

## **Delek Drilling - Limited Partnership**

**(the "Partnership")**

July 25, 2020

Israel Securities Authority  
22 Kanfei Nesharim Street  
Jerusalem

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

Dear Sir/Madam,

Re: **Receipt of Tax Assessment to the Best of Judgment – Temporary Tax Certificate for Entitled Holders due to the holding a Participation Unit for the Tax Year 2017**

Following the content of Section 7.22 of the Periodic Report of the Partnership for December 31, 2019, as published on March 30, 2020 (Ref.: 2020-01-032010), in respect of the taxable income of the Partnership, which was attributed to entitled holders for holding participation units of the Partnership in 2017, the Partnership hereby respectfully updates that in view of the disputes between the Partnership and the Tax Authority and the disagreements in respect of the amount of the Partnership's taxable income for 2017, an assessment to the best of judgment was received on July 23, 2020 from the Tax Authority, pursuant to Section 145(a)(2)(b) of the Income Tax Ordinance, 5721-1961 (the "**Tax Assessment**"), whereby the taxable business income for 2017, of the Partnership is approx. \$369 million (*in lieu* of approx. \$218 million as included in the Partnership's tax report which was filed with the Tax Authority) and the capital gains for 2017 of the Partnership is approx. \$663 million (*in lieu* of approx. \$544 million as included in the Partnership's tax report which was filed with the Tax Authority).

The dispute pertains chiefly to the interpretation of the manner of recognition of financing expenses and additional expenses actually incurred by the Partnership, including attribution of financial income deriving from exchange rate differences to a property under construction, the manner of implementation of Section 20(b) of the Taxation of Profits from Natural Resources Law, 5771-2011 regarding deduction of depreciation expenses and the manner of calculation of the capital gains from the sale of 9.25% (out of 100%) of the rights to the Tamar and Dalit Leases.

According to the tax assessment, and insofar as all of the arguments of the Tax Authority are granted, the Partnership will be required to pay an additional tax payment (including linkage differentials and interest), on account of the participation unit holders in the Partnership, in the amount of approx. \$86 million.

It is noted that in view of the aforesaid, the issue of a final tax certificate for an entitled holder for the holding of a participation unit of the Partnership for the tax year 2017, may be delayed, pending completion of the proceedings required for the determination of the final assessment.

In the Partnership's estimation, based on the opinion of its professional advisors and past experience, chances of most of the Partnership's arguments being accepted are higher than 50%, and therefore it intends to file an objection to the tax assessments and exhaust the administrative and legal proceedings available thereto.

Sincerely,  
**Delek Drilling Management (1993) Ltd., the General Partner  
of Delek Drilling – Limited Partnership**

By:  
Yossi Abu, CEO  
And Yossi Gvura, Deputy CEO