

Delek Drilling - Limited Partnership

November 21, 2018

Israel Securities Authority
22 Kanfei Nesharim Street
Jerusalem

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

Dear Sir/Madam,

Re: **Immediate Report on Notice of a Special Meeting of the Participation Unit Holders**

In accordance with the Securities Regulations (Transaction between a Company and the Controlling Shareholder thereof), 5760-2001 (the “**Controlling Shareholders Regulations**”), the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the “**Reports Regulations**”) and the provisions of the Partnerships Ordinance [New Version], 5735-1975 (the “**Partnerships Ordinance**”), which imposes certain provisions of the Companies Law, 5759-1999 (the “**Companies Law**”) and the regulations promulgated thereunder, and the trust agreement of July 1, 1993, which was signed between Delek Drilling Trusts Ltd. (the “**Trustee**”) and Fahn Kanne & Co. – Accountants and CPA Micha Blumenthal jointly with the company of Gissin & Keidar (the “**Supervisor**”) (as amended from time to time), the Partnership respectfully notifies of the calling of a special meeting of the holders of participation units issued by the Trustee and granting a participation right in the Trustee's rights as a limited partner (“**Units**” or “**Participation Units**”) in Delek Drilling – Limited Partnership (the “**Partnership**”), as follows:

1. **Time and location of the meeting**

The meeting will be held on Thursday, December 27, 2018, at 16:00, at the Herods Herzliya Hotel, 11 HaOggen Street, Herzliya.

2. **Agenda of the meeting and summary of the proposed resolutions**

2.1. **Resolution No. 1**

It is proposed to update Section 13 of the compensation policy for officers of the Partnership and of Delek Drilling Management (1993) Ltd. (the general partner of the Partnership) (the “**General Partner**”), as approved by the meeting of Unit holders on June 5, 2016, with respect to insurance and indemnification of the directors and officers, according to the language attached hereto as **Annex A**.

The proposed language of the resolution (“**Resolution No. 1**”): “To update Section 13 of the compensation policy for officers of the Partnership and of the General Partner, as approved by the meeting of Unit holders on June 5, 2016, with respect to insurance and indemnification of the directors and officers, according to the language

attached as Annex A to the notice of meeting report of November 20, 2018.”

2.2. **Resolution No. 2**

It is proposed to approve framework terms and conditions for a three-year period for future engagements by the General Partner and/or the Partnership, from time to time and without additional approval by the general meeting of the Unit holders being required therefor, in a policy for insurance of the liability of directors and officers of the Partnership and of the General Partner, under a group insurance policy taken out by Delek Group Ltd. (“**Delek Group**”)¹, the (indirect) control holder of the Partnership, for itself and for all or some of its subsidiaries and affiliates, including the Partnership and the General Partner, with the Phoenix Insurance Company Ltd. (which is wholly-owned by the Phoenix Holdings Ltd. (“**Phoenix Holdings**”), approx. 30.14% of the issued capital of which is held by Delek Group) (the “**Phoenix**”) or with another insurer, in Israel or abroad, including insurance of the liability of control holders or their relatives in the context of their positions from time to time as officers of the Partnership and/or the General Partner, for such premium and on such terms and conditions as specified in Section 3.2 below.

The proposed language of the resolution (“**Resolution No. 2**”): “To approve framework terms and conditions for a three-year period for future engagements by the General Partner and/or the Partnership, from time to time and without additional approval by the general meeting of the Unit holders being required therefor, in a policy for insurance of the liability of directors and officers of the Partnership and of the General Partner, under a group insurance policy taken out by Delek Group, for itself and for all or some of its subsidiaries and affiliates, including the Partnership and the General Partner, with the Phoenix or with another insurer, in Israel or abroad, including insurance of the liability of control holders or their relatives in the context of their positions from time to time as officers of the Partnership and/or the General Partner, for such premium and on such terms and conditions as specified in Section 3.2 of the notice of meeting report of November 20, 2018.”

2.3. **Resolution No. 3**

It is proposed to approve the payment of reimbursement of expenses of the fees of the Supervisor’s attorneys in respect of the legal proceeding that was conducted before the District Court with respect to the tax payment arrangement applied at the Partnership (O.A. 41282-10-16 (the

¹ It is noted that the general meeting of Delek Group resolved on October 17, 2018 to approve the engagement with the Phoenix for the insurance of directors of Delek Group and its subsidiaries under of a group insurance policy insuring the liability of directors and officers, for Delek Group and for most of its subsidiaries, for an 18-month period commencing on January 1, 2019 and ending on June 30, 2020 (inclusive) and to also approve framework terms and conditions for future engagements under a group insurance policy, which include, among others, a liability cap of up to 250 million per occurrence and in the aggregate.

“**Legal Proceeding**”) in the total sum of approx. ILS 399 thousand plus V.A.T., and to further approve that, insofar as not otherwise ruled by the Supreme Court adjudicating the appeal from the Legal Proceeding (C.A. 10220/17) (the “**Appeal**”), the Supervisor’s attorneys’ fees in respect of the Appeal shall be paid in accordance with the rates set in the detailed attorney fees attached hereto as **Annex B**, and in a sum not to exceed ILS 150 thousand plus V.A.T.”.

The proposed language of the resolution (“**Resolution No. 3**”): “To approve the payment of reimbursement of expenses of the fees of the Supervisor’s attorneys in respect of the Legal Proceeding in the total sum of approx. ILS 399 thousand plus V.A.T., and to further approve that, insofar as not otherwise ruled by the Supreme Court adjudicating the Appeal, the Supervisor’s attorneys’ fees in respect of the Appeal shall be paid in accordance with the rates set in the detailed attorney fees attached as **Annex B** to the notice of meeting report of November 20, 2018 and in a sum not to exceed ILS 150 thousand plus V.A.T.”

3. **Additional details with respect to the issues on the agenda**

3.1. **Resolution No. 1**

3.1.1. The compensation policy for officers of the Partnership and of the General Partner was approved by the meeting of the Unit holders on June 5, 2016 (Ref. No.: 2016-01-044880). For further details, see the Partnership’s immediate report of May 30, 2016 (Ref. No.: 2016-01-039408).

3.1.2. A decision was adopted by the compensation committee on November 18, 2018, to recommend to the board of directors of the General Partner an update of Section 13 of the compensation policy, which concerns the insurance and indemnification of the directors and officers. Such update of the compensation policy was approved by the board of directors of the General Partner on November 20, 2018.

3.1.3. Such update of the compensation policy chiefly consists of the following:

3.1.3.1. According to the current language of Section 13.1 of the Compensation Policy: “The directors and officers may be entitled to be included in a policy for the insurance of the liability of directors and officers to be taken out by the Partnership (hereinafter in this section: an “**Independent Policy**”) and/or the control holder of the General Partner (hereinafter in this section: a “**Group Policy**”), in accordance with the approvals required by law. The insurance liability cap in an Independent Policy and/or a Group Policy will not exceed U.S. \$150 million per occurrence and in the aggregate. The Partnership may take out an

Independent Policy if it chooses not to be included in the Group Policy or if it chooses to take out a policy to cover the difference between the actual insurance liability cap under the Group Policy and the insurance liability cap, as aforesaid. The annual premium for both an Independent Policy and a Group Policy (the Partnership's share) shall not exceed U.S. \$400 thousand plus up to 15% per year, and the Partnership's deductible shall not exceed U.S. \$250 thousand per occurrence."

3.1.3.2. According to the proposed update, as approved by the compensation committee and the board of directors, the language described in Section 3.1.3.1 shall be amended such that the coverage cap shall not exceed U.S. \$300 million, *in lieu* of U.S. \$150 million, and the annual premium for the Independent Policy and the Group Policy (the Partnership's share) shall not exceed \$800 thousand per year plus up to 15% per year, *in lieu* of U.S. \$400 thousand. Beyond the foregoing, no other change shall be made in the aforesaid Section 13.1 of the compensation policy.

3.1.3.3. Furthermore, the following paragraph will be added as part of the update of Section 13 of the compensation policy:

"The Partnership may purchase policies for the insurance of liability that derives from public offerings of securities under prospectuses by the Partnership and/or a subsidiary corporation, in the event of such offerings (hereinafter in this section: the "**Offerings**" and the "**POSI Policy**", respectively), with every POSI Policy in relation to any offering including the following conditions: A liability cap of up to \$300 million per occurrence and in the aggregate for a period of up to approx. 7 years as of the day of the offering, and, in addition, reasonable legal costs over and above the liability cap, to insure the following insured parties: The employees and/or officers of the Partnership, of the General Partner and of a subsidiary corporation; the Partnership and/or the General Partner in respect of their liability in relation to the prospectus and their liability for indemnification of certain third parties in relation to the prospectus. The insurance premium for the Partnership's engagement in the POSI Policy shall not exceed \$150 thousand per year, plus up to 15% per year, and the deductible shall not exceed U.S. \$500 thousand per claim."

3.1.4. It is noted that the update specified in Section 3.1.3 above derives, *inter alia*, from several cumulative facts as specified below, with a forward-looking perspective that aims to afford the competent institutions range of actions in relation to the appropriate protections for officers according to the varying risk at the Partnership:

3.1.4.1. Increase in the Partnership's operations and obtainment of financing sources, including operations of production and export (including to Egypt and Jordan) and capital market activity, which significantly enhance the officers' exposure to the public of investors and to third parties;

3.1.4.2. A framework of up to \$300 million for the purchase of an annual liability cap in a policy for the insurance of officers' liability for the required premium is a standard framework in comparison to other public companies, in amount and in the business sector and the insured risk.

3.1.5. The updated compensation policy as approved by the compensation committee and the board of directors is attached hereto as **Annex A**, with the update presented for approval by the meeting, in Section 13 of the compensation policy, marked vis-à-vis the compensation policy that had been approved, as aforesaid, by the meeting of holders of Units on June 5, 2016.

3.2. **Resolution No. 2**

3.2.1. As provided by the Partnership's compensation policy and as noted above, the directors and officers may be entitled to be included in a policy for the insurance of the liability of directors and officers to be taken out by the Partnership (hereinafter in this section: an "**Independent Policy**") and/or the control holder of the General Partner (hereinafter in this section: a "**Group Policy**"), in accordance with the approvals required by law. The Partnership may take out an Independent Policy if it chooses not to be included in the Group Policy or if it chooses to take out a policy to cover the difference between the actual insurance liability cap under the Group Policy and the insurance liability cap mentioned in Section 3.1.3.2 above (subject to the general meeting's approval of the update of the compensation policy as aforesaid)

3.2.2. The Partnership's engagement in Delek Group's group insurance policy for the insurance of the liability of directors and officers for itself and for most of its subsidiaries and affiliates, including the Partnership and the General Partner, is scheduled to expire on December 31, 2018. Such engagement was approved by the compensation committee and board of directors of the General Partner in accordance with the framework transaction which had

been approved by the meeting of Unit holders of October 30, 2014 (Ref. No.: 2014-01-184599) and the validity of which is scheduled to expire on December 31, 2018. For details about the engagement and the framework transaction approved as aforesaid, see the Partnership's immediate report of September 15, 2014 (Ref. No.: 2014-01-157779) and Section 22(h) of Chapter D of the Partnership's periodic report for 2017 (Ref. No.: 2018-01-022209).

3.2.3. In view of the aforesaid, in the General Partner's board meeting of November 20, 2018, following the compensation committee's approval on November 18, 2018, and subject to approval by the Unit holders meeting, it was resolved to approve a framework transaction for a three-year period for future engagements in group insurance policies for insurance of the liability of officers of the Partnership and of the General Partner and/or subsidiary corporations of theirs, as well as officers on behalf of the Partnership and/or the General Partner in affiliated corporations (the "**Framework Transaction**").

3.2.4. In accordance with the Framework Transaction, the General Partner and/or the Partnership may, from time to time, with approval from the audit committee and board of directors of the General Partner and without additional approval by the general meeting of Unit holders being required therefor, extend and/or renew the insurance policy, or replace it if so required, under a group insurance policy taken out by Delek Group for itself and for all or some of its subsidiaries and affiliates, including the Partnership and the General Partner, with the Phoenix (the current insurer) or with any other insurer, in Israel or abroad. The insurance policy will apply to all of the officers of the Partnership and of the General Partner and/or of subsidiary corporations of theirs as well as to officers on behalf of the Partnership and/or the General Partner in affiliated corporations, including directors and/or officers who are control holders or their relatives, for such premium and on such terms and conditions as will be accepted on the date of extension, renewal or replacement of the insurance policy, provided that all of the following conditions are satisfied:

3.2.4.1. The liability cap in the Group Policy shall not exceed \$250 million per occurrence and in the aggregate plus reasonable legal costs over and above the liability cap in accordance with Section 66 of the Insurance Contract Law, 5741-1981.

3.2.4.2. The annual premium for the Partnership's share in the Group Policy shall not exceed U.S. \$600 thousand plus up to 15% per year over this sum as of January 1, 2019, and the Partnership's deductible shall not exceed \$250,000 per claim.

- 3.2.4.3. The division of the group insurance premium between the insured companies shall be determined by the management of Delek Group, in consultation with an officers' insurance expert, based on the standard parameters in this insurance segment.
- 3.2.4.4. In the event that the insurance contract includes coverage for the liability of the Partnership and/or the General Partner and/or subsidiaries of theirs, the officers shall have a preemptive right, preceding the Partnership and/or the General Partner and/or subsidiaries of theirs, in the receipt of the insurance benefits.
- 3.2.4.5. The engagement shall be entered into with a licensed insurer in an insurance policy on such terms and conditions as tailored to the needs of the Partnership and/or the General Partner at the time of extension, renewal or replacement of the insurance, provided that the engagement be approved by the audit committee and board of directors of the General Partner, which shall determine that it satisfies the conditions set forth in this section and that the policy's premium is in a reasonable amount considering the exposure of the Partnership and/or the General Partner, the extent of the coverage and the market conditions.
- 3.2.4.6. The terms and conditions of engagement in the insurance policy in relation to the terms and conditions of insurance of the control holder and his relatives shall be identical to the terms and conditions of engagement of the other officers of the Partnership and/or of the General Partner, or inferior thereto, the engagement shall be made at arm's length, and the conditions of the insurance policy shall not materially affect the Partnership's profitability, assets or liabilities.
- 3.2.4.7. The Partnership's future engagements in directors and officers liability insurance policies as aforesaid shall be made for several insurance periods, provided that all of the insurance periods in the aggregate do not exceed the three-year period as of the date of expiration of the current policy as stated above (i.e., from January 1, 2019 to December 31, 2021).
- 3.2.4.8. In the event of extension and/or renewal and/or replacement of the policy with the Phoenix and/or companies controlled thereby, the engagement with any of them shall also be subject to the following conditions:

3.2.4.8.1. The Phoenix shall engage with reinsurers that will provide full reinsurance (100%) for the insurance coverage provided by the policy, such that the Phoenix's share of the policy will be 0%.

3.2.4.8.2. The Phoenix shall not be involved in the proceedings of determining the amount of the premium to be paid by Delek Group and/or subsidiaries thereof and/or affiliates thereof for the policy. The sum of the premium that will be transferred to the reinsurers will be determined by the reinsurers, subject to the provisions of Section 3.2.3.3 above.

3.2.4.8.3. The Phoenix shall be entitled to a rate of fronting fee that shall not exceed the standard rate in the insurance market for transactions of this type as of the date of the engagement, and, in any event, shall not exceed 15% of the premium paid for such policy by Delek Group and/or subsidiaries thereof and/or affiliates thereof.

It is noted that in accordance with Section 11.2(h) of the partnership agreement of July 1, 1993 (as amended from time to time) (the "**Partnership Agreement**"), the Partnership shall bear the expenses of such insurance.

3.3. **Resolution No. 3**

3.3.1. In view of the position of the supervisor of Avner Oil Exploration – Limited Partnership (the "**Avner Partnership**"), the company of Gissin & Keidar ("**Avner's Supervisor**"), whereby the manner of implementation of Section 19(a)(6) of the Taxation of Profits from Natural Resources Law, 5771-2011 by the general partner of the Avner Partnership might unfairly discriminate the rights of the holders of the participation units of the partnership, Avner's Supervisor petitioned the Tel Aviv District Court on October 30, 2016 in accordance with the supervisor's authority under Section 65W of the Partnerships Ordinance, moving the Court to clarify the proper tax payment arrangement for the Avner Partnership in view of the provisions of the law and the partnership agreement. In the Legal Proceeding, the Supervisor was represented by the law firms Kabiri-Nevo-Keidar-Blum & Co. and Gissin & Co., attorneys-at-law (the "**Attorneys**"), at which the supervisors are also partners. Upon the merger of the Avner Partnership into the Partnership, the parties to the Legal Proceeding were changed

such that the outcome thereof would also apply to the Partnership.

- 3.3.2. On March 20, 2018, a general meeting of the Partnership convened, which approved the payment of the expenses of the Supervisor's attorneys' fees in the sum of approx. ILS 399 thousand plus V.A.T., it being decided that the payment would be made out of the General Partner's coffers. Furthermore, the payment of the expenses of the Supervisor's attorneys' fees in the context of the Appeal was approved, in accordance with the rates set in the detailed attorney fees attached hereto as Annex B and in a sum not to exceed ILS 150 thousand plus V.A.T. for a one-year period, it being decided that the payment would be made out of the General Partner's coffers.
- 3.3.3. The General Partner's position, as expressed at the meeting, was that under the limited partnership agreement and the provisions of the Partnerships Ordinance, the general meeting of Unit holders has no power to impose the payment of attorney fees on the General Partner as proposed by the Supervisor.
- 3.3.4. On May 7, 2018, the Supervisor filed a petition with the District Court – Economic Department, requesting to order the General Partner to uphold the resolution of the general meeting of the Partnership and bear the expenses of the Supervisor's attorneys' fees in the context of the Legal Proceeding and in the context of the Appeal (the "**Petition**"). On September 6, 2018, a hearing on the Petition was held at the District Court before Justice Ruth Ronen, and, at the Court's recommendation, the Supervisor and the General Partner agreed that the issue of payment of expenses of the fees of the Supervisor's attorneys in the Legal Proceeding and in the Appeal shall be presented for approval by the Partnership's general meeting, such that the payment would be made out of the Partnership's coffers and in accordance with the provisions of Section 11.1 of the Trust Agreement.

4. **The name of the control holder that has a personal interest in the transaction and the nature of the personal interest**

- 4.1. The control holder that has a personal interest in the above Resolution No. 2 is Delek Group. Delek Group is a public company that holds (directly and through companies controlled thereby), as of the date hereof, approx. 705,064,503 Participation Units of the Partnership, which represent approx.60.07% of the issued Units.
- 4.2. As of the date hereof, approx. 58,618,763 Participation Units of the Partnership, which represent approx. 4.99% of the issued capital and the voting rights of the Partnership, are directly held by Delek Group; 635,094,819 Participation Units of the Partnership, which represent approx. 54.11% of the issued capital and the voting rights of the Partnership, are held by Delek Energy Systems Ltd. ("**Delek Energy**"),

a subsidiary (directly and indirectly, through the General Partner , a private subsidiary wholly owned thereby), which is held by Delek Group at a rate of approx. 100%; approx. 11,319,081 Participation Units of the Partnership, which represent approx. 0.96% of the issued capital and the voting rights of the Partnership, are held by Avner Oil & Gas Ltd., a private subsidiary owned by Delek Energy and Cohen Development and Industrial Buildings Ltd. (“**Cohen Development**”), a public subsidiary held by Delek Group at a rate of 51.76%; and approx. 31,840 Participation Units of the Partnership are held by Cohen Family Assets Ltd., a private subsidiary wholly owned by Cohen Development. As of the date of the Report, Delek Group is controlled by Mr. Yitzhak Sharon (Tshuva), who, as of the date of the Report, holds approx. 60.77% of the shares of Delek Group and approx. 64.82% of the voting rights therein through companies wholly controlled by him (100%).

- 4.3. In view of the aforesaid, to the best of the Partnership’s knowledge, Mr. Yitzhak Sharon (Tshuva) is the (indirect) control holder of the Partnership. The personal interest of Mr. Yitzhak Sharon (Tshuva) stems from his being the controlling shareholder of Delek Group and of the Phoenix and from his office as a director of Delek Group.

5. **The manner in which the consideration was determined**

See Section 8 below.

6. **Approvals required for the approval of the transaction**

Under the provisions of Section 65YY of the Partnerships Ordinance in accordance with Section 14.2 of the Partnership Agreement and Section 22.2 of the trust agreement of July 1, 1993 (as amended from time to time), which was signed between the Trustee and the Supervisor, Fahn Kanne & Co. – Accountants and CPA Micha Blumenthal jointly with Gissin & Keidar (the “**Trust Agreement**”), Resolution No. 2 requires approval by the meeting of the Unit holders by such majority as specified in Section 12 below.

7. **Transactions of the transaction’s type or similar transactions**

- 7.1. In the two years preceding the date of approval of Resolution No. 2 by the board of directors, the Partnership had engaged in several policies for insurance of the liability of officers and directors, under an independent policy and under a group policy taken out by Delek Group, with the Phoenix, with the policies still effective on the date of approval by the board of directors being the ones scheduled to expire on December 31, 2018. For further details, see Section 22(h) of the Partnership’s periodic report for 2017 (Ref. No.: 2018-01-022209).
- 7.2. The meeting of the Unit holders approved a framework transaction for future engagements in an officers’ insurance policy which is similar to the Framework Transaction presented for approval by this meeting, as stated in Resolution No. 2 above. For further details, see the

Partnership's immediate reports of September 15, 2014 and October 30, 2014 (Ref. No.: 2014-01-157779 and 2014-01-184599, respectively).

8. **The compensation committee's and board of directors' reasons for the approval of Resolution No. 2, the value of the consideration and the manner in which it was determined**

The General Partner's compensation committee and board of directors have approved, subject to approval by the meeting of the Unit holders, the resolutions specified hereinabove, for the following reasons:

- 8.1. Engagement in a directors' and officer's liability insurance policy is common for public corporations in Israel in general and for the Partnership in particular.
- 8.2. Engagement in the insurance policy is in the Partnership's best interests, as it allows the officers of the Partnership and the General Partner to perform their function properly considering the risks involved and the liability by law which is imposed on officers.
- 8.3. The insurance coverage under the policy may exempt the Partnership from indemnifying officers in accordance with indemnification letters it has granted them, thereby protecting the Partnership's assets and reducing its liabilities.
- 8.4. The terms and conditions of engagement in a group policy for the Partnership will not be materially different from its terms and conditions for other subsidiaries and affiliates of Delek Group, considering their relative share in the transaction.
- 8.5. The insurance will be granted to all directors and officers on identical terms and conditions.
- 8.6. The Framework Transaction allows for adjustment of the coverage sums to the risk entailed by the activity of the officers of the Partnership and/or of the General Partner, and of subsidiaries and affiliates of theirs, while taking into account the sector and the scope of operations of such corporations and the fact that some of the companies are public companies.
- 8.7. Settling a limited framework for future transactions in an officers' insurance policy for three years is generally accepted on the market, saves the unnecessary resources and costs that are required for presenting the issue for approval by the general meeting every year and allows for flexibility on the timing of the engagement. The framework was limited by conditions, including with respect to the amount of the premium paid by the Partnership, and approval by the audit committee and board of directors of the General Partner as a condition for any engagement.

8.8. The transaction to which the resolution pertains does not constitute a “distribution” within the meaning thereof in the Companies Law.

9. **Names of the directors that participated in the discussions of the committees and of the board of directors on Resolutions 1 and 2 on the agenda**

The directors who participated in the compensation committee meeting of November 18, 2018 are Messrs. Ronnie Bar On, Amos Yaron (Outside Director), Jacob Zack (Outside Director).

The directors who participated in the board meeting of November 20, 2018 are Messrs. Gabi Last, Carmit Elroy, Barak Mashraki, Malcolm Hoenlein, Ronnie Bar On, Amos Yaron (Outside Director), Jacob Zack (Outside Director). It is noted that Directors Gabi Last, Carmit Elroy and Barak Mashraki participated only in the discussion, but were not present at the vote.

10. **The directors that have a personal interest and the nature of the personal interest**

It is clarified that given the personal interest of all of the directors in the approval of Resolution No. 2, due to their being the beneficiaries under the insurance policy, and in accordance with Section 65AAA of the Partnerships Ordinance and Section 278(b) of the Companies Law, all of the directors were permitted to participate in the discussion and vote at the meetings of the committee and the board of directors wherein the resolution was approved.

It is also noted that Assi Bartfeld serves as Chairman of the Board of the General Partner, Chairman of the Board of Phoenix Holdings and CEO of Delek Group; Gabriel Last serves as a director on the board of directors of the General Partner and as Chairman of the Board of Delek Energy and Delek Group; Leora Pratt Levin serves as a director on the board of directors of the General Partner, Phoenix Holdings and Delek Energy and as Senior VP and General Counsel and Company Secretary of Delek Group; Barak Mashraki serves as a director on the board of directors of the General Partner and Phoenix Holdings and as Deputy CEO and CFO of the Delek Group; and Carmit Elroy serves as a director on the board of directors of the General Partner and of Delek Group and is the daughter of the (indirect) control holder, Mr. Yitzhak Sharon (Tshuva).

11. **Quorum and adjourned meeting**

11.1. No discussion will be opened at the general meeting, unless a quorum is present when the meeting turns to do so, and no resolution will be adopted, unless a quorum is present when the resolution is voted upon.

A quorum will be formed when two Unit holders, who together hold Units that represent no less than 50% of the Units issued by the Trustee until the business day preceding the meeting, are present in person or by proxy.

- 11.2. If a quorum is not present 30 minutes after the time scheduled for the meeting, the meeting will be adjourned to the same day the following week at the same time and place, i.e., Thursday, January 3, 2019 at 16:00, without there being an obligation to inform the Unit holders thereof, or to any other day or a different time or another place as the Trustee, with the Supervisor's consent, shall determine in a notice to the Unit holders.
- 11.3. If a quorum is not present at such adjourned meeting 30 minutes after the scheduled time, two Unit holders present in person or by proxy shall then constitute a quorum, and the meeting will be at liberty to address the issues for which it was called. If no such quorum is present at an adjourned meeting – the meeting will be cancelled.
- 11.4. For quorum purposes, two proxies of one registered Unit holder which is a nominee company (i.e., a company the sole business of which is holding securities on behalf of others), who participate in the meeting by virtue of powers of attorney granted to them, in respect of different Units, by the same registered Unit holder, shall also be deemed "two Unit Holders".

12. **The majority required for the adoption of the resolutions**

- 12.1. The majority required for the adoption of Resolution No. 1 is a simple majority, provided that one of the following is fulfilled:
 - 12.1.1. The count of the majority votes at the general meeting shall include a majority of the total of votes of the Participation Unit holders participating in the vote other than the General Partner or the controlling shareholder thereof or holders of a personal interest in the approval of the resolution; the count of all of the votes of such Participation Unit holders shall exclude the abstaining votes;
 - 12.1.2. The total of dissenting votes in the vote from among the Participation Unit holders mentioned in Section 12.1.1 above shall not exceed a rate of 2% of all of the Participation Unit holders' voting rights.
- 12.2. The majority required for the adoption of Resolution No. 2 is a simple majority, provided that one of the following is fulfilled:
 - 12.2.1. The count of the majority votes at the general meeting shall include a majority of the total of votes of the Participation Unit holders participating in the vote other than holders of a personal interest in the approval of the transaction; the count of all of the votes of such Participation Unit holders shall exclude the abstaining votes;
 - 12.2.2. The total of dissenting votes in the vote from among the Participation Unit holders mentioned in Section 12.2.1 above

shall not exceed a rate of 2% of all of the Participation Unit holders' voting rights.

12.3. The majority required for the adoption of Resolution No. 3 is a simple majority, provided that one of the following is fulfilled:

12.3.1. The count of the total of votes at the general meeting shall exclude the votes of the General Partner or a control holder thereof or holders of a personal interest in the approval of the resolution; with the exception of a personal interest that does not result from a relation with the General Partner or the control holder thereof, and also the abstaining votes;

12.3.2. The total of supporting votes from among the Unit holders other than the General Partner or the control holder thereof or holders of a personal interest in the approval of the appointment, with the exception of a personal interest that does not result from relations with the General Partner or the control holder thereof, exceeds 2% of all of the Participation Unit holders' voting rights

13. **Record date and proof of ownership**

13.1. The record date for establishing the right to vote in accordance with Section 182 of the Companies Law and Section 3 of the Companies Regulations (Voting in Writing and Position Statements), 5766-2005 is Thursday, November 29, 2018, at the close of the trading day on the Tel Aviv Stock Exchange (TASE) (the "**Record Date**").

13.2. In accordance with the Companies Regulations (Proof of Shareholding for the purpose of Voting at a General Meeting), 5760-2000, a Unit holder, to whose credit a Participation Unit is registered with a TASE member, and such Unit is included in the Units listed in the name of the nominee company in the participation units register (an "**Unregistered Unit Holder**"), shall furnish the Partnership with confirmation by the TASE member with which the Unit is registered to his credit of his ownership of the Unit on the Record Date, in accordance with the provisions of the aforesaid Regulations and the form in the Schedule of the aforesaid Regulations.

13.3. In addition, an Unregistered Unit Holder may instruct that his ownership confirmation be transferred to the Partnership by means of the electronic voting system operating under Title B of Chapter G2 of the Securities Law (the "**E-Voting System**").

14. **Voting**

14.1. With respect to the resolutions on the agenda of the meeting, a Unit holder may vote in person, by a proxy for the vote holding a document of appointment as a proxy for the vote, via voting card and also via an electronic voting card transferred to the Partnership by means of the E-Voting System.

14.2. Voting by appointing a proxy

It is required that a document of appointment of a proxy for the vote, or a copy thereof, certified by a notary, be deposited with the Trustee's offices on 19 Abba Eban Street, Herzliya Pituach (09-9712424), at least 48 hours before the time of the meeting, i.e., no later than December 25, 2018, at 16:00, failing which such appointment document shall have no force and effect at the meeting and at an adjourned meeting.

14.3. If the meeting is adjourned as stated in Section 11 above, and a Unit holder shall have deposited a document of appointment of a proxy for the vote, in the manner and on the conditions stipulated above, at least 48 hours prior to the time of the adjourned meeting, the Unit holder that deposited the power of attorney vote by proxy at the adjourned meeting, regardless of whether he was present in the original meeting, in person or by proxy, or was not present in the original meeting, in person or by proxy. For the avoidance of doubt, a Unit holder who was present in the original meeting by proxy will not be required to re-deposit a power of attorney for the purpose of voting at an adjourned meeting only if such adjourned meeting is convened within ten (10) days as of the date of the original meeting.

14.4. Voting by voting card and position statements

In addition, a Unit holder may vote at the meeting also by means of the voting card attached hereto as an annex. For this purpose, the vote of a Unit holder voting via the voting card will be deemed as his presence and participation in the meeting.

Voting via the voting card by a Unit holder interested in voting via voting card *in lieu* of his participation in the meeting in person and/or by proxy electronic voting card, will be carried out on the second part of the voting card as published on the distribution website.

The deadline for the provision of voting cards is up to six (6) hours before the time of convening of the meeting, i.e., December 27, 2018, by 10:00 for Unit holders listed in the unit holders register, and up to four (4) hours before the time of convening of the meeting, i.e., December 27, 2018, by 12:00 for Unregistered Unit Holders.

The deadline for the provision of position statements by Unit holders is up to ten (10) days before the time of convening of the meeting, i.e., December 17, 2018. The Partnership will publish such position statements no later than one business day after receipt thereof. A position statement that includes the response of the Company's board of directors may be submitted no later than 5 days before the time of convening of the meeting, i.e., December 22, 2018.

A Unit holder may directly contact the Partnership to receive therefrom the language of the voting card and position statements (insofar as given).

A TASE member shall send by email, free of charge, a link to the language of the voting card and the position statements on the distribution website, to any Unit holder not registered in the unit holders register whose units are registered with such TASE member, unless the Unit holder shall have notified that he is not interested therein, provided that the notice was given for a specific securities account and on a date that precedes the Record Date.

A Unit holder whose Units are registered with a TASE member is entitled to receive the ownership confirmation from the TASE member by which he holds his Units, at a branch of the TASE member or by post to his address for a charge of postage only, if so requested by him, and a request on this matter shall be given in advance for a specific securities account.

The Partnership shall send the Unit holders registered in the unit holders register, free of charge, a voting card on the date of release of this notice.

14.5. Voting via the electronic system

After the record date, upon the receipt of an identifying number and an access code from the TASE member and after an identification process, an unregistered unit holder will be able to vote via 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., Thursday, December 27, 2018 by 10:00.

If a unit holder votes by more than one means, his later vote shall be counted, with the vote of a unit holder in person at the meeting or by proxy being deemed later to a vote via voting card.

15. Changes in the agenda

15.1. According to the provisions of Section 65DD(b) of the Partnerships Ordinance and Section 14.1(e) of the Trust Agreement, one or more Participation Unit holders, holding at least one half of a percent (0.5%) of all of the Participation Units of the Partnership, may request the board of directors to include an issue in the agenda of the general meeting by submitting a request that shall be delivered to the Partnership up to seven (7) days after the calling of the meeting, provided that the issue is suitable for discussion by the general meeting.

15.2. If the board of directors of the General Partner deems an issue that has been requested to be included in the agenda to be suitable for discussion by the general meeting, an updated agenda shall be prepared and published on the distribution website (as specified below) no later than seven (7) days after the deadline for the delivery of a request by a Participation Unit holder for the inclusion of an issue in the agenda, as aforesaid. It is clarified that the publication of an updated agenda does not change the Record Date as determined in the notice of the meeting.

16. **Notice of the existence of a personal interest and additional required information**

- 16.1. A Participation Unit holder who participates in the vote shall notify the Partnership before voting at the meeting, or, if the vote is via voting card – on the voting card, or if the vote is by power of attorney and/or by electronic voting card – in the space designated therefor in the second part of the electronic voting card, whether he has or does not have a personal interest in the approval of the engagement.
- 16.2. A Participation Unit holder who fails to notify the Partnership of the existence or of the absence of a personal interest in the approval of the resolution shall not vote and his vote shall not be counted.

17. **Issuance of an order by the ISA**

- 17.1. Under Section 10 of the Controlling Shareholders Regulations, the ISA or an employee authorized thereby for this purpose may, within twenty one (21) days of the date of submission of the transaction report, order the Partnership to provide, within a time set thereby, explanations, details, information and documents related to the resolutions to which the transaction report pertains under the Controlling Shareholders Regulations , and order the Partnership to amend the report in such manner and at such time as determined thereby.
- 17.2. If an order to amend the report is issued as aforesaid, the ISA may order the postponement of the date of the general meeting to a date occurring no earlier than the lapse of three (3) business days and no later than thirty five (35) days as of the date of release of the amendment to the transaction report.
- 17.3. If an order regarding the postponement of the convening of the general meeting is issued, the Partnership shall give notice of such order by an immediate report.

18. **The Partnership's representatives for the purpose of the transaction report**

The Partnership's representative for the purposes of this report is Adv. Sari Singer Kaufman, General Counsel of the Partnership, whose office address is: 19 Abba Eban Street, Herzliya Pituach; Telephone: 09-9712424; Facsimile: 09-9712425.

19. **Inspection of documents**

The language of the immediate report, position statements and voting card are available for inspection on the TASE website at: www.maya.tase.co.il and on the ISA distribution website at: www.magna.isa.gov.il. Furthermore, the notice to the Unit holders and a copy of any document pertaining to the aforesaid resolutions are available for inspection at the offices of the Trustee, 19 Abba Eban Street, Herzliya Pituach, subject to any law, Sundays through Thursdays, during normal business hours, after prior coordination with Adv. Sari Singer Kaufman (09-9712424), until the convening of the Unit holders meeting.

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

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

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

Delek Drilling Management (1993) Ltd.
(the "**General Partner**")

**Compensation Policy for Officers of the Partnership
and the General Partner**
(the "**Policy**" or "**Compensation Policy**")

1. **Introduction**

The purpose of this document is to describe, define and specify the compensation policy for the officers of the Partnership and for the officers and directors of the General Partner with respect to compensation paid by the Partnership and the General Partner out of funds received by the General Partner from the Partnership for management services provided to the Partnership thereby, all in accordance with the requirements of Amendment 5 to the Partnerships Ordinance [New Version], 5735-1975 ("**Amendment 5**" and the "**Partnerships Ordinance**", respectively).

2. **Definitions**

2.1. In this Compensation Policy, the following terms shall have the meaning set aside them:

- | | | |
|------------------------|---|--|
| "Special Bonus" | - | As defined in Section 9 below; |
| "Board" | - | The board of directors of the General Partner; |
| "Gross Monthly Salary" | - | The monthly salary to be paid to the Officers, excluding social costs, provisions by the employer, perks and other Related Benefits as specified in Section 6.3 below; |
| "Officer" | - | As defined in the Companies Law, 5759-1999 (the " Companies Law "), excluding directors but including an Active Chairman of the Board; |
| "Subsidiary" | - | A corporation (including a partnership) in which the Partnership holds 50% or more of the issued and paid-up share capital or the voting rights; |
| "Related Benefits" | - | As defined in Section 6.3 below. |

2.2. This Compensation Policy shall also apply to Officers of a Subsidiary.

3. **Purpose of the Compensation Policy**

The Compensation Policy is intended to assist in achieving the Partnership's objectives and work plans and long-term policy by means of:

3.1. Creating a reasonable and appropriate incentive system for the Officers of the Partnership and the General Partner, considering, *inter alia*, the characteristics of the Partnership, its business operations, the risk management policy of the Partnership, compliance with targets and the execution of business strategy and the working relations at the Partnership and at the General Partner.

- 3.2. Providing necessary means for recruiting, incentivizing and retaining skilled and qualified executives at the Partnership and at the General Partner, who are able to contribute to the Partnership and maximize its profits from a long-term perspective.
- 3.3. Placing an emphasis on performance-based compensation and tying the Officers to the Partnership and its performance, while adjusting the compensation of the Officers to the Partnership's work plan and the Officers' contribution to the achievement of the Partnership's goals and the maximization of its profits, based on a long-term view and according to their position.
- 3.4. Creating a proper balance between the various compensation components (such as fixed versus variable components and short-term versus long-term components).

4. **Parameters for Examination of the Terms and Conditions of Compensation**

Following are the general parameters to be taken into account when examining the terms and conditions of compensation of Officers of the Partnership and the General Partner:

- 4.1. The Officer's education, qualifications, expertise, professional experience and achievements.
- 4.2. His function, measure of responsibility and previous salary agreements signed between the Partnership and/or General Partner and the Officer.
- 4.3. The Officer's contribution to the Partnership's performance, profits and stability.
- 4.4. The measure of responsibility borne by the Officer due to his position.
- 4.5. The Partnership's need to retain the Officer in view of his qualifications, experience, knowledge and/or unique expertise.
- 4.6. Examination of the ratio between the fixed components and the variable components according to the caps set out in this Policy.
- 4.7. The existing terms and conditions of compensation of the additional Officers of the Partnership and the General Partner. The commonly accepted terms of pay in the market and in the sector in which the Partnership operates, for officers of similar positions in comparable corporations, if any, may possibly also be taken into account.
- 4.8. Examination of the ratio between Officer compensation and the average and median salary of the other employees of the Partnership and the General Partner, while taking into consideration the nature of the

Officer's position, his seniority, the measure of responsibility borne by him, and also the number of employees of the Partnership and the General Partner.

- 4.9. Examination of the compatibility of the Officer's compensation structure with the risk management aspects entailed in the office held by him.

5. **Compensation Terms and Conditions – General Principles**

- 5.1. The overall compensation of Officers will consist of several components, such that every component compensates the Officer for a different aspect of his contribution to the Partnership and the General Partner:

Fixed Components

- 5.1.1. Basic Pay/Salary and Related Benefits: Intended to compensate the Officer for the time he invests in performing his function at the Partnership and/or the General Partner and for performance of the ongoing tasks of the position on a daily basis. The basic pay reflects the Officer's qualifications, experience, education, the expertise he has gained in the field of occupation, his professional authority, and also the requirements of the position and the responsibilities and authority he carries.

Variable Components

- 5.1.2. Performance-Contingent Variable Compensation: Intended to compensate the Officer for the achievement of business and strategic objectives and goals of the Partnership, according to measurable criteria, as set forth below.
 - 5.1.3. Equity-Based Variable Compensation: Intended to tie the maximization of value for the participation unit holders, as reflected in the increase in value of the Partnership's participation units over time, and the compensation granted to Officers. This compensation creates a closeness of interests between the Officers and the participation unit holders and assists in creating motivation and in retaining senior executives and key position holders of the Partnership and/or the General Partner.
- 5.2. Furthermore, Officers will also be entitled to full reimbursement of reasonable business expenses expended by them in their capacity (such as expenses of transportation, lodging, etc.). Such reimbursement of expenses shall be carried out against the presentation of appropriate receipts and/or by way of the Partnership and/or the General Partner directly bearing such expenses, according to the procedures of the Partnership and/or the General Partner, as shall be approved by the organs authorized thereto.

- 5.3. The Partnership and/or the General Partner shall also set arrangements in respect of termination of employment relations according to the common practice in the market and in the sector in which the Partnership and the General Partner operate and the practices of the Partnership and/or the General Partner in this respect, as specified in Section 7 below.
- 5.4. It is stressed that this Compensation Policy does not grant rights to officers of the Partnership and/or the General Partner, and no Officer of the Partnership and/or the General Partner shall have a vested right, by virtue of the mere adoption of the Compensation Policy, to receive any of the compensation components specified in the Compensation Policy. The compensation components to which an Officer will be entitled will be solely those specifically approved for him by the organs authorized thereto at the Partnership and/or the General Partner, subject to the provisions of any law.
- 5.5. In the event that an Officer receives compensation that is lesser than the compensation under the Compensation Policy, this shall neither be deemed a deviation nor a divergence from the Compensation Policy.

6. **Fixed Components**

6.1. General

- 6.1.1. The Officer's basic pay will be determined according to the parameters specified in Section 4 above.
- 6.1.2. It is clarified that signing/retention bonuses shall be deemed as a fixed component for this purpose.

6.2. Basic Pay

6.2.1. Active Chairman of the Board¹

The cost of the monthly salary of an active Chairman of the Board (including Related Benefits as specified in Section 6.3 below) shall not exceed ILS 120 thousand for a 100% position.

6.2.2. CEO²

¹ As of the date of adoption of this Policy, the incumbent Chairman of the Board is not defined as an Active Chairman of the Board. In addition, the General Partner and/or the Partnership do not bear the cost of employment of the Chairman of the Board, who is employed as a CEO in the Delek Group Ltd., the control holder of the Partnership.

²As of the date of adoption of this Policy, the CEO serves as CEO of the General Partner in the Partnership and as CEO of the General Partner in Avner Oil Exploration – Limited Partnership (hereinafter jointly: the “Partnerships”), in a full-time position (100%), with the General Partners of the Partnerships bearing the cost of his employment in equal shares between them (50%-50%).

The cost of the monthly salary of the CEO (including Related Benefits as specified in Section 6.3 below) shall not exceed ILS 155 thousand for a 100% position.

6.2.3. Officers who are neither CEO nor Chairman of the Board³

The specification of the maximum monthly salary cost (including Related Benefits as specified in Section 6.3 below) for Officers (for a 100% position) broken-down by rank:

Rank of the Officer	Maximum Monthly Salary Cost
Senior Officers	ILS 120 thousand
Other Officers	ILS 85 thousand

6.2.4. The salary costs noted in Sections 6.2.1. to 6.2.3 above shall be linked to the rise in the Consumer Price Index known on the date of adoption of the Compensation Policy.

6.2.5. The Compensation Committee may update the salary of the Officers at a rate of up to 5% per year since the last update of such salary, beyond the rise in the Consumer Price Index, subject to the considerations described as to the determination of the terms of office and employment of Officers, and such update shall not be deemed a deviation from the Compensation Policy, even if the cost of salary of the Officer exceeds the maximum cost of salary under the Policy.

6.3. Related Benefits

6.3.1. Officer of the Partnership and/or the General Partner shall be entitled to Related Benefits as commonly accepted for executives in the market, including: provisions to a pension fund and/or managers' insurance; provisions to an advanced study fund; insurance against loss of working capacity; car (including car expenses and the bearing of costs of the tax gross-up); the bearing of communication expenses (cellular telephone, internet, newspapers, etc.); participation in professional training; annual leave; recuperation pay; sick leave; health insurance; exemption, indemnification and insurance of officers (subject to the conditions specified in Section 13 below), etc.

³ As of the date of adoption of this Policy, the Officers who are neither CEO nor Active Chairman of the Board, are employed by the Partnerships in a full-time position (100%), with the Partnerships bearing the cost of their employment in equal shares between them (50%-50%), other than the Deputy CEO-Finance who is employed by the Partnerships and the General Partners of the Partnerships, in a full-time position (100%), with each one of the Partnerships bearing 45% of the cost of his employment, and each one of the General Partners in the Partnerships bearing 5% of the cost of his employment, and other than the CFO of the Avner Partnership, with the General Partner of the Avner Partnership bearing 70% of the cost of his employment and each one of the Partnerships bearing 15% of the cost of his employment.

6.3.2. The Officers shall also be entitled to Related Benefits, which are connected to their activity and granted to their employees, in accordance with the common practice at the Partnership and/or the General Partner and in consideration of their position and their rank.

6.3.3. In the event that the Officer provides services to the Partnership and/or to the General Partner (including through a management company) and is not an employee of the Partnership and/or the General Partner, the Officer will be paid a management fee based on the fixed salary and the Related Benefits (as specified in Section 6.3 above) against the issuance of an invoice (plus taxes as required by law, such as V.A.T.), provided that no change occurs in the costs of the Partnership and/or the General Partner due to such engagement with a service provider compared with the engagement with him if he were an employee.

6.4. Signing/Retention Bonus

6.4.1. The Compensation Committee and the Board shall have the authority to approve a signing/retention bonus to an Officer in an amount not to exceed 3 Gross Monthly Salaries.

6.4.2. It is clarified that signing/retention bonuses are not included in the caps set forth in Section 6.2 above and concern a one-time bonus to be given, at most, once every three years to the same Officer.

7. Prior Notice, Adjustment Bonus and Terms of Retirement

7.1. Prior Notice and Adjustment Bonus

7.1.1. Without derogating from the rights of the Officers of the Partnership and the General Partner under law, termination of the employment of Officers of the Partnership and/or the General Partner will be with prior notice, as specified in the following table. Furthermore, the Partnership and the General Partner may approve an adjustment bonus to an Officer, subject to the caps specified below and subject to the provisions of Section 7.3 below.

Officer	Prior Notice Period (in months)	Adjustment Bonus (in Gross Monthly Salaries)
Active Chairman of the Board	Up to 3	Up to 6
CEO	If the relations' termination is initiated by the CEO – up to 12	Up to 6

	If the relations' termination is initiated by the employer – up to 4	
Senior Officers	Up to 3	Up to 6
Other Officers	Up to 3	-

7.1.2. The Officer will continue in his position during the prior notice period, unless the General Partner or the Partnership decides not to require the Officer to work during the prior notice period, in whole or in part. The Officer will be entitled to the full compensation owing to him for the prior notice period if he actually works during the prior notice period. If the Officer does not work during the prior notice period, he will be entitled to the basic pay and the Related Benefits, but the entitlement to a bonus and the vesting period of the equity-based component will discontinue on the date of discontinuance of his employment.

7.2. Retirement Bonuses

7.2.1. In the event of a relations' termination initiated by the Partnership or the General Partner, after a term of service that shall not to fall under 3 years at the Partnership and/or the General Partner, the Compensation Committee and the Board shall have the authority to grant a retirement bonus (above and beyond the payments under law), which shall not exceed an amount equal to the product of multiplication of the Officer's years of employment by his last salary (Gross Monthly Salary) subject to the provisions of Section 7.3 below.

7.2.2. In the event of a relations' termination initiated by the Officer, after a term of service that shall not to fall under 3 years at the Partnership and/or the General Partner, the Compensation Committee and the Board shall have the authority to grant retirement bonuses (above and beyond the payments under law), which shall not exceed an amount equal to the product of multiplication of the Officer's years of employment by one half

of his last salary (Gross Monthly Salary) subject to the provisions of Section 7.3 below.

7.2.3. The criteria to be examined for the purpose of granting retirement bonuses shall include, *inter alia*, the following:

- a) The circumstances of retirement: Age, medical condition, termination of the relations initiated by him or by the employer.
- b) The Officer's contribution to the achievement of the Partnership's goals during the term of his office.
- c) Tenure with the Partnership and with the General Partner.
- d) Recommendation and approval by the CEO (or the Chairman of the Board, in the case of a retiring CEO).

7.3. The adjustment bonus (if granted) and the retirement bonus (if granted) together, shall not exceed six (6) Gross Monthly Salaries.

8. Cash Variable Component ("Bonus" or "Annual Bonus")

8.1. General

8.1.1. The Partnership and the General Partner may grant Officers a Bonus as part of the terms and conditions of their compensation.

8.1.2. An Officer entitled to a Bonus in respect of a relevant calendar year will only be entitled to receive the same provided that he is employed with the Partnership and/or with the General Partner for at least 3 months in that year.

8.1.3. The Bonus may be composed of three components (for the blend of bonus components see Section 8.4 below):

- A component contingent upon the achievement of a business target as shall be predefined every year (at the latest, on the date of approval of the Partnership's audited financial statements for the previous year for the following year, with the exception of 2016, for which the business target will be defined immediately after the approval of the Compensation Policy by the general meeting) by the Board.
- A component contingent upon quantitative tests (a change in adjusted annual profit, the execution of investments or the making of investment decisions, and raising funds or signing gas sale agreements, as specified in Section 8.3 below) (the "**Measurable Bonus**").

- The discretion of the Board.

8.1.4. The Board may, according to its discretion, reduce the amount of the Bonus to which an Officer is entitled, upon the occurrence of circumstances that justify such reduction.

8.2. Business-Target-Contingent Component

8.2.1. The date for the realization of the business target entitling to this component in respect of any calendar year shall be by the approval of the annual financial statements for that year.

8.2.2. Insofar as the Board does not define a business target for an Officer for a certain calendar year, the weight of the Measureable Bonus component for the Officer that year shall be 80% of the bonus cap of that Officer, rather than as specified in Section 8.4 below.

8.2.3. Insofar as the business target set as a condition for the Officer's entitlement to the business-target-contingent component for that year is not realized, the Officer shall not be entitled to a Bonus for the business-target-contingent component, and accordingly, the amount of the Annual Bonus for the Officer in respect of that year shall not exceed the Measurable Bonus component cap plus the discretionary component cap.

8.3. Measurable Bonus Components

The Measurable Bonus components are as follows:

8.3.1. Change in Adjusted Net Profit

The rate received from the division of the Adjusted Net Profit (as per its meaning below) in the year for which the bonus is paid by the average of the Partnership's Adjusted Net Profit in the three years preceding the year for which the bonus is paid ("**Change in Adjusted Net Profit**"). A prerequisite for compliance with this indicator is that the Adjusted Net Profit in the year for which the bonus is granted does not fall under US \$50 million. For the purpose of this section, "**Adjusted Net Profit**" shall mean – the net profit attributed to the holders of participation units of the Partnership in the year for which the bonus is granted, excluding expenses due to exploration drilling as stated in the Statement of Comprehensive Income of the Partnership for that year.

The bonus-entitling Change in Adjusted Net Profit shall be between 90% and 120% and calculated linearly, i.e.: The Officer shall be entitled to a bonus if the Change in Adjusted Net Profit

exceeds 90%, where the bonus amount shall increase insofar as the Change in Adjusted Net Profit shall be higher than 90% and the maximum bonus (for such component) shall be granted when the Change in Adjusted Net Profit is 120%.

The weight of this component out of the bonus cap shall be no less than 25% and no more than 40%.

8.3.2. Execution of Investments/Making an Investment Decision

Actual investments made by the Partnership in a petroleum asset during the year for which the bonus is paid in an amount no lesser than US \$50 million (excluding investments in exploration drilling) or, alternatively, a decision made by the Partnership jointly with its partners (if any) to invest in a petroleum asset in an amount exceeding US \$300 million (in 100% terms) (excluding a decision to invest in an exploration drilling) during the year for which the bonus is paid.

8.3.3. Raising Funds / Signing Gas Sale Agreements

Capital raising or debt raising by the Partnership (directly or indirectly), with its share in such raising being no less than US \$200 million **or**, alternatively, the Partnership signing, together with its partners (if any), binding agreements for the sale of natural gas in quantities exceeding 25 BCM **or**, alternatively, signing export agreements, all during the year for which the bonus is paid.

8.3.4. The compensation cap for the measurable compensation components shall not exceed the aggregate weight of such components as specified in the table in Section 8.4 below.

8.4. Blend of Bonus Components

	Business-Target-Contingent Component	Measurable Bonus Component	Discretion	Total
Weight (out of Bonus Cap)	20%-30%	50%-60%	20%	100%

The component dependent on achieving the business target of the Officer and the weight of each one of the Measurable Bonus components out of the total Measurable Bonus will be determined by the Compensation Committee and the Board (subject to the provisions of Section 8.3.1 above) for the following year by the date of approval of the financial statements for the previous year, with the exception of 2016 for which the Officer's business targets and their weight will be determined immediately after the approval of the Compensation Policy by the general meeting.

Notwithstanding the aforesaid, the CEO may grant Officers who report to him a bonus up to the amount of the bonus cap (as specified in Section 8.5 below), according to his evaluation of the performance of the Officers and the manner of their function in the past year, which shall be brought before the Compensation Committee and the Board.

8.5. Annual Bonus Cap

The total Annual Bonus for a 100%-position shall not exceed:

8.5.1. ILS 1,950 thousand for the CEO.

8.5.2. ILS 800 thousand for the Active Chairman of the Board.

8.5.3. 15 Gross Monthly Salaries for senior Officers.

8.5.4. 6 Gross Monthly Salaries for other Officers.

9. Special Bonus

9.1. Subject to the approvals required under any law, the Partnership or the General Partner may grant Officers a special one-time bonus that may be granted in the event that the Partnership approves a development plan and makes an investment decision (sanction) for development of the Leviathan reservoir, or, alternatively, approves a development plan and makes an investment decision (sanction) for expansion of the Tamar project.

9.2. Such Special Bonus will be granted to the same Officer, at most, once every three years, and shall not exceed 6 Gross Monthly Salaries, and will be in addition to the Annual Bonus.

10. Repayment of Compensation Granted based on Incorrect Financial Information

10.1. An Officer will be required to repay the Partnership and/or the General Partner, as applicable, including by way of setoff, excess payments paid to him as part of his terms of employment, insofar as paid based on data that were found to be incorrect and were restated in the Partnership's financial statements during a period of three years as of the date of payment of the excess payments.

10.2. It is hereby clarified that a restatement resulting from a change in accounting policy or the first-time adoption of an accounting policy shall not cause the repayment of amounts by the Officer as aforesaid.

10.3. The Compensation Committee shall decide the manner of implementation of the repayment mechanism According to its

discretion, while taking into account the circumstances of the specific case.

11. **Equity-Based Compensation**

11.1. Equity-based compensation constitutes an appropriate mechanism for retaining and incentivizing Officers while creating a closeness of interests between the Officers and the participation unit holders of the Partnership and striking a proper balance between short-term and long-term considerations. Thanks to the long-term nature of equity-based compensation plans, they support the ability of the Partnership and the General Partner to retain their senior executives in their positions for a long time.

11.2. The Partnership and/or the General Partner may, subject to receipt of the approvals required under law, grant the Officers equity-based compensation, such as options for participation units of the Partnership and/or for the securities of a Subsidiary and any other type of payment based on the performance of the participation units of the Partnership and/or the securities of a Subsidiary (including equity-based compensation settled in cash, non-recourse loans and/or guarantees for a loan for the purpose of purchasing participation units of the Partnership and/or securities of a Subsidiary or any other arrangement that will be treated in the Partnership's books as payment based on participation units and/or shares, as applicable), according to equity-based compensation plans to be adopted from time to time. The equity-based compensation may include additional arrangements, including: conditions for the purpose of entitlement to distribution of profits and to voting rights in respect of participation units or other securities included in the equity-based compensation; adjustment of the equity-based compensation due to a distribution of profits, a distribution of securities by way of a benefit, capital consolidation and split, rights offerings and mergers and acquisitions; right of first refusal in the transfer of securities. It is clarified that the grant of equity-based compensation in a Subsidiary is contingent upon that Officer holding office in such Subsidiary.

11.3. Caps

11.3.1. Cap for a Benefit deriving from the Exercise of Equity-Based Compensation Settled in Cash

The Officer will be entitled to a maximum benefit deriving from the exercise of equity-based compensation settled in cash, up to the price of the participation unit (or share) on the exercise date, which shall not exceed 100% of the exercise price determined for a participation unit (or share) included in the exercised portion on the grant date.

11.3.2. Cap for the Value of Equity-Based Compensation on the Date of Grant thereof

The annual benefit for this compensation shall be subject to the caps described below (for this purpose, the annual benefit will be calculated as the quotient resulting from the division of the financial value of participation-unit-based (or share-based) compensation on the grant date thereof by the number of years required until the full vesting of the participation-unit-based (or share-based) compensation (linear division), rather than according to the accounting record of the expense):

- a) The amount of the annual benefit in respect of equity-based compensation on the grant date to be granted to the CEO shall not exceed ILS 1,685 thousand.
- b) The amount of the annual benefit in respect of equity-based compensation on the grant date to be granted to the Active Chairman of the Board shall not exceed ILS 1,500 thousand.
- c) The amount of the annual benefit in respect of equity-based compensation on the grant date to be granted to senior Officers shall not exceed 15 Gross Monthly Salaries of each one of such Officers.
- d) The amount of the annual benefit in respect of equity-based compensation on the grant date to be granted to other Officers shall not exceed 7 Gross Monthly Salaries of each one of such Officers.

The Compensation Committee and the Board have examined the possibility of setting a limit to the benefit on the exercise date of the equity-based compensation (which is not settled in cash) and have chosen not to implement this feature, since, according to their position, this feature stands in contrast to the rationale for granting equity-based compensation and the characteristics thereof.

- 11.4. The vesting period for the full equity-based compensation to be granted to an Officer shall be at least 3 years as of the grant date. The Partnership and/or the General Partner may accelerate the equity-based compensation for the Officer, in cases of change of control or suspension of trading in the securities granted in the framework of the equity-based compensation and/or employment termination in certain circumstances, subject to approval by the Compensation Committee and the Board of the General Partner.
- 11.5. The expiration date of the equity-based compensation shall be no earlier than the elapse of one year as of the date of the vesting of every portion (with the exception of special cases to be determined, such as employment termination) and no later than 8 years as of the allotment date.

11.6. On the grant date of participation-unit-based (or share-based) compensation, the exercise price shall be higher than the price of the participation unit (or share) on the grant date, such that it constitutes a proper incentive for maximization of the value of the Partnership (or the Subsidiary) for the long term. Furthermore, in the case of a marketable security, the exercise price to be determined for the first installment shall not fall under the average of closing prices in the 30 trading days preceding the date of the Board resolution as to the grant.

The exercise price to be determined for the second installment onwards, shall be equal to the exercise price of the first installment plus five percent (5%) each year.

11.7. The entitlement of an Officer to equity-based compensation at the time of termination of employment relations shall be according to the conditions of the equity-based compensation plans adopted or to be adopted by the Partnership and/or the General Partner.

12. **Ratio of Fixed Compensation Components to Variable Compensation Components**

12.1. Chairman of the Board

For the Active Chairman of the Board, the maximum ratio between the variable components and the fixed component shall not exceed 1.6 (in a year in which the Special Bonus is paid, the maximum ratio shall be 2.0).

12.2. CEO

For the CEO, the maximum ratio between the variable components and the fixed component shall not exceed 3.2 (in a year in which the Special Bonus is paid, the maximum ratio shall be 3.6).

12.3. Senior Officers

For senior Officers, the maximum ratio between the variable components and the fixed components shall not exceed 2.1 (in a year in which the Special Bonus is paid, the maximum ratio shall be 2.5).

12.4. Other Officers

For Officers, the maximum ratio between the variable components and the fixed components shall not exceed 1 (in a year in which the Special Bonus is paid, the maximum ratio shall be 1.5).

12.5. It is noted that signing/retention bonuses were not taken into account in the calculation of such ratios. In addition, the calculation does not include the cap for the maximum benefit deriving from the exercise of equity-based compensation settled in cash.

12.6. It is clarified that a deviation of up to 5% above or below the ratios specified in 12.1 to 12.4 above shall not be deemed a deviation or a divergence from the Compensation Policy.

13. **Insurance and Indemnification of Directors and Officers**

13.1. The directors and Officers may be entitled to be included in the directors and officers liability insurance policy to be taken out by the Partnership ("**Independent Policy**") and/or the controlling shareholder of the General Partner ("**Group Policy**"), in accordance with the approvals required under law. The insurance liability cap in an Independent Policy and/or in a Group Policy shall not exceed US \$~~150~~-300 million per occurrence and in the aggregate. The Partnership may take out an Independent Policy if it elects not to be included in the Group Policy or if it elects to take out a policy to cover the difference between the actual insurance liability cap in the Group Policy and the insurance liability cap as aforesaid. The annual premium both for an Independent Policy and for a Group Policy (the Partnership's share) shall not exceed US \$~~400~~800 thousand plus up to 15% per year, and a deductible for the Partnership which shall not exceed US \$250 thousand per event.

13.2. The Partnership shall be entitled to purchase liability insurance policies deriving from public offerings by the Partnership and/or a subsidiary of securities pursuant to prospectuses, in the event of such offerings (hereinafter in this section: the "Offerings" and "POSI Policy" respectively) where each POSI Policy in connection with each offering shall include the following conditions: Liability cap of up to US \$300 million per event for a period of up to approx. 7 years from the offering date, plus reasonable trial costs beyond the liability cap, to insure the following insureds: Employees and/or officers in the Partnership, the General Partner and a subsidiary; The Partnership and/or the General Partner for their liability regarding the prospectus and their liability to indemnify certain third parties in connection with the prospectus. The insurance premium for the Partnership's engagement in the POSI Policy shall not exceed US \$150 thousand per year, plus up to 15% per year, and the excess shall not exceed US \$500 thousand per claim.

~~13.2.~~13.3. The directors and Officers may be entitled to indemnification subject to the approvals required under law, in a total amount of up to 25% of the Partnership's equity on the date of exercise of the indemnification.

It is clarified that in accordance with and subject to Regulation 1B1 of the Companies Regulations (Relaxations in Transactions with Interested Parties), 5760-2000, the Compensation Committee alone is authorized to approve officers liability insurance, if the engagement terms are set in the Compensation Policy, and provided that the engagement is on market conditions and is not

[liable to have a material effect on the Partnership's profitability, assets or liabilities.](#)

14. **Compensation of Directors**

Compensation of the outside directors and the other directors of the General Partner will be determined according to the provisions of the Companies Regulations (Rules regarding Remuneration and Expenses of Outside Directors), 5760-2000. The provisions of this section shall not apply to the Active Chairman of the Board, and the compensation to which he is entitled shall be subject to the provisions of this Compensation Policy.