

# **Delek Drilling Trusts Ltd.**

August 29, 2018

Israel Securities Authority  
22 Kanfei Nesharim St.  
Jerusalem

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

Dear Sir/Madam,

Re: **Immediate Report regarding the Summoning of a General Meeting of the Participation Unit Holders**

In accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 and Section 14.1(b) of the trust agreement dated July 1, 1993 signed between Delek Drilling Trusts Ltd. (the “**Trustee**”) and Fahn Kanne & Co. Accountants and CPA Micha Blumenthal together with Gissin & Keidar firm (the “**Supervisor**”) (as amended from time to time) (the “**Trust Agreement**”) the Supervisor respectfully announces the summoning of a general meeting of the holders of the participation units issued by Delek Drilling Trusts Ltd. (the “**Trustee**”) and which confer a working interest 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, September 6, 2018 at 13:00, at the office of Gissin & Co. Advocates, at 38 Habarzel St., Entrance B, Tel Aviv.

2. **On the meeting’s agenda**

2.1. **Update and discussion on the issue of occurrence of the date of recovery of the investment in the Tamar project**

**Background**

2.1.1. In accordance with the agreement for the transfer of rights, signed in 1993 between Delek Energy Systems Ltd. (“**Delek Energy**”) and “Delek” Israeli Fuel Company Ltd.<sup>1</sup> (hereinafter referred to collectively as: the “**Transferors**”) and the General Partner in the Partnership, the Partnership undertook to pay the Transferors royalties at variable rates from the entire share of the Partnership in oil and/or gas and/or other valuable materials, to be produced and utilized from the oil assets, in which the Partnership has or will in the future have an interest (prior to deduction of royalties of any kind, but after deduction of the oil, which shall serve for the actual production) against the receipt of

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<sup>1</sup> Following a re-organization made, Delek Group currently holds the aforesaid royalty right of Delek Israel.

rights in several licenses from the Transferors (the “**Transfer of Rights Agreement**”)<sup>2</sup>.

- 2.1.2. The rates of the royalties set forth in the Transfer of Rights Agreement, following the completion of the merger between the Partnership and Avner, are: until the “date of recovery of the Partnership’s investment” – royalties will be paid at the rate of 2.5% of onshore oil assets and 1.5% of offshore oil assets, and after the date of recovery of the Partnership’s investment – royalties will be paid at the rate of 7.5% of onshore oil assets and 6.5% of offshore oil assets. Following a re-organization made, Delek Group currently holds the aforesaid royalty right of Delek Israel.
- 2.1.3. It transpires from the aforesaid that commencing from the investment recovery date, the rates of the royalties paid to the Transferors significantly increases and that accordingly, the control holder of the General Partner in the Partnership (Delek Energy, a public company controlled by the Delek Group) has an inherent personal interest in the determination of the investment recovery date.
- 2.1.4. In accordance with the Partnership’s Immediate Report dated December 28, 2017 (Ref. No.: [2017-01-122181](#)), according to the Partnership’s current estimation, based on estimates not yet audited by the Partnership’s auditors, the date of recovery of the investment in the Tamar project already took place by the end of January 2018.  
  
Accordingly, the Partnership has actually been paying the increased royalty payment to the control holder since the beginning of 2018.
- 2.1.5. The Supervisor commenced an independent proceeding to examine the date of recovery of the investment in the Tamar project, and to this end, appointed Mr. Amir Soraya (through Soraya Consultants Ltd.) as an expert on behalf of the Supervisor for the provision of an opinion regarding the recovery of the investment in the Tamar project (the “**Expert on behalf of the Supervisor**”).
- 2.1.6. The examination of the Expert on behalf of the Supervisor, which was completed on June 18, 2018 (the “**Expert’s Report**”) reveals that there are considerable interpretive questions, mainly with respect to the treatment of the levy on gas and oil profits pursuant to the Taxation of Profits from Natural Resources Law, 5771-2011, which may significantly affect and postpone the

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<sup>2</sup>See Section 7.25.12(b) of the Partnership’s Periodic Report dated December 31, 2017 (released on March 21, 2018).

occurrence of the investment recovery date, and consequently the date on which the payment of the increased royalty begins.

- 2.1.7. Upon receipt of the Expert's Report, the Supervisor urgently addressed the Partnership's management in order to hold an urgent discussion at the audit committee both on the question of the adequate proceeding to examine the investment recovery date and on the question of the continued payment of the increased royalty to the Transferors, in view of the questions arising from the Expert's Report.
- 2.1.8. On July 8, 2018, the Partnership's Board resolved that the audit committee (which is composed of outside and independent directors only) shall be authorized to handle this issue on behalf of the Partnership including examining issues arising from the Expert's Opinion clarifying the various issues vis-à-vis the royalty owners and taking any other action as the committee deems fit, at its discretion and all for the benefit of the Partnership, as well as retaining the services of professional external and independent consultants, at its discretion and at the expense of the Partnership, to provide legal and economic support to the process and to determine the terms of compensation of such consultants. The audit committee was required to formulate its recommendations on the matter and to present them before the Board. See the Partnership's report dated July 8, 2018 (Ref. No.: [2018-01-065365](#)).
- 2.1.9. However, to this date, no decision has been made with respect to the questions raised by the Supervisor and/or the existence of appropriate proceedings for the investigation of the questions arising in connection with the investment recovery date. The Supervisor believes that the proceeding being conducted by the audit committee does not obviate the Supervisor's activity in order to prevent the deprivation of rights of public holders of Participation Units.
- 2.1.10. The Supervisor therefore seeks the approval of the meeting to act to investigate the issues arising, in any legal proceeding and/or arbitration and also to initiate proceedings as aforesaid and take any proceeding required, and in this context, to employ consultants and experts independently as specified below and to take part in the entire process of examination of the investment recovery date as an independent party in the proceeding.
- 2.1.11. **As part of the meeting, the Supervisor shall update the holders of the Participation Units and reply to questions with respect to the process of examination of the investment recovery date.**

2.2. **Decisions 1-5 - Approval of budget for the Supervisor's accompaniment of the process of examination of the investment recovery date**

2.2.1. It is proposed to approve a budget for the Supervisor for its participation in the process of examination of the investment recovery date according to one of the budget alternatives proposed below:

2.2.2. **Alternative No. 1** –

It is proposed to approve a budget for the Supervisor for its participation in the process of examination of the investment recovery date for a period of up to 12 months from the date of the meeting's approval (the "**Approval Period**") for the making of the following payments:

- (a) In view of the nature of the activity for the examination of the investment recovery date, which requires accompaniment of the Supervisor by virtue of its position under the partnership agreement, the Trust Agreement and the law, in a manner requiring frequent attendance at meetings, accompanying the activity of the audit committee and investing additional working time, it is proposed to approve an additional fee for the Supervisor on top of its monthly fee, in the amount of ILS 3,000 (plus VAT) for the participation of the Supervisor at any meeting, including the meetings of the audit committee, regardless of the number of representatives participating on behalf of the Supervisor, provided that the total additional amounts to be paid under this section shall not exceed the sum total of US \$30,000 plus VAT (the "**Supervisor Accompaniment Budget**") for the Approval Period.
- (b) It is proposed to appoint the law offices of Gissin & Co. and Kabiri, Keidar, Blum & Co., which are partners in the Supervisor, as the legal counsel of the Supervisor and to authorize them to represent the Supervisor in any proceeding relating to the examination of the investment recovery date. The fee of the Supervisor's legal counsel shall be paid according to the rates attached hereto as **Annex 1** (the "**Legal Counseling Budget**"), and shall not exceed 300 work hours for the Approval Period.
- (c) It is proposed to approve a budget for the Supervisor to obtain economic advice and/or opinion from an independent expert to be chosen for that purpose, provided that the amount to be paid under this section shall not exceed US \$50,000 plus VAT (the "**Economic Expert Budget**") for the Approval Period.

Insofar as the proceedings of examination of the investment recovery date will extend beyond the Approval Period and/or the expenses shall exceed the maximal amount, an additional request shall be presented to the meeting.

**The Language of Resolution no. 1 is as follows:**

“To approve for the Supervisor a budget for its participation in the proceedings of examination of the investment recovery date, for the performance of the following payments:

- (a) Supervisor Accompaniment Budget for the Approval Period;
- (b) Economic Expert Budget for the Approval Period;
- (c) Budget for Legal Counseling to be provided by the law offices of Gissin & Co. and Kabiri, Keidar, Blum & Co., as the legal counsel of the Supervisor in accordance with the rates attached hereto as **Annex 1** which will not exceed 300 working hours for the Approval Period.

Insofar as the proceeding of examination of the investment recovery date shall extend beyond the Approval Period and/or the expenses shall exceed the maximal amount, an additional request shall be presented to the meeting.”

Alternatively –

**2.2.3. Alternative No. 2 –**

It is proposed to approve for the Supervisor a budget for its participation in the proceeding of examination of the investment recovery date, for the performance of the following payments:

- (a) Supervisor Accompaniment Budget for the Approval Period;
- (b) Economic Expert Budget for the Approval Period;
- (c) Budget for legal counseling to be provided by Matry, Meiri & Co., Law Offices, according to the legal fee proposal attached hereto as **Annex 2**.

**The Language of Resolution no. 2 is as follows:**

“To approve for the Supervisor a budget for its participation in the proceeding of examination of the investment recovery date, for the performance of the following payments:

- (a) Supervisor Accompaniment Budget for the Approval Period;
- (b) Economic Expert Budget for the Approval Period;

- (c) Budget for legal counseling to be provided by Matry, Meiri & Co., Law Offices, according to the legal fee proposal attached hereto as **Annex 2.**”

Alternatively –

2.2.4. **Alternative No. 3** –

It is proposed to approve for the Supervisor a budget for its participation in the proceeding of examination of the investment recovery date, for the performance of the following payments:

- (a) Supervisor Accompaniment Budget for the Approval Period;
- (b) Economic Expert Budget for the Approval Period;
- (c) Budget for legal counseling to be provided by Boaz Ben Zur & Co. Law Office, according to the legal fee proposal attached hereto as **Annex 3.**

**The Language of Resolution no. 3 is as follows:**

“To approve for the Supervisor a budget for its participation in the proceeding of examination of the investment recovery date, for the performance of the following payments:

- (a) Supervisor Accompaniment Budget for the Approval Period;
- (b) Economic Expert Budget for the Approval Period;
- (c) Budget for legal counseling to be provided by Boaz Ben Zur & Co. Law Office, according to the legal fee proposal attached hereto as **Annex 3.**”.

Alternatively –

2.2.5. **Alternative No. 4** –

It is proposed to approve for the Supervisor a budget for its participation in the proceeding of examination of the investment recovery date, for the performance of the following payments:

- (a) Supervisor Accompaniment Budget for the Approval Period;
- (b) Economic Expert Budget for the Approval Period;
- (c) Budget for legal counseling to be provided by Nehoshtan Yogev & Co., Law Office, according to the legal fee proposal attached hereto as **Annex 4.**

**The Language of Resolution no. 4 is as follows:**

“To approve for the Supervisor a budget for its participation in the process of examination of the investment recovery date, for the performance of the following payments:

- (a) Supervisor Accompaniment Budget for the Approval Period;
- (b) Economic Expert Budget for the Approval Period;
- (c) Budget for legal counseling to be provided by Nehoshtan Yogev & Co., Law Office, according to the legal fee proposal attached hereto as **Annex 4**”.

Alternatively –

2.2.6. **Alternative No. 5** –

It is proposed to approve for the Supervisor a budget for its participation in the proceeding of examination of the investment recovery date, for the performance of the following payments:

- (a) Supervisor Accompaniment Budget for the Approval Period;
- (b) Economic Expert Budget for the Approval Period;
- (c) Budget for legal counseling to be provided by Naor-Gersht Law Office, according to the legal fee proposal attached hereto as **Annex 5**.

**The Language of Resolution no. 5 is as follows:**

“To approve for the Supervisor a budget for its participation in the proceeding of examination of the investment recovery date, for the performance of the following payments:

- (a) Supervisor Accompaniment Budget for the Approval Period;
- (b) Economic Expert Budget for the Approval Period;
- (c) Budget for legal counseling to be provided by Naor-Gersht, Law Office, according to the legal fee proposal attached hereto as **Annex 5**.

2.2.7. It is clarified that according to each of the aforesaid alternatives, in order to allow the efficient operation of the Supervisor and to ensure that it receives the reimbursement of its required expenses and additional payments, it is proposed that the Partnership bear such costs, and the Supervisor shall take any action possible under the law and shall initiate collection proceedings if necessary in accordance with the provisions of Section 65-23(c)

of the Partnerships Ordinance [New Version], 5735-1975,<sup>3</sup> for their return from the General Partner.

**With respect to Resolutions 1-5 it is hereby clarified as follows:**

- a. **“For” can be voted only with respect to one of the aforesaid resolutions. The vote of a holder who will vote “for” more than one resolution will not be counted and will not be taken into consideration.**
- b. **The resolution which will be adopted is the one which will obtain the majority of the votes present at the meeting who voted “for” or “against” one of the resolutions 1-5 on the agenda, subject to the majority required for the adoption of resolutions (as specified in Section 3.2 below).**

**3. Details with respect to the convening of the meeting**

**3.1. Quorum and adjourned meeting**

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.

If a quorum is not present 30 minutes after the time scheduled for the meeting, the meeting will be adjourned to Thursday September 13, 2018 at 13:00 at the same place, without there being an obligation to inform the Unit holders thereof. Any other day or a different time or another place, shall be determined in a notice to the Unit holders.

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.

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”.

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<sup>3</sup>(c) Unless determined otherwise by the court, the company of the General Partner shall bear all expenses spent by the Supervisor under the provisions of this section, including court fees and legal fees, on the date as determined by the court.



3.2. **The majority required for adoption of the resolution on the agenda**

The majority required for the approval of the required resolutions is a simple majority of the Units whose holders participated and voted in such meeting, provided that the count of all of the votes of the Unit Holders' meeting, excludes the votes of the General Partner or the control holder thereof or holders of a personal interest in the resolution, other than a personal interest which is not a result of an affinity with the General Partner or the control holder thereof, as well as abstaining votes.

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

3.3.1. The record date for establishing the right to vote in accordance with Section 182 of the Companies Law, 5759-1999 (the "**Companies Law**") is on Sunday, August 12, 2018, at the close of the trading day on TASE (the "**Record Date**").

3.3.2. 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.

3.3.3. 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**").

3.4. **Method of voting**

3.4.1. With respect to the resolution 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.

3.4.2. A document of appointment of a proxy, or a copy thereof, certified by a notary, shall be deposited against a confirmation of delivery, at the Supervisor's offices at the office of Gissin & Co. Advocates, on 38 Habarzel St., Entrance B, Tel Aviv, at least 48 hours before the time of the meeting, failing which such appointment document shall have no force or effect at the meeting and at an adjourned meeting.

- 3.4.3. If the meeting is adjourned as stated in Section 3.1 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 may 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 days as of the date of the original meeting.

- 3.4.4. 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, September 6, 2018 by 07:00. It is stated that in accordance with Section 83(d) of the Companies Law, if a Unit holder votes by more than one means, his later vote shall be counted.

3.5. **Changes to the agenda**

- 3.5.1. After the release of this notice report, there may be changes to the agenda, including the addition of an item to the agenda and it will be possible to inspect the current agenda in the Partnership's reports to be posted on the ISA's distribution website at: [www.magna.isa.gov.il](http://www.magna.isa.gov.il) and on the website of TASE, at: [www.maya.tase.co.il](http://www.maya.tase.co.il).
- 3.5.2. A request by one or more Participation Unit holders, holding at least half a percent (0.5%) of all of the Participation Units of the Partnership under Section 65-30(b) of the Partnerships Ordinance, to include an issue in the agenda of the general meeting, shall be delivered to the Partnership up to three days after the calling of the meeting. The issue will possibly be added to the agenda and the details thereof will appear on the distribution website. In such a case, the Trustee shall publish an amended notice report no later than seven 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.

4. **Inspection of documents**

The immediate report is available for inspection on the TASE website at: [www.maya.tase.co.il](http://www.maya.tase.co.il) and on the ISA distribution website at: [www.magna.isa.gov.il](http://www.magna.isa.gov.il). Furthermore, the notice to the Unit holders and a copy of any document pertaining to the aforesaid proposed resolutions are available for inspection at the offices of the Partnership after prior coordination, until the convening of the Unit holders' meeting.

Sincerely,

**Fahn Kanne & Co., Accountants and CPA Micha  
Rosenthal together with Gissin & Keidar firm**

**Annex 1**

**Re: Fee rates**

For legal services and representation by the law offices of Gissin & Co. and Kabiri, Keidar, Blum & Co. (the “**Attorneys**”) to and of the supervisors of Delek Drilling Partnership – Limited Partnership, in any proceeding related to the examination of the investment recovery date, the Attorneys shall be paid a fee according to the rates specified below:

1. For a Senior Partner’s hour – ILS 1,200 plus VAT;
2. For a Partner’s hour – ILS 1,000 plus VAT;
3. For a Senior Associate’s hour – ILS 800 plus VAT;
4. For an Associate’s hour – ILS 500 plus VAT;
5. For an Intern’s hour – ILS 350 plus VAT.

The Attorneys shall also be reimbursed for expenses associated with the legal services, including fees, courier services, travel, photocopies, parking, etc.