Delek Group publishes its financial statements for Q2 2020

Group's revenues in the quarter were NIS 1.9 billion; Ithaca revenues rose sharply to NIS 971 million.

- **Delek Group revenues in the quarter remained stable at NIS 1.94 billion, similar to the corresponding quarter last year;**
- **Delek Group gross profit rose sharply to NIS 816 in the quarter, an increase of about 100% compared to Q2 2019;**
- **Ithaca's revenues in the quarter grew by 180% to NIS 971 million and net profit was NIS 102 million as compared with NIS 27 million in the comparable quarter last year;**
- **Delek Group announced that it is holding discussions with third parties to assess the possibility of a merger of Ithaca with an international energy company, as part of a process to turn Ithaca into a public company;**
- **The Group ended Q2 with a net loss of NIS 326 million, mainly arising from one-time accounting provisions;**
- **During the report period and up until its publication date, Delek Group completed early repayment of over NIS 1 billion to its lender banks, and an additional amount of NIS 550 million to debenture holders, on the due date and in order;**
- **Idan Wallace, President and CEO of Delek Group: "Delek Group's core operations continued to demonstrate strong performance in the second quarter. Major steps to strengthen both capital and collateral that the Company completed during and following the reporting period, provide a tailwind to continue with the successful implementation of the Group's strategy."**

Tel Aviv, August 31, 2020. Delek Group (TASE: DLEKG, US ADR: DGRLY) ("the Company") today published its financial statements for Q2 2020.

Despite the global COVID-19 pandemic, the drop in energy prices and the lockdowns applied in Israel and around the world, the Group's revenues in the quarter were NIS 1.94 billion, similar to the corresponding quarter last year, driven by a sharp rise in the Group's revenues from core operations (the sale of gas and oil in Israel and in the North Sea), which were set off against the drop in revenues from fuel distribution and marketing operations in Israel.

Gross profit in Q2 rose sharply to NIS 809 million, a growth of about 100% as compared with the corresponding quarter last year; operating profit also rose in Q2 and came to NIS 337 million, as compared with NIS 208 million in the corresponding quarter. Operating profit was impacted by two one-time accounting provisions posted in this quarter: following the disposal of all the holdings in Cohen Development, a provision of NIS 265 million was recorded (NIS 235 million after tax); in addition, the drop seen during Q2 in the Phoenix share price led to a downward revaluation of the buyer loan that Delek Group provided to the purchasers of the Phoenix, which led to a provision of NIS 75 million in the quarter. It should be noted that in the light of the recovery in the Phoenix share price close to the publication date of the financial statements, it is expected that the provision made during the quarter will be reversed in the coming periods.

The increase in finance expenses of the energy business in Israel was due mainly to the discontinuation of capitalization of the credit costs for the Leviathan project, following the completion of the construction stage and the start of gas production from the field, which alongside the one-time accounting provisions mentioned above, led to a net loss for the quarter of NIS 326 million.

Energy business in Israel

Revenues from the sale of gas in Israel net of royalties rose by 64% to NIS 498 million as compared with revenues of NIS 304 million in the corresponding quarter last year. The increase was mainly due to the start of gas production from Leviathan, and the sales to the local market as well as exports to Egypt and Jordan. EBITDA in Q2 grew by 83% to NIS 418 million. The major increase in sales of natural gas and condensate led to a growth in operating profit before one-time provisions to NIS 280 million in this quarter as compared with NIS 150 million in the parallel quarter last year.

Delek Group posted a one-time provision of NIS 235 million, after tax, following the disposal of its investment in Cohen Development. Net of this provision, the Group posted a net profit of NIS 11 million from its energy business in Israel. In addition, the discontinuation of Leviathan's credit cost capitalization, following the commencement of production from the field, led to an increase in financing expenses in this quarter to NIS 183 million as compared with NIS 13 million in the parallel quarter last year.

After the end of Q2 Delek Drilling completed the refinancing of the Leviathan field in the amount of USD 2.25 billion with strong demand of USD 7 billion and lower than expected interest rates, in the range of 5.75% - 6.75%.

Delek Drilling has noted that in recent weeks, after the reporting period, there has been a significant increase in demand for natural gas.

Energy business in the North Sea

Ithaca, wholly owned by Delek Group, has recorded a sharp rise in revenues from the sale of gas and oil in the North Sea in Q2 2020. The Company's revenues in the quarter were NIS 971 million, as compared with revenues of NIS 350 million in the parallel quarter last year, an increase of 177%.

Net profit came to NIS 102 million as compared with a net profit of NIS 27 million in the corresponding period last year. Average daily output of Ithaca was 70,400 BOED, as compared with 15,200 in Q2 2019. The growth was mainly due to an increase in the oil and gas produced by Ithaca as a result of completion of the transaction for the acquisition of Chevron's assets in the North Sea. Since actual output in the first half of 2020 was higher than Ithaca's estimate for an annual average of 63 to 68 thousand BOED, Ithaca expects that its actual annual output will be at the top end of this range.

The sharp increase in Ithaca's revenues and the improved results, despite the COVID-19 pandemic and the drop in oil price over the reporting period, were driven by Ithaca's strong hedging position, which contributed USD 136 million in the quarter, and from streamlining actions that Ithaca management took. The average production cost per barrel in Q2 and H1 2020 came to USD 13 and USD 15, respectively, as compared with USD 20 per barrel in H1 2019.

Cash flow from operations in Q2 came to USD 178 million. This is more than a 6-fold increase as compared with the corresponding quarter last year. The strong cash flow allowed Ithaca to continue to reduce its financial debt during the quarter by USD 100 million, to USD 1.3 billion. The Company estimates that net debt will drop by a further USD 100 million by the end of the year. Ithaca continues to retain high liquidity with an unutilized Reserve Base Lending Facility (RBL) of USD 300 million.

The fair value of Delek's investment in Ithaca as at June 30, 2020, totaled USD 1.2 billion, similar to that of March 31, 2020. Ithaca's shareholders' equity as of June 30 was USD 814 million, as compared with USD 936 as of March 31, 2020. The drop was due to a revaluation of Ithaca's hedging transactions portfolio, on account of the recovery in oil prices, as an increase in oil prices drove a decrease in the value of the hedging transactions.

Close to the publication date of the financial statements Mr. Bill Dunnett was appointed CEO of Ithaca. Dunnett, an engineer by training, has 35 years' experience in the field of energy and gas, during which time he served as CEO of Repsol Sinopec Resources UK and in a range of senior positions in leading energy companies, including Shell, Petrofac and Halliburton.

Delek Group has announced that it is holding discussions with third parties to assess the possibility of a merger of Ithaca with international companies in the energy field, in which Ithaca would hold at least 50%, with the intention to turn the merged company into a public company traded in London. Several international investment banks are accompanying the discussions. The merger plan under consideration in the discussions is also expected to include a cash payment component that will be transferred to Delek Group, as part of the merger process.

Distribution and marketing of fuel products in Israel

The results of Delek Israel in Q2 were impacted by the COVID-19 pandemic and the implementation of lockdowns, which led to a significant reduction in fuel prices and significantly lower economic activity. Revenues in Q2 came to NIS 483 million as compared with NIS 1.3 billion in the parallel quarter. Gross profit came to USD 127 million, as compared with NIS 194 million in the corresponding quarter last year.

Delek Israel posted a net loss for the quarter of NIS 17 million, as compared with a profit of NIS 32 million in the corresponding quarter last year.

Business of Delek Israel's convenience stores continued to be stable even in this period and revenues were NIS 126 million in Q2 2020 as compared with NIS 135 in the parallel quarter.

Strengthening Delek Group's capital structure: disposal of assets for NIS 2 billion; early repayment of debts to banks of over NIS 1 billion.

Delek Group completed a range of significant actions to strengthen its capital structure and liquidity in just a few months, despite the COVID-19 pandemic and the challenging market conditions, based on its strategic plan. These actions included, among others, two rounds of capital raising of over NIS 300 million. As part of the capital raising that the Group completed in August, it experienced demand of NIS 300 million, as compared with a planned raising of NIS 165 million. The closing price of the offering was 7% higher than the minimum price and the capital raise amounted to NIS 175 million.

In addition, Delek Israel completed the sale of Pi-Gelilot for NIS 720 million, of which NIS 150 million has already been distributed as a dividend to Delek Group; Delek Israel also signed a binding agreement for the sale of the Ashkelon and Sorek power stations for NIS 367 million. Close to publication of the financial statements the Group signed a Memorandum of

Understanding with the Arbel Fund for an investment of NIS 450 million in Delek Israel. The investment will be by way of senior shares to the Arbel Fund or through a different capital structure that is being formulated between the parties and will bear an annual yield of 10% for 5 years that will be paid out of the operations of Delek Israel through distribution of a dividend to the Fund from Delek Israel sources alone (with non-recourse to Delek Group and Delek Petroleum). At the end of the investment period Delek Petroleum will be entitled to redeem the investment and the investor will be left with 20% of the Delek Israel share capital. Delek Group has significant advantages in the transaction: The transaction will allow Delek Group to benefit from cash flow from Delek Israel of NIS 450 million within a short period (about 30 days), which together with the dividend of NIS 150 million that has already been received from Delek Israel will allow Delek Group to meet its undertakings to the debenture holders for the receipt of NIS 600 million from Delek Israel. This amount will be used for full repayment of the debt to the secured banks, the release of the Delek Drilling participation units, and completion of a pledge of 40% of the participation units in favor of the debenture holders. In addition, the transaction will let Delek Group retain control of Delek Israel and not have to dispose of its holdings in the company in a period of very low energy prices, and to benefit from the potential material improvement latent in Delek Israel.

Idan Wallace, President and CEO of Delek Group: "Delek Group's gas & oil core business continued to prove itself in this quarter, with growth in sales of gas and oil in Israel and in the North Sea. In recent months, against the background of the current market conditions, we have succeeded in completing a series of major actions, in unprecedented amounts, to strengthen the Group's capital structure and increase its liquidity. We have disposed assets in the amount of NIS 2 billion, made early repayments to the banks of over NIS 1 billion and payments of NIS 550 million to debenture holders, on the due date and in order. These actions give Delek Group the tailwind **to carry on with the successful implementation of the Group's strategy**."

Conference call: Delek Group's management will hold a conference call in English to review the financial statements on **Monday, August 31, 2020 at 8am EST (1pm BST, 3pm Israel Time).** Dial-in numbers: USA 1-888-723-3164**;** UK 0-800-917-5108**;** Other locations +972-3-9180610.

A recording will be available shortly after the calls on the Company's website at: http://ir.delek-group.com

This is a convenience translation of the original HEBREW immediate report issued to the Tel Aviv Stock Exchange by the Company on August 31, 2020.

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 capacity of more than 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 approximately 260 million barrels of oil equivalent (boe) and producing about 25 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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