Delek Drilling – Limited Partnership
(the "Partnership")

November 7, 2019

Via Magna

Israel Securities Authority
22 Kanfei Nesharim St.
Jerusalem 95464

Tel Aviv Stock Exchange Ltd.
2 Ahuzat Bayit St.
Tel Aviv 6525216

Dear Sir/Madam,

Re: Amendment to the PSC, the Exploitation License and Approval of Development Plan in Block 12 in Cyprus

Further to Section 7.8 of Chapter A of the Partnership's periodic report for 2018, which was released on March 24, 2019 (Ref. no. 2019-01-023982) (the "**Periodic Report**"), regarding the natural gas reservoir 'Aphrodite', which was discovered in the area known as block 12 in the EEZ of the Republic of Cyprus (the "**Aphrodite Reservoir**" or the "**Reservoir**" and "**Block 12**" or the "**Petroleum Asset**", respectively), and the Production Sharing Contract that was signed with the Cypriot government, which confers rights for the performance of oil and gas exploration, appraisal, development and production actions in the area of Block 12 (the "**PSC**"), the Partnership respectfully updates as follows:

a. On November 7, 2019, an amendment to the PSC was signed between the holders of the interests in the Petroleum Asset[1] (the "**Partners**") and the Cypriot government, which modified, *inter alia*, the mechanism for distribution of the natural gas output from the Reservoir between the Partners and the Republic of Cyprus (the "**New Distribution Mechanism**"), the main principles of which are described in Annex A hereto. Concurrently, the Partners were granted an exploitation license (the "**Exploitation License**"), and a development and production plan was approved for the Reservoir (the "**Development Plan**"), as described in Paragraph c. below.

b. In the amendment to the PSC, the Partners undertook, *inter alia,* to meet the main milestones for promotion of development of the Reservoir, as follows:

(1) Drilling of an appraisal / development well in the area of Block 12 in accordance with the Development Plan, and completion thereof within 24 months from the date of receipt of the Exploitation License;

(2) Completion of the Front-End Engineering Design ("**FEED**"), delivery of the products in accordance with the Development Plan, and adoption of a final investment decision (FID) for development of the Reservoir within 48 months from the date of receipt of the Exploitation License.

[1] The holders of the interests in the Petroleum Asset are: the Partnership (30%); Noble Energy International Ltd. (35%) (the "**Operator**") and BG Cyprus Limited (35%), a wholly-owned subsidiary of Shell.

The agreement determines circumstances in which the Partners will be entitled to receive an extension for purposes of meeting the said milestones, with the deadline for adoption of an FID being 6 years after the date of receipt of the Exploitation License. It is noted that failure to meet the milestones defined in the PSC will constitute grounds for termination of the PSC, unless this derives from "*force majeure*" (as defined in the PSC).

It is noted that in the amendment, other changes and updates were made to the PSC, *inter alia* with respect to the transfer of rights by the parties, approval of an annual budget and work plan, the manner of approval of changes to plans and budgets, the manner of calculation of the various expenses, changes in connection with grounds for termination of the PSC, arrangements with respect to ensuring the plugging, dismantling and removal of wells and facilities at the end of the term of the PSC, and more.

c. On the date of the signing of the amendment to the PSC, the Cypriot government approved the Development Plan and granted an Exploitation License for a period of 25 years with an option for extension by up to 10 additional years. The Development Plan, which is subject to updates in view of the results of the FEED and the progress in the commercial and financial aspects of the project, includes the construction of a floating independent production facility in the area of the Aphrodite Reservoir, with an estimated maximum production capacity of approx. 800 MMCF per day, through 5 production wells at the initial stage, and export of natural gas to the Egyptian market. In accordance with the Operator's current appraisal, which was delivered to the Partnership and to the Cypriot government before completion of the technical-economic feasibility tests, including performance of the FEED, the estimated cost of the Development Plan, excluding the cost of construction of the pipelines to the target markets, is estimated at a sum of approx. $2.5-3.5 billion (in 100% terms). The estimated budget for the work plan until the date of adoption of an FID is approx. $150-200 million (in respect of 100%). Formulation of the Development Plan and reaching the stage of adoption of an FID for development of the Aphrodite Reservoir are subject, *inter alia*, to the drilling of another appraisal / development well and to the FEED, commercial arrangements for the development of the pipelines for export, the signing of agreements for the supply of natural gas, and fulfillment of the conditions precedent in such agreements, regulatory approvals and performance of financing arrangements. If the conditions precedent specified above are fulfilled, commencement of the supply of natural gas from the Aphrodite Reservoir may occur during 2025.

Caution regarding forward-looking information – The details presented above regarding the possible date for the adoption of a final investment decision, the estimated cost of the Development Plan, and the possible date for commencement of the supply of the natural gas, constitute 'forward-looking information', within the meaning thereof in the Securities Law, 5728-1968, which are based, to a large extent, on various working assumptions and estimates, *inter alia*, completion of the detailed planning of the Development Plan, the actual performance of the project, and the gamut of other factors in respect of which the Partnership does not have full control or the ability to assess with sufficient certainty.

Delek Drilling – Limited Partnership
(the "Partnership")

The Partners in Block 12 and their holding rates in the license are as follows:

Noble Energy International Ltd.	35%
BG Cyprus Limited	35%
The Partnership	30%

Sincerely,
Delek Drilling Management (1993) Ltd.
General Partner of Delek Drilling – Limited Partnership
By Yossi Abu, CEO
and Yaniv Friedman, Deputy CEO

<u>Delek Drilling – Limited Partnership</u>
(the "Partnership")

Annex A

The new mechanism for distribution of the natural gas output from the Aphrodite reservoir

1. The PSC, prior to the present amendment, determined a mechanism for the distribution of the natural gas that is produced in the PSC territory, based on the average daily production rate, as specified in Section 7.8.3(f) of the Periodic Report.

2. The amendment to the PSC determines, as aforesaid, a new mechanism for distribution of the output of natural gas (with no change to the mechanism for the distribution of the oil output), which is based on an R-factor coefficient. According to the said mechanism, the Partners will be entitled to 55% of the annual income that derives from the natural gas output, up to coverage of all of their recognized current and capital expenses (the "**Output for Coverage of Expenses**"), while the balance (the "**Output for Distribution**") will be distributed between the Partners and the Cypriot government in accordance with an R-factor coefficient, whose numerator includes the total net aggregate income, and its denominator includes the total aggregate capital investments. According to the new mechanism, the share of the Cypriot government in the Output for Distribution increases linearly as a function of the coefficient, and will reach a maximum rate when the R-factor coefficient is equal to 2.5. For this purpose:

   - "Net aggregate income" means – the share of the Partners in the income actually received in the gas output (including the Output for Coverage of Expenses), net of the operating expenses borne by the Partners in the PSC territory, from the date of the signing of the PSC (October 28, 2008) until the end of the quarter that preceded the calculation date (the "**Calculation Period**").

   - "Aggregate capital investments" means – the development expenses, capex production expenses (excluding opex) and any and all exploration expenses, in relation to the area contemplated in the PSC, that were actually incurred during the Calculation Period.

3. Presented in the table below are details regarding the participation rate of the holders of the equity interests in the Partnership in the income that derives from the Petroleum Asset, if any, in accordance with the New Distribution Mechanism, according to 4 theoretical scenarios only according to which the R-factor coefficient was set at 1, 1.5, 2 and 2.5. It should be emphasized that the figures in the table below are based on calculations that were made according to various working assumptions and estimates, *inter alia* with respect to the rate of production of the natural gas from the reservoir and the sale thereof, the costs of development of the reservoir and the facilities, the current production costs, and more, which may, in practice, be materially different to the assumptions and estimates taken into account.

Delek Drilling – Limited Partnership

(the "Partnership")

	R-factor 1	R-factor 1.5	R-factor 2	R-factor 2.5	Comments
Total income from the natural gas output	100%	100%	100%	100%	
The share of the Republic of Cyprus in the income from the natural gas output	15.75%	21.75%	52.12%	67.5%	The figures specified in the table are based on calculations that were made based on various working assumptions, *inter alia* with respect to the project's operating and development costs, the rate of production and sale, the gas prices, and more.
The share of the Partners in the income from the natural gas output	84.25%	78.25%	47.88%	32.5%	
The holding rate of the Partnership in the Petroleum Asset	30.00%	30.00%	30.00%	30.00%	
The Partnership's share in the income from the natural gas output, before payment of overriding royalties	25.28%	23.48%	14.36%	9.75%	
Payment of overriding royalties to various entities	1.14%	2.23%	1.36%	0.93%	The parties that are entitled to royalties are Delek Energy Systems Ltd., Delek Group Ltd., Cohen Development and Industrial Buildings Ltd. and others which are not affiliates. For further details, see Section 7.27.12 of Chapter A of the Periodic Report. The figures specified in the table were calculated on the assumption that the said overriding royalties will be paid from the Partnership's share in the natural gas output (i.e. after deduction of the government's share in the output).
The effective participation rate of the holders of the equity interests in the Partnership in the income from the natural gas output	24.14%	21.25%	13.00%	8.82%	

<u>Delek Drilling – Limited Partnership</u>
(the "Partnership")

Caution regarding forward-looking information – the above figures regarding the participation rate of the holders of the equity interests in the Partnership in the income that derives from the Petroleum Asset, if any, constitute "forward-looking information", within the meaning thereof in the Securities Law, 5728-1968. These data are based, to a large extent, on various working assumptions and estimates, *inter alia* with respect to the rate of production of the natural gas from the Reservoir, the sale prices and quantities of the natural gas, the costs of development of the Reservoir and the facilities, the current production costs, and more. It is emphasized that these data may, in practice, be materially different to the said assumptions and estimates, and are affected by and contingent on, *inter alia*, completion of the detailed planning of the Development Plan, the actual performance of the project, and the gamut of other factors in respect of which the Partnership does not have full control or the ability to assess with sufficient certainty.