

Delek Drilling – Limited Partnership **(the "Partnership")**

January 31, 2021

To
Israel Securities Authority
22 Kanfei Nesharim St.
Jerusalem

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

Dear Sir/Madam,

Re: **MOU for separate marketing from the Tamar reservoir and a settlement regarding the agreement with the Israel Electric Corp. Ltd.**

Further to the previous reports on discussions held between the Tamar partners to reach principles for separate marketing of the gas produced from the Tamar reservoir, and regarding a dispute which arose between the Tamar partners regarding the 2012 supply agreement signed between the Tamar partners and the IEC, as amended (the "**IEC-Tamar Agreement**")¹, the Partnership respectfully reports as follows:

- a. **MOU between the Tamar partners on separate marketing of the natural gas**
1. On January 30, 2021 all of the Tamar partners signed a (non-binding) MOU, intended to enable each one of the Tamar partners to separately market its proportionate share in the natural gas produced from the Tamar reservoir, without derogating from the possibility to jointly market the gas produced from the reservoir (the "**MOU**").

The MOU includes, *inter alia*, arrangements and mechanisms intended to enable a partner in the reservoir to market gas separately, not together with the other partners in the reservoir, and to enable a partner to market gas over and above its proportionate share in the output, subject to the availability of production capacity on a daily basis, and insofar as another partner has not marketed its share in the gas on the same day. In such a case, balancing arrangements shall apply, in order to balance the partners' rights relative to the gas sold, as needed, according to the partners' proportionate share in the reservoir. Principles have further been determined regarding a partner's right to join gas sale agreements entered into by another partner in the reservoir.
 2. The Tamar partners shall hold negotiations in order to reach a detailed and binding agreement based on the MOU by February 17, 2021 (the "**Detailed Agreement**" and the "**Effective Date**", as applicable). Insofar as no final and binding Detailed Agreement is reached by the Effective Date, the MOU (as being at such time) shall become binding, and the

¹ For details on the IEC-Tamar Agreement, see Section 7.12.4(a)(4) of Chapter A of the Partnership's Periodic Report for 2019, released on March 30, 2020 (Ref. no. 2020-01-032010) ("**Chapter A**").

parties shall act in accordance therewith from the Effective Date, subject to receipt of the Competition Authority's approval. The parties shall, at the same time, continue negotiating the full terms and conditions of the Detailed Agreement. The Tamar partners have further agreed that in the event of disputes regarding the terms and conditions of the Detailed Agreement, they shall be determined by an arbitrator, in accordance with an arbitration mechanism agreed between them.

3. The MOU, along with related documents, has been submitted to the Competition Authority for approval and is conditioned upon receipt of the said approval.

b. Settlement agreement between the Tamar partners and the IEC

1. On October 4, 2020, the partners in the Tamar reservoir, apart from the Partnership and Noble (the "**Other Tamar Partners**") reported their engagement in an agreement with the IEC for the sale of quantities of gas exceeding the minimum billable quantity under the IEC-Tamar Agreement.

For further details, see the Partnership's immediate reports of October 5, 2020 and October 14, 2020 (Ref. no. 2020-01-108018 and 2020-01-111918, respectively) (the "**Agreement in Dispute**").

2. On January 30, 2021 all of the Tamar partners and the IEC signed a settlement agreement, intended to resolve the disputes which arose between the parties in connection with the Agreement in Dispute (the "**Tamar Settlement Agreement**"). In the Tamar Settlement Agreement, it was agreed, *inter alia*, that the Agreement in Dispute would be terminated and be null and void, and that until June 30, 2021 the IEC would be able to buy from the Tamar reservoir a quantity of 1.25 BCM, for a price lower than the IEC-Tamar Agreement price, which varies according to the purchased quantity, approx. 0.81 BCM of which have already been supplied in 2020, as well as, under certain conditions, additional quantities insofar as such quantities are not supplied by the Leviathan partners under the IEC-Leviathan agreement. The gas quantities supplied and to be supplied at a reduced price as aforesaid, shall not be taken into account for calculation of the Take or Pay and the Carry Forward in the years 2020 and 2021. The Tamar Settlement Agreement further determines that the maximum daily contractual quantity which the Tamar partners will be required to supply to the IEC under the IEC-Tamar Agreement in H1/2021 shall be limited to 500,000 MMBTU (compared with 655,000 MMBTU).

c. Settlement agreement between the Leviathan partners and the IEC

On January 30, 2021, concurrently with the signing of the Tamar Settlement Agreement, the Leviathan partners and the IEC signed a settlement agreement (the "**Leviathan Settlement Agreement**"), which amends the gas supply agreement signed on June 12, 2019 between the Leviathan partners and the IEC

(the "**IEC-Leviathan Agreement**")², in which, without derogating from the parties' undertakings under the IEC-Leviathan Agreement, the IEC undertook to nominate from the Leviathan partners, in H1/2021, approx. 1.2 BCM of natural gas, from which certain gas quantities, as agreed, shall be deducted, namely quantities of gas to be nominated from Leviathan by the IEC and not supplied thereby and quantities of gas not consumed by the IEC due to force majeure events and/or malfunctions in significant production units of the IEC (the "**Basic Quantity**"). If the IEC does not nominate the Basic Quantity in the said period, it shall be liable to pay the Leviathan partners for the different between the Base Quantity and the quantity actually nominated thereby. The IEC shall be entitled to use the remaining Basic Quantities which it paid for but did not use, according to a mechanism set forth in the Leviathan Settlement Agreement.

In addition, the Leviathan partners will grant the IEC a price discount for the nomination of quantities of gas exceeding approx. 0.5 BCM, nominated from January 1, 2021.

- d. The Tamar Settlement Agreement and the Leviathan Settlement Agreement are subject to the fulfillment of conditions precedent and regulatory approvals, including the approval of the Competition Commission, the approval of the Electricity Authority (if required), and the approval of the Competition Court for an agreed order under section 50B of the Economic Competition Law, 5748-1988, whereby the Competition Commissioner shall not continue her processing and shall take no enforcement measures against Noble for the complaints filed by the Other Tamar Partner sent he IEC regarding the Agreement in Dispute. Insofar as such conditions precedent are not fulfilled within 30 days of rot he date of signing of the said settlement agreement, and with respect to the approval of the Competition Court – 60 days, each party shall have the right to terminate the agreement.
- e. At the time of signing of the IEC-Leviathan Agreement, the Partnership estimated that during the term for the Agreement, a quantity of appr. 4 BCM would be supplied to the IEC, for revenues of approx. \$700 million (100%). During 2020, a quantity of approx. 2.4 BCM was supplied from the Leviathan reservoir to the IEC, for reviews of approx. \$405 million (100%). Under the Leviathan Settlement Agreement, the Partnership estimates that in H1/2021 an additional quantity of approx. 1.2 BCM will b supplied to the IEC, for revenues of approx. \$200 million (100%).

It is noted that according to initial estimates, the Partnership's revenues from the Leviathan reservoir in 2021, as to be taken into account in the discounted cash flow as of December 31, 2020 to be released by the Partnership, will exceed the scope of such reviews, as taken into account in the discounted cash flow from the Leviathan project as of June 30, 2020, released on July 9, 2020 (Ref. no. 2020-01-065878).

- f. Furthermore, in the Partnership's estimation, according to the Tamar Settlement Agreement, in H1/2021 no material change is expected in the Partnership's

² For details on the IEC-Leviathan Agreement, see Section 7.12.4(b)(2) of Chapter A.

revenues from the sale of natural gas to the IEC, relative to the assumptions made in the discounted cash flow from the Tamar Project as of June 30, 2020, released by the Partnership on July 22, 2020 (Ref. no. 2020-01-071242).

Caution regarding forward-looking information:

The above estimates with respect to the aggregate amount of revenues from the sale of natural gas to the IEC according to the Settlement Agreements as aforesaid constitute forward-looking information, within the meaning thereof in the Securities Law, 5728-1968, which there is no certainty will materialize, in whole or in part, and may materialize in a materially different manner due to various factors including changes in the volume and in the timing of the natural gas consumption by the IEC, *inter alia* as a result of the capacity and production restrictions of the Leviathan and Tamar reservoirs and/or as a result of changes in demand in the natural gas market and/or non-fulfillment of the conditions precedent or other factors that are currently unforeseeable and/or other factors beyond the Partnership's control.

The partners in the Leviathan project and their holding rates are as follows:

The Partnership	45.34%
Noble	39.66%
Ratio Oil Exploration (1992), Limited Partnership	15.00%

The partners in the Tamar project and their holding rates are as follows:

Isramco Negev 2, Limited Partnership	28.75%
Noble	25.00%
The Partnership	22.00%
Tamar Petroleum Ltd.	16.75%
Dor Gas Exploration, Limited Partnership	4.00%
Everest Infrastructures, Limited Partnership	3.50%

Sincerely,

Delek Drilling Management (1993) Ltd.

The General Partner in Delek Drilling – Limited Partnership

By Yossi Abu, CEO

Saar Prag, Natural Gas Trade Manager