Delek Group

DELEK GROUP SUMMARIZES 2019 AND PUBLISHES CONSOLIDATED REPORTS

2019 results:

- **Expansion of oil and gas production in the North Sea region led to a growth in revenue in 2019 to NIS 8.8 billion, compared to NIS 8.1 billion in 2018;**
- **The Company's net profit amounted to NIS 234 million. Continued operations contributed NIS 760 million to the Company, mostly attributed to the Group's gas and oil exploration operations in Israel and worldwide;**
- **Progress in implementation of the Group's strategy: in the Leviathan reservoir, regular production and the export to Egypt and Jordan commenced. In the North Sea, the acquisition of the Chevron assets was completed, bringing about to a substantial growth in the reserves and resources of the subsidiary Ithaca;**
- **Cash flow from the disposal of non-core assets in 2019 amounted to NIS 2.4 billion;**
- **Ithaca's EBITDAX in 2019 (pro-forma, including Chevron assets) amounted to USD 960 million;**
- **According to NSAI, a leading, independent global oil and gas reserve assessment company, the value of the cash flow to Ithaca for 2P and 2C reserves and resources as at December 31, 2019, at a discount rate of 10%, is USD 3.85 billion.**

Developments since the beginning of 2020:

- **The Covid-19 crisis led to a sharp decline of 30%-40% in global demand for oil and extreme volatility in global energy market. As a result, in recent weeks, the Group promoted a series of measures and actions to improve its financial flexibility and liquidity, and to exist the crisis in the markets successfully;**
- **Delek Group's work plan in the gas reservoirs in Israel, and being essential operations, will enable regular production to continue and vital actions to be performed to increase the production capacity of the Leviathan reservoir to 12 BCM annually.**

Delek Group's CEO, Idan Wallace: "In recent months, the global energy sector has experienced a unparalleled and extreme volatility. Delek Group is a strong company with quality assets and a clear positive net asset value. Delek Group's excellent assets, the determination with which we work day and night, and the business measures that we promote, will allow us to get through the crisis and come out of it stronger."

Tel Aviv, May 3, 2020. Delek Group (TASE: DLEKG, US ADR: DGRLY) ("the Company") summarizes 2019 and publishes consolidated reports. Delek Group's revenue in 2019 amounted to NIS 8.8 billion, compared to NIS 8.1 billion in the previous year. The Company's revenue in the fourth quarter of 2019 was NIS 2.7 billion, compared to NIS 2 billion in the same quarter the previous year. The increase is mainly due to expansion of the Company's oil and gas operations in the UK North Sea. The Group's net profit amounted to NIS 786 million. Continued operations contributed NIS 760 million to the Company, mostly attributed to the Group's gas and oil exploration operations in Israel and worldwide.

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Contribution to the net profit attributable to the Company's shareholders from major activities*:

NIS millions	Q4 2018	**Q4 2019**	FY 2018	**FY 2019**
Oil and Gas E&P Operations in Israel and its Surroundings	108	110	437	384
Oil and Gas E&P Operations in the North Sea	174	199	283	285
Fuel operation in Israel	(23)	13	70	91
Contribution from continued operations, before discontinued operations, capital gains and other items	**259**	**322**	**790**	**760**
Finance expenses and other items	(478)	(633)	(273)	(526)
Net income (loss) attributed to the Company's shareholders	**(219)**	**(311)**	**517**	**234**

* The full report, including the full notes for the above items, will be available on the Group's website at www.delek-Group.com

The Covid-19 crisis led to a sharp decline of 30%-40% in global demand for oil. The decrease in demand, together with the disagreements between Saudi Aribia and Russia regarding reduction of production led to extreme volatility in oil prices. In recent weeks, the Company promoted a series of measures and actions, based on its declared strategy to improve its financial flexibility and liquidity, and to exit the crisis in the global energy market successfully. Among the measures taken in recent months are:

- A transaction for the sale of Delek Group’s holdings in Cohen Development was completed in return for NIS 207 million in cash.
- A transaction for the sale of the Company’s remaining holdings in IDE was finalized for a consideration of NIS 165 million in cash.
- Early completion of a swap transaction for 12.5 million of The Phoenix shares and release of NIS 82 million in cash in favor of the Company.
- Principle payments in a total amount of NIS 370 million were transferred to debenture holders.
- Outstanding debt to banks was decreased by NIS 800 million;
- The Company is working to realize additional rights and assets, which include, among others, its holdings in Delek Israel and its rights to receive royalties from Karish-Tanin natural gas resevours;
- In addition, the Company is preparing to raise capital to strengthen its liquidity and financial position.

Due to the Covid-19 crisis and the material drop in oil and gas prices that occurred after the balance sheet date, due to the plans the Company is promoting with institutional debenture holders and financial institutions in order to strengthen collateral and to reach agreements on the terms of credit and due to the fact that as of the date of the approval of the financial statements, these agreements have not yet been formulated and signed, the Company’s auditors have added to the financial statements a note drawing attention to the issue of “going concern”. As stated in the financial statements, the Company is expecting to reach an agreed plan concerning an update of the financial covenants and credit terms, strengthening of the collateral and reinforcing its capital.

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Oil and gas in Israel

- In 2019, most of the revenue of Delek Drilling, the operating branch of Delek Group in Israel, was from the sale of gas from the Tamar reservoir. In addition, in 2019, the development of the Leviathan reservoir was completed. On December 31, 2019, natural gas started to flow from the Leviathan reservoir to the local market, on January 1, 2020, the flow of natural gas to Jordan commenced and on January 15, the flow of natural gas to Egypt commenced under the supply agreement with Dolphinus.
- The production and sales activities in Israel are continuing as usual and as at the publication date of the results, the production rate in the Leviathan reservoir is almost 7 BCM annually.
- The work plan of the gas reservoirs, and being an essential operation, will enable regular production to continue as well as necessary actions to be performed in the Leviathan reservoir to continue ramping up the production capacity to 12 BCM annually. However, in order to reflect the current concerns in the global markets, a sensitivity analysis was performed for the Tamar and Leviathan reservoirs under two extreme scenarios: based on the Brent price curve as at March 17, 2020 until 2024 and then at a fixed price of USD 50 per barrel, and at a fixed price of USD 25 per barrel.

  The Brent price curve used for the sensitivity analysis:

	2020	2021	2022	2023	2024
$/barrel - price curve as of March 17, 2020	34.8	41.1	44.8	47.7	49.8

  The sensitivity analysis, which also took into account a decrease of 50% in the sales quantities to Egypt (with specific compensation from the growth in sales to Israel), showed that the total value of the reservoirs to Delek Group (at a discount rate of 10%) was impaired by a relatively moderate rate of 12% under the scenario based on the Brent price curve as at March 17, 2020 and 14% under the scenario based on the Brent price curve based on a fixed Brent price of USD 25 per barrel.

Oil and gas in the North Sea - Ithaca's operations

From a summary of Ithaca's operations in 2019 as well as plans and estimates which it published in early April 2020 and updated in the last week (with publication of Ithaca's financial statements) the following main points arise:

- The acquisition of the Chevron assets, which was completed in November, 2019, has trebled its reserves and contingent resources and increased its production capacity fourfold. The acquisition, which provided Ithaca with competitive high quality assets, strengthened its position as a leading energy company in the UK North Sea region.
- In 2019, the average daily production (pro forma, including Chevron assets) was 75 thousand barrels of oil equivalent per day (BOED), with an average cost of production of USD 17 per BOE.
- The EBITDAX (earnings before interest, taxes, depreciation amortization and exploration expenses) for 2019 amounted to USD 960 million (pro forma).
- The cash flow from operations net of CapEx (pro forma) in 2019 amounted to USD 658 million.
- The net financial debt as at December 31, 2019 amounted to USD 1.55 billion, reflecting a debt to EBITDAX ratio of 1.6. The net financial debt is expected to decrease to a level of USD 1.4 billion at the end of the first quarter of 2020. Ithaca maintains high liquidity with an available RBL (reserve base lending) facility of USD 300 million in total.

- Due to the Covid-19 crisis, the Company announced that its production in 2020 is expected to be impaired by a relatively moderate rate and will be a daily average of 63 to 68 thousand BOE.
- To maintain its financial flexibility and cash flow strength against the sharp decrease in oil prices due to the Covid-19 crisis, the Company decided on several measures to reduce expenses and save costs, including reduction of the CapEx for 2020 by 50% to USD 125 million (compared to USD 250 million) and decrease of the expected production costs for 2020 from USD 17 per BOE to USD 15 per BOE.
- As of December 31, 2019, Ithaca's strong hedging plan for 2020 to 2022 amounted to 32 million BOE at an average hedged price of about USD 63 per barrel and 52 pence per BTU.

The following main points arise from the report on Ithaca's resources and reserves, including Chevron assets, prepared by NSAI:

- The total proven and probable reserves (2P) as at December 31, 2019 increased, amounting to more than 206 MMBOE, an increase of 6% compared to December 31, 2018, subsequent to production of 27 MMBOE in 2019.
- The total contingent resources (2C) as at December 31, 2019 amounted to more than 66 MMBOE, an increase of 45% compared to December 31, 2018.
- The total proven and probable reserves together with the contingent resources (2P+2C) amounted to 273 MMBOE, compared to 267 MMBOE as at December 31, 2018 and subsequent to production of 27 MMBOE in 2019. The growth is another indication of Ithaca's quality portfolio.
- The value of the discounted cash flow for the proven and probable reserves (2P) according to the assumptions at the base of the cash flow and according to the price curve as at December 31, 2019 at a discount rate of 10% is USD 3.2 billion. The value of the discounted cash flow for contingent resources (2C) is a further USD 649 million. In total, the cash flow value is USD 3.85 billion.
- According to the reserves report, also in the sensitivity analysis based on the future oil and gas price curve as at March 17, 2020 (that was already materially impacted by the Covid-19 crisis), the value of Ithaca's discounted cash flow (at a discount rate of 10%), from proven and probable reserves (2P) only, is USD 1.8 billion.

Delek Israel operations

Delek Israel's net profit in 2019 and the fourth quarter of 2019 amounted to NIS 91 million and NIS 13 million, respectively, compared to a total profit of NIS 70 million and a loss of NIS 21 million, respectively, in the corresponding periods in 2018. The EBITDA for 2019 and the fourth quarter of 2019 amounted to NIS 418 million and NIS 97 million, respectively, a growth of 62% and 98%, respectively, compared to the same periods in the previous year. The profit growth in 2019 compared to the same period in the previous year was due mainly to initial implementation of new accounting standard IFRS16 and a decrease in sales and compound operation expenses, due to reduction and streamlining measures.

As at December 31, 2019, Delek Israel owns 239 public gas stations (of which, 178 are operated by Delek Israel) and 196 convenience stores (of which, 160 are operated by Delek Israel and the others by franchisees).

Transactions and disposals

- On November 3, 2019, a transaction was completed for the Company's sale of 32.5% of the share capital of The Phoenix to a company controlled by Centerbridge Partners LP and Gallatin Point Capital LLC for a consideration of NIS 1.57 billion. Of this amount, NIS 1.335 billion was received in cash by the Company at the closing date and the balance was provided to the buyers as a loan.
- On February 28, 2019, a transaction was completed for the sale of 30% of the share capital of IDE in return for NIS 530 million so that subsequent to completion of the transaction, the Group held 20% of IDE shares. The profit to the Company (after the tax effect) resulting from the sale of the shares amounted to NIS 123 million. Subsequent to the balance sheet date, in March 2020, the Group sold the balance of its investment (20%) in IDE for NIS 164 million. Consequently, in the first quarter of 2020, the Group is expected to recognize a profit after the effect of tax of NIS 20 million.
- In December 2019, the Company sold the balance of its holdings (22.5%) in Delek Automotive, in two off-exchange transactions, for a consideration of NIS 404 million.
- In addition, subsequent to the balance sheet date, in April 2020, a transaction was completed for the sale of Delek Group's holdings in Cohen Development for NIS 207 million in cash.
- Subsequent to the balance sheet date, in April 2020, a swap transaction for 12.5 million of The Phoenix shares was concluded, so that NIS 82 million, which were pledged in favor of the financial institution with which the transaction was executed, as is standard in transactions of this kind, were released in favor of the Company.

Financial position shortly before the publication date of the report (table below):

- The balance of the Company's debentures is approximately NIS 6 billion and the outstanding principle of the debt to financial institutions is NIS 1.8 billion.
- Cash and marketable securities amounted to NIS 411 million; pledged and restricted deposits amounted to NIS 324 million and the balance of loans to subsidiaries and third parties amounted to NIS 1.3 billion.
- The Company holds 54.7% of Delek Drilling's shares, of which approximately 39% are pledged to financial institutions.

Net financial debt*:

NIS millions	December 31, 2019	Shortly before publication
Liabilities		
Debentures	6,281	5,974
Banks & other loans	2,488	1,763
Other liabilities	386	330
Total Liabilities	**9,155**	**8,067**
Financial assets		
Cash & deposits	977	211
Pledged deposits	116	123
Restricted deposits	92	201
Financial investments	302	200
Loans**	1,300	1,331
Other payables	214	87
Treasury shares	239	94
Total financial assets	**3,240**	**2,247**
Net debt	**5,915**	**5,820**

The data excludes a convertible loan from BP

* This table, including full notes, is included in the Delek Group's financial reports that will be available on the Group's website at www.delek-group.com.

** Breakdown of loans:

NIS millions	December 31, 2019	Shortly before publication
Ithaca	903	936
Seller's loan to the buyer of The Phoenix	140	140
to Delek GOM Loan	69	71
loans Other	188	184
Total	**1,300**	**1,331**

About The Delek Group

Delek Group is an independent E&P company with activities in the UK North Sea and the East Mediterranean. Delek Group has significant holdings in the Leviathan and Tamar natural gas reservoirs in the East Mediterranean (Israel's territorial water), with reserves and resources of more than 30 TCF and annual production of approximately 20 BCM. These reservoirs are a major natural gas supplier to the growing markets of Israel, Egypt and Jordan and Delek continues to lead the region's development into a major natural gas export hub. Through its wholly owned subsidiary Ithaca, Delek Group holds high-quality oil and natural gas assets in the UK North Sea totaling more than 270 million barrels of oil equivalent (boe) and producing about 27 million boe per year. Delek Group is one of Israel's largest and most prominent companies with a consistent track record of growth. Its shares are traded on the Tel Aviv Stock Exchange (DLEKG:IT) And its ADRs are traded on the US OTC market (DGRLY:US).

For more information on Delek Group please visit www.delek-group.com

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