Delek Drilling – Limited Partnership
(the "Partnership")

December 24, 2018

Israel Securities Authority
22 Kanfei Nesharim St.
Jerusalem

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

Dear Sir/Madam,

Re: **Profit Distribution**

The Partnership respectfully announces that on December 24, 2018, the board of directors of the Partnership's general partner decided, after receiving the recommendation of the Financial Statements Review Committee of the Partnership's general partner (the "**FSRC**"), on the distribution of profits in the sum total of ILS 130 million, with the record date for the distribution being December 31, 2018.

Set forth below are details regarding the examination carried out by the FSRC and the board of directors of the Partnership's general partner in connection with the adoption of the decision regarding the profit distribution as aforesaid:

The FSRC and the general partner's board of directors examined the Partnership's compliance with the profit test and the solvency test set forth in Section 302(a) of the Companies Law, 5759-1999, and following this examination confirmed the Partnership's compliance with these tests in relation to the said profit distribution.

1. With respect to compliance with the profit test, the general partner's board of directors approved the said profit distribution based on the Partnership's retained earnings as of September 30, 2018, which exceeds the sum of the distribution. It is noted that in view of the planned work plans, including the investments expected in the development of the Leviathan project and financing of the costs of development thereof, and considering the liabilities that the Partnership has assumed in connection with the financing of the Tamar project and bonds issued by the Partnership, and in accordance with the resolutions of the general meeting of the unit holders regarding refrainment from distributing profits, as specified in Sections 4.2.4 and 4.2.5 of the Partnership's periodic report as of December 31, 2017, which was released on March 21, 2018 (ref. no.: 2018-01-022209) (the "**Periodic Report**"), and in the Partnership's immediate reports of June 11, 2018, June 28, 2018 and July 1, 2018 (ref. no.: 2018-01-049728, 2018-01-062350 and 2018-01-063043, respectively), the general partner's board of directors resolved to approve a distribution in a lower amount than the Partnership's distributable profits.

2. With respect to compliance with the solvency test, the general partner's board of directors and FSRC weighed the following matters: data regarding the Partnership's financial position, including data regarding the Partnership's liquid balances, the Partnership's existing and future balance of liabilities, including their

due dates, the Partnership's expected future cash flows, assumptions in relation to the Partnership's expected future uses and sources, including costs of development of the Leviathan project, the additional financing sources available to the Partnership, including financing of costs of development of the Leviathan project, additional debt financings, rights financings, disposition of investments and assets and performance of future investments which have been and/or shall in the foreseeable future be approved. After examination of the above matters, the FSRC and the board of directors confirmed that the Partnership meets the solvency test in relation to the said profit distribution.

3. In the estimation of the FSRC and the board of directors, the profit distribution will not have a material adverse effect on the Partnership's financial position, including on its capital structure, leverage level, liquidity or ability to continue operating in its existing operating format.

The trustee gave his consent to the profit distribution as aforesaid.

In accordance with the judgment of the District Court issued in O.A. 41282-10-16 with respect to the interpretation and manner of implementation of Section 19 of the Taxation of Profits from Natural Resources Law, 5771-2011, an appeal from which is pending at the Supreme Court (see Section 4.3.5 of the Periodic Report), the Partnership and/or the general partner are required to find the correct balance between the additional expense entailed by the tax rate that applies to the individuals who hold participation units and the expense entailed by the tax rate that applies to companies that hold participation units, and although no agreement was reached between the Partnership and the Tax Assessor for Large Enterprises with respect to the manner of collection of the tax in respect of the liable income of the Partnership for 2018, as an agreement was signed for the tax year 2017 (see the immediate report of December 21, 2017 (ref. no.: 2017-01-118860)), the general partner decided, after the supervisor announced that it had no objection to the implementation of the deduction as aforesaid, to act also in respect of the tax year 2018 in a manner similar to the manner in which the Partnership acted in the tax year 2017.

Accordingly, upon performance of the distribution, the TASE members[1] shall act as follows:
A holder that is a body corporate[2] – no deduction shall be made therefor.
A holder who is an individual[3] – withholding tax at a rate of 98%[4] shall be deducted for him from the amount of the distribution. The said deduction rate was calculated based on:

a. The tax supplementation rate applicable to a holder who is an individual, i.e. 24% (the difference between the maximum marginal tax for an individual (47%) and the corporate tax rate (23%)[)].
b. The scope of the profit distribution in the sum of ILS 130 million.

---

[1] The deduction in respect of a registered holder will be made by the Partnership.

[2] For this purpose, a "body corporate" – including an exempt mutual fund, provident funds and a public institution. A foreign resident is deemed as an Israeli resident.

[3] For this purpose, an "individual" – including a liable mutual fund and partnership. A foreign resident is deemed as an Israeli resident.

[4] According to the following calculation (rounded-off and in millions of shekels): ((471x24%)+(58x25%))/130=98%.

c. The Partnership's estimated liable income from a business for 2018, which, as of the date of this report, is approx. ILS 471 million, and the Partnership's estimated liable income from dividends and interest from securities, net of the (net) capital loss from the sale of securities for 2018, which, as of the date of this report, is approx. ILS 58 million (the "**Estimated Liable Income**") (for details see the immediate report of December 24, 2018 (ref. no.: 2018-01-117988).
d. The Partnership's estimate regarding the rate of the share in the Partnership of the entitled holders that are a body corporate and the rate of the share of the holders who are individuals. It is noted that this is an estimate only, and that the actual rate may be materially different.

If a change occurs in the final rate of the deduction from a participation unit holder who is an individual, the Partnership shall release an immediate report by December 31, 2018 accordingly.

In connection with the deduction that shall be made from the distribution, it is noted that:

a. The deduction that shall be made as aforesaid does not necessarily constitute a full balancing between the additional expense entailed by the tax rate that applies to the individuals who hold participation units and the expense entailed by the tax rate that applies to companies that hold participation units, since insofar as there is a difference (if any) between the Estimated Liable Income and the final assessment that is issued to the Partnership, the Partnership shall be required to pay the Tax Authority the tax required by this difference, and therefore the said deduction does not resolve the difference deriving from such additional payment.
b. If it transpires, for any reason (if any) that the said deduction together with the tax payment that is transferred to the Tax Authority by the Partnership pursuant to Section 19 of the Law constitutes an overpayment of tax (the "**Tax Overpayment**"), it is the Partnership (and not the TASE Clearing House and/or the TASE members) that will be responsible for the litigation vis-à-vis the Tax Authority in connection with any refund that shall derive (if any) from the Tax Overpayment and the manner of making of the refund.

It is noted that the aforesaid is not intended to derogate from the right of any taxpayer to approach the Tax Authority according to his personal circumstances.

The report form is intended for the distribution of a dividend of a company and not the distribution of profits of a partnership. Therefore, please note the following comments:
1. In Section 1 – the security of the corporation to which the profit distribution is made is a participation unit (and not shares).
2. Any mention of a "dividend" in the report form should be read as "profit distribution".
3. Any mention of a "company" in the report form should be read as "partnership".

Warning regarding forward-looking information – the estimates stated in Sections 2 and 3 above constitute forward-looking information, as defined in the Securities Law, 5728-1968, which are based on an analysis of the data specified in Paragraph 2 above, carried out by the general partner's board of directors and FSRC. These estimates may not materialize, in whole or in part, or materialize in a manner materially different than

expected, *inter alia* following changes in the capital market conditions, the rate of inflation, estimated timetables of performance of exploration and development actions, exchange rates, the market conditions in which the Partnership operates, political and security changes and regulatory and geopolitical changes which may affect the Partnership's activities.

Sincerely,

Delek Drilling Management (1993) Ltd.
General Partner of Delek Drilling - Limited Partnership

By Yossi Abu, CEO
and Yossi Gvura, Deputy CEO