tamar project**

In accordance with a rights transfer agreement that was signed in 1993 between Delek Energy Systems Ltd. (“**Delek Energy**”) and Delek - The Israeli Fuel Corporation Ltd. (“**Delek Israel**”, today Delek Group Ltd.) (collectively: the “**Transferors**”) and the Partnership’s general partner, the Partnership undertook to pay the Transferors royalties at variable rates from the Partnership’s entire share in oil and/or gas and/or other valuable substances that shall be produced and utilized from the petroleum assets in which the Partnership has or shall have in the future an interest (before deduction of royalties of any type, but after deduction of the oil that shall be used for purposes of the production itself) against receipt of rights in several licenses from the Transferors (the “**Rights Transfer Agreement**”)⁵.

The royalty rates determined in the Rights Transfer Agreement are as follows: until the “date of recovery of the investment” of the Partnership, royalties will be paid at a rate of 5% of onshore petroleum assets and 3% of offshore petroleum assets. After the “date of recovery of the investment” of the Partnership, royalties will be paid at a rate of 15% of onshore petroleum assets and 13% of offshore petroleum assets.

It transpires from the aforesaid that from the investment recovery date, the rate of the royalties paid to the Transferors increases significantly, and that accordingly, the Partnership’s general partner has an inherent personal interest in the determination of the investment recovery date.

In accordance with the Partnership’s immediate report of December 28, 2017 (ref. no.: 2017-01-122181), in accordance with the Partnership’s current estimate, the date of recovery of the investment in the Tamar project had long since occurred as of the end of January 2018.

Therefore, according to Section 11.1 of the Trust Agreement, approval is hereby requested for reimbursement of expenses to the Supervisor in respect of the appointment of Mr. Amir Soraya (through Soraya Consultants Ltd.) as an expert on behalf of the Supervisor for the purpose of provision of an opinion regarding the date of recovery of the

⁵ And see Section 7.27.12(a) of the Partnership’s periodic report of December 31, 2016 (released on March 23, 2017).

investment in the Tamar project, as defined in the Rights Transfer Agreement, in an amount that shall not exceed ILS 150 thousand plus VAT. It is noted that the appointment and commencement of the expert's work are urgent in view of the fact that, as aforesaid, according to the Partnership's position, the date of recovery of the investment in the Tamar project has long since occurred.

The language of the proposed resolution is as follows:

“To approve reimbursement of expenses to the Supervisor in respect of the appointment of Mr. Amir Soraya (through Soraya Consultants Ltd.) as an expert on behalf of the Supervisor for the purpose of provision of an opinion regarding the date of recovery of the investment in the Tamar project, as defined in the Rights Transfer Agreement, in an amount that shall not exceed ILS 150 thousand plus VAT.”

3. Details regarding the convening of the meeting

3.1. Legal quorum and adjourned meeting

No discussion shall be opened at the general meeting unless legal quorum is present at the time that the meeting proceeds thereto, and no resolution shall be adopted unless legal quorum is present at the time that they vote on the resolution. Legal quorum shall be formed upon the presence, in person or by proxy, of two unit holders jointly holding Units constituting no less than 50% of the units issued by the Trustee until the business day preceding the meeting.

If, one half hour after the time scheduled for the meeting, legal quorum is not present, the meeting shall stand adjourned until Sunday, March 25, 2018, at 10:00 at the same location, with no duty to give notice thereof to the unit holders. Any other day or other time or other location will be determined in a notice to the unit holders.

If, at such adjourned meeting, no legal quorum is present within one half hour from the time scheduled, two unit holders who are present, in person or by proxy, shall constitute legal quorum, and the meeting will be entitled to transact the business for which it was called. If legal quorum is not formed, as aforesaid, at the adjourned meeting, the meeting will be cancelled.

For purposes of legal quorum, also two proxies of a single registered unit holder which is a transfer agent (i.e. a company whose sole occupation is the holding of securities for others) who participate in the meeting by virtue of a power of attorney granted to them in respect of different units by the same registered unit holder, shall be deemed as “two unit holders”.

3.2. The majority required for the adoption of the resolution on the agenda

The majority required for approval of the required resolutions is a simple majority of the units whose holders participated in and voted at the meeting as aforesaid, provided that the full count of votes at the meeting of the unit holders did not take into account votes of the general partner or the controlling shareholder thereof or entities having a personal interest in the resolution, with the exception of a personal interest that is not as a result of a connection with the general partner or the controlling shareholder thereof, and the abstaining votes.

3.3. Record date and proof of ownership

3.3.1 The record date for determination of the right to vote pursuant to Section 182 of the Companies Law, 5759-1999 (the “**Companies Law**”) is Sunday, March 11, 2018, at the end of the trading day on TASE (the “**Record Date**”).

3.3.2 In accordance with the Companies Regulations (Proof of Ownership of a Share for Purposes of Voting at a General Meeting), 5760-2000, a unit holder to whose credit a participation unit is registered with a TASE member, and which unit is included among the units registered in the participation units register in the name of the transfer agent (“**Unregistered Unit Holder**”), shall provide the Partnership with confirmation from the TASE member with which the unit is registered to his credit regarding ownership of the unit on the Record Date, in accordance with the provisions of the above regulations and the form in the Schedule to the said regulations.

3.3.3 In addition, an Unregistered Unit Holder may instruct that the confirmation of his ownership be delivered to the Partnership through the electronic voting system which operates according to Title B of Chapter G2 of the Securities Law (the “**Electronic Voting System**”).

3.4. Manner of voting

3.4.1 For purposes of the resolution on the meeting’s agenda, a unit holder may vote in person, by a proxy who holds a document appointing him as a proxy and via an electronic voting card which shall be delivered to the Partnership on the Electronic Voting System.

3.4.2 A document for the appointment of a proxy, or a copy thereof, certified by a notary, shall be deposited against confirmation of delivery at the Supervisor’s offices at the law firm Gissin & Co., at 38 Habarzel St., Entrance B, Tel Aviv, at least 48 hours before the time of the meeting, i.e. no later than Friday, March 16, 2018,

at 10:00, failing which, such appointment document will not be valid at the meeting or at an adjourned meeting.

- 3.4.3 If the meeting is adjourned, as stated in Section 3.1 above, and a unit holder deposited a document for the appointment of a proxy in the manner and under the conditions stated above, at least 48 hours before the time of the adjourned meeting, the unit holder who deposited the power of attorney for voting via a proxy at an adjourned meeting will be entitled, regardless of whether or not he was present at the original meeting, in person or by proxy.

For the avoidance of doubt, only if an adjourned meeting is convened within ten days from the time of the original meeting will a unit holder who was present at the original meeting by proxy not be required to redeposit a power of attorney for the purpose of voting at such adjourned meeting.

3.4.4 Voting on the electronic system

After the Record Date, upon receipt of an identifying number and an access code from the TASE member and after a process of identification, an Unregistered Unit Holder may vote on the electronic system. The last date for voting on the electronic system is up to 6 hours before the time of convening of the meeting, i.e. Sunday, March 18, 2018, by 4:00. It is noted that pursuant to Section 83(d) of the Companies Law, if a unit holder votes in more than one manner as aforesaid, his later vote will be counted.

3.5. Changes in the agenda

- 3.5.1 After the release of this notice report, there may be changes to the agenda, including the addition of an item to the agenda, and it will be possible to inspect the current agenda in the Partnership's reports that shall be published on the distribution site of the ISA at: www.magna.isa.gov.il and on the website of the Tel Aviv Stock Exchange Ltd. at: www.maya.tase.co.il.
- 3.5.2 An application of one or more participation unit holder holding at least half a percent (0.5%) of all of the Partnership's participation units according to Section 65DD(b) of the Partnerships Ordinance, to include an item on the agenda of the general meeting, shall be provided to the Partnership up to three days after the summoning of the meeting. The item may be added to the agenda and its details will appear on the distribution site. In such a case, the Trustee shall release an amended notice report no later than seven days after the last date for delivery of an application of the participation unit holder for the inclusion of an item on the agenda, as aforesaid.

4. Inspection of documents

The immediate report may be inspected on the website of TASE <http://www.maya.tase.co.il> and on the distribution site of the ISA www.magna.isa.gov.il. In addition, the notice to the unit holders and a copy of any document pertaining to the proposed resolutions specified above are available for inspection at the Partnership's offices, after prior coordination, until the date of convening of the unit holders' meeting.

Sincerely,

**Fahn Kanne & Co., CPAs, and CPA Micha Blumenthal
together with Gissin & Keidar**

March 5, 2018**Re: Fee Rates**

In respect of the representation by the law firms Kabiri Nevo Keidar Blum & Co. and Gissin & Co., Adv. (“**Attorneys**”) of the supervisor of Delek Drilling – Limited Partnership in the appeal filed by the Partnership’s general partner from the decision of the District Court in O.A. 41282-10-16 Gissin & Keidar Ltd. *et al.* v. Delek Drilling – Limited Partnership *et al.* (judgment of November 1, 2017), the Attorneys will be paid a fee according to the following rates:

1. For one hour of a senior partner – ILS 1,200 plus VAT.
2. For one hour of a partner or senior attorney – ILS 800 plus VAT.
3. For one hour of an attorney – ILS 600 plus VAT.
4. For one hour of an intern – ILS 350 plus VAT.

In addition, the Attorneys will be paid reimbursement of expenses relating to the legal services, including fees, couriers, travel, photocopying, parking, etc.