



## **Delek Drilling's Announcement regarding the Issuance of \$ 2.25 Billion of Leviathan Bond LTD. Debentures**

**Tel Aviv, August 5, 2020. Delek Group (TASE: DLEKG, US ADR: DGRLY)** ("the Company") is pleased to publish the announcement from Delek Drilling – Limited Partnership ("the Partnership") regarding an update in respect of the Issuance of \$ 2.25 billion of Leviathan Bond LTD. Bonds debentures:

Further to Section 7.21.1(c) of the Partnership's 2019 Periodic Report, released on March 30, 2020 (Ref. no. 2020-01-032010) (the "**Periodic Report**"), regarding the examination of possibilities for the refinancing of loans provided to the Partnership (the "**Existing Loans**"), and further to the immediate report of July 27, 2020 (Ref. no. 2020-01-079194) regarding a possible issue of bonds to foreign and Israeli institutional investors according to Rule 144A and Regulation S by Leviathan Bond Ltd., an SPC held in full (100%) by the Partnership (the "**Issuer**", "**Bonds**" and the "**Issue**", as the case may be), the Partnership respectfully reports as follows:

1. On August 4, 2020, the pricing process of the Issue was completed, in which offers were received for the purchase of the Bonds in an amount significantly exceeding the amount offered in the Issue. As a result of the aforesaid, an agreement was signed on August 4, 2020 between the Issuer and J.P. Morgan Securities plc and HSBC Bank plc, themselves and as representatives for other foreign and Israeli purchasers (the "**Purchasers**" and the "**Underwriting Agreement**", as the case may be), according to which the Purchasers undertook to purchase from the Issuer, on the closing date, which was scheduled for August 18, 2020 (the "**Closing Date**"), Bonds in an aggregate amount of \$2.25 billion, subject to the terms and conditions of the Underwriting Agreement.

According to the Underwriting Agreement, the Bonds will be issued in four series (the "**Series**"), as follows:

- a. Bonds in an aggregate principal amount of \$500 million, maturing on June 30, 2023 (in a single payment), bearing fixed annual interest of 5.750%.
- b. Bonds in an aggregate principal amount of \$600 million, maturing on June 30, 2025 (in a single payment), at a fixed annual interest rate of 6.125%.
- c. Bonds in an aggregate principal amount of \$600 million, maturing on June 30, 2027 (in a single payment), at a fixed annual interest rate of 6.500%.
- d. Bonds in an aggregate principal amount of \$550 million, maturing on June 30, 2030 (in a single payment), at a fixed annual interest rate of 6.750%.

The Bond principal and interest are in dollars. The interest on each one of the Bond Series will be paid twice a year, on June 30 and on December 30.

2. On August 3, 2020, the Issuer received the approval of the Tel Aviv Stock Exchange Ltd. ("**TASE**") for the listing of the Bonds on the TACT-Institutional system of TASE ("**TACT-Institutional**"), subject, *inter alia*, to approvals that are required pursuant to any law and the closing of the Issue.
3. The full Issue proceeds will be provided by the Issuer as a loan to the Partnership on terms and conditions identical to those of the Bonds (back-to-back), and according to a

loan agreement to be signed between the Issuer and the Partnership (the "**Loan**"). The Loan money is intended to be used by the Partnership for repayment of the Existing Loans in the sum of approx. \$2 billion, the deposit of a safety cushion in the sum of \$100 million in accordance with the terms and conditions of the Bonds, payment of the Issue expenses in the estimated sum of approx. \$30 million, and the balance for other uses according to the terms and conditions of the Petroleum Commissioner's approval as described in Section 7 below (the "**Commissioner's Approval**").

4. To secure the Bonds and the Loan, in the context of the indenture for the Bonds and the other documents according to which the Bonds will be issued (collectively: the "**Financing Documents**"), the Partnership has undertaken to pledge in favor of the trustee for the Bonds (the "**Trustee**"), in a first-ranking fixed charge, its interests in the Leviathan project (45.34%), including its interests in the I/14 Leviathan South and I/15 Leviathan North leases (the "**Leases**"), the operating approvals of the production system and the export approvals (collectively: the "**Pledge of the Leases**"), the Partnership's rights and the revenues from agreements for the sale of gas and condensate from the Leviathan project (the "**Gas Agreements**"), the Partnership's rights in the joint operating agreement (JOA) for the Leases, the Partnership's share in the project's assets (including the platform, wells, facilities, and systems for production and transmission to shore), the Partnership's rights in dedicated bank accounts, certain insurance policies and various licenses in connection with the Leviathan project. The Partnership shall also pledge the shares held thereby in the Issuer, in NBL Jordan Marketing Limited and in Leviathan Transportation System Ltd. In addition, the Issuer undertook to pledge in favor of the Trustee, in a first-ranking floating charge, its rights in all of its existing and future assets and will pledge in favor of the Trustee its rights in the loan agreement and in its bank accounts (collectively: the "**Pledges**" and the "**Pledged Assets**", as the case may be).

According to the Financing Documents, the Partnership's undertakings to the Trustee and the bondholders are limited to the Pledged Assets, with no guarantee or additional collateral.

It is noted that the Pledges that the Partnership shall create in favor of the Trustee are subject, *inter alia*, to the State's royalties according to the Petroleum Law and to the rights of the parties entitled to royalties in respect of the Partnership's revenues from the Leviathan project, including the holder of the controlling interest in the Partnership, and that the Pledges that the Partnership has created on its interests in the Leases in favor of the said royalty interest owners in the context of previous loans it received for purposes of the Leviathan project shall continue to be in effect also in the period of the Bonds (see Section 7.21.1(a) of the Periodic Report).

5. As is standard in financing transactions of this type, the Financing Documents determined stipulations, restrictions, covenants and grounds for acceleration of the Bonds and enforcement of the Pledges.

**It is emphasized that the specification presented below constitutes a partial and non-exhaustive summary of the relevant provisions, and that the Financing Documents specified, in relation to the various grounds and covenants qualifications to the covenants and grounds for payment, including the conditioning of some of them on the existence of a Material Adverse Effect (MAE) as defined in the Financing Documents, as well as exceptions, conditions and remediation periods which are not specified in the description below.**

- a. According to the Financing Documents, the Partnership and the Issuer, as the case may be, undertook, *inter alia*, to fulfill undertakings and conditions that were determined in government licenses and approvals, including in relation to the operator of the project, and including the conditions of the Commissioner's Approval; to fulfill the terms and conditions of the Leases and the JOA (jointly: the "**Leviathan Agreements**"); to protect their rights in the Pledged Assets and to ensure the validity of the Pledges and the rights of the Trustee and the holders according thereto; not to change or discontinue the Issuer's activity, and not to change the incorporation documents of the Issuer; not to create additional pledges on the Pledged Assets (aside from certain exceptions); to fulfill the provisions of the law that apply to their activity; to pay the taxes that apply thereto; to give the Trustee and the holders certain reports, notices and information that were specified; to act to maintain the listing of the Bonds on TACT-Institutional; to act for the continued proper operation of the Leviathan project in accordance with the Leviathan Agreements; to take any action possible under the JOA so as to ensure that the operator fulfills its undertakings according to the JOA; to make all of the payments that apply thereto and to bear all of the Trustee's expenses that apply thereto according to the Financing Documents; to purchase and maintain certain insurance policies; to refrain from modifying or amending the Leviathan Agreements or material Gas Agreements, as defined in the Financing Documents ("**Material Gas Agreements**"), or the royalty agreements or engage in a new royalty agreement; to refrain from approval of certain acts in the context of the JOA; etc.
- b. According to the Financing Documents, the Issuer undertook not to take additional financial debt, with the exception of the issue of additional bonds or other secured debt *pari passu*, subject to conditions that were specified, including (I) the sum of the secured debt of the Issuer (including the Bonds) does not exceed, at any time, \$2.5 billion; (ii) certain financial ratios that were specified in the Financing Documents are maintained. In addition, the Partnership undertook not to take any additional financial debt which is secured by the Pledged Assets, with the exception of an additional loan that it shall receive from the Issuer on terms and conditions back-to-back to additional debt that the Issuer shall raise subject to the restrictions set forth therefor in the Financing Documents.
- c. In the Financing Documents, the Partnership undertook not to make any merger transaction or change its business in a manner which would likely cause an MAE, or enter dissolution proceedings or other defined restructurings, and not to sell, transfer, pledge or make any other disposition of all or substantially all of its assets, other than permitted transactions, as defined in the Financing Documents, including sale of interests in the Leviathan project subject to mandatory early redemption or a tender offer to the bondholders in certain cases, or permitted restructurings, as defined, including a transfer of the Partnership's interests in the Leviathan project to a new subsidiary and/or other actions, including the outline under consideration for a split of the Partnership's assets, provided that the holders' rights are not prejudiced by such actions and additional terms and conditions as defined.
- d. The Financing Documents include provisions regarding early redemption of the Bonds, including (1) early redemption at the Issuer's initiative, subject to payment of a Make Whole premium, and (2) mandatory early redemption in certain cases that were defined, including by way of a buy-back of Bonds and/or performance of a tender offer to all the bondholders, including upon a sale of all or some of the interests in the Leviathan project.

- e. In the Financing Documents, the Issuer and the Partnership undertook that if a tax withholding duty shall apply to the payments due under the terms and conditions of the Bonds to a foreign resident then, subject to certain exceptions as defined, the Issuer and/or the Partnership, as the case may be, shall pay additional amounts as required for the net amounts to be received by the foreign resident to be equal to the amounts such foreign resident would have received, but for the withholding tax duty. In this context, it is noted that on July 27, 2020 the Partnership received a ruling from the Tax Authority stating, *inter alia*, that the Bonds to be traded on the TACT-Institutional system of the TASE are bonds traded on a stock exchange in Israel for purposes of Section 9(15D) of the Income Tax Ordinance (for purposes of exemption from tax on interest paid to a foreign resident on bonds traded on the stock exchange), and Section 97(B2) of the Ordinance (for purposes of exemption from tax for a foreign resident on capital gains in the sale of the bonds traded on the stock exchange), all subject to the terms and conditions specified in the Tax Authority's ruling and the provisions of the Income Tax Ordinance and the regulations promulgated thereunder.
- f. As customary in financing transactions of this kind, the Financing Documents include a payment waterfall mechanism, whereby the Partnership's entire revenues from the Leviathan project is transferred to an account that is pledged in favor of the Trustee (the "**Revenues Account**"), which is used to make various payments in connection with the project and the Bonds, including payment of royalties to the State and to the royalty interests owners; payments to the Trustee; taxes and the levy under the Taxation of Profits from Natural Resources Law, 5771-2011 (in this section: the "**Law**"); capital expenses and operating expenses in connection with the Leviathan project; principal and interest payments; deposits into safety cushions; and balancing payments in connection with tax payments under Section 19 of the Law. The transfer of the amounts remaining in the Revenues Account after the making of the said payments to a non-pledged account of the Partnership is subject to conditions determined, including fulfillment of an NPV Coverage Ratio of at least 1.5<sup>1</sup>.
- g. As customary in transactions of this type, the Financing Documents define Events of Default, upon occurrence of which, subject to certain determined curing periods, exceptions and conditions, the Trustee for the Bonds shall be entitled (or required – upon the demand of one quarter of the bondholders) to accelerate the outstanding balance of the Bonds and shall be entitled to act to enforce the Pledges. The main events are as follows: (1) Default on payment of principal, interest or other payments mandated by the Financing Documents; (2) Breach of representations; (3) Breach of the Covenants or Negative Covenants determined in the Financing Documents; (4) An event or entry into proceedings for insolvency of the Issuer, and an insolvency event as aforesaid or of a party to a Material Gas Agreement (as defined in the Financing Documents), the operator in the Leviathan project or the Partnership, if likely to cause an MAE (as defined in the agreement), subject to certain conditions and qualifications; (5) premature termination of any of the

<sup>1</sup> The NPV Coverage Ratio was defined as the ratio between the net current value of the discounted cash flow expected from proved and probable (2P) reserves, at a cap rate of 10%, from the Partnership's interests in the Leviathan project (the "**Discounted Cash Flow**"), and the debt balance net of cash accrued in the accounts as of the measurement date. According to the Financing Documents, the Discounted Cash Flow shall be calculated according to the same assumptions to be used by the Partnership in the resource reports to be released thereby under the provisions of the Securities Law, other than assumptions on the Brent barrel price, which shall be based on the prices of futures traded on ICE, as defined in the Financing Documents.

Leviathan Agreements or Material Gas Agreements, if likely to cause an MAE, subject to certain conditions and qualifications; (6) If a party to a Material Gas Agreement breaches the agreement with a likely MAE, subject to certain conditions and qualifications; (7) In the event of abandonment or cessation of the Leviathan project operations for more than 15 consecutive days, if likely to cause an MAE; (8) If damage is caused to the Leviathan project (including physical damage, revocation of license or transfer of the Partnership's rights therein by a government authority), with a likely MAE, which was not cured; (9) In the event of denial or revocation of a government approval granted in connection with the Leviathan project, with a likely MAE; (10) If any of the Financing Documents to which the Issuer or the Partnership are a party, or pledges provided under the Financing Documents, with an aggregate value of more than \$35 million, cease to be in effect; (11) If a non-appealable judgment is issued against the Issuer for payment of an amount in excess of \$35 million which was not paid; (12) If there is a breach of an undertaking in an agreement for the provision of other *pari passu* secured debt of the Issuer worth over \$35 million; (13) If an undertaking to perform mandatory early redemption is breached; (14) If the provisions regarding expenditures from the Revenues Account are breached; etc.

6. The expected rating of the Bonds is as follows:
  - a. Fitch Rating – “BB (EXP)” on the international rating scale;
  - b. Moody’s – “Ba3” on the international rating scale;
  - c. S&P Global – “BB-” on the international rating scale;
  - d. Maalot S&P – “iIA+” on the Israeli rating scale.

Final rating reports are expected to be released close to the closing date.

7. On August 3, 2020 the Petroleum Commissioner’s approval was received for the Pledge of the Leases in favor of the Trustee, for the bondholders. The Commissioner’s Approval provides that, *inter alia*, the pledge is given to secure payment of the Bonds whose proceeds are intended for the granting of credit to the Partnership in the sum of up to \$2.5 billion in total, for payment of the Existing Loans in the sum of up to \$2,050 million, the deposit of a safety cushion in the sum of \$100 million, investments in the Leviathan project only and the financing of the construction of a pipeline for the export of gas from the Leviathan and Tamar reservoirs.
8. The Underwriting Agreement sets forth closing conditions for the performance of the Purchasers’ undertaking to buy the Bonds on the closing date, including that until the closing date there was no downgrade of the Bonds’ rating; no event with an MAE; the required approvals and permits were received; officer declarations were received; consultants’ reports and comfort and reliance letters, as specified in the agreement, were received; the required approval from the Gas Authority was received, as well as the Commissioner’s Approval (which, as aforesaid, has been received); approval was received from TASE to list the Bonds on the TACT-Institutional system, etc.

In the Partnership’s estimation, the said conditions are expected to be fulfilled in the coming days, and insofar as they are, the Issuer expects to receive the Issue proceeds on the closing date, i.e., August 18, 2020, against the issue and listing of the Bonds on the TACT-Institutional system.

**Caution regarding forward-looking information – the information specified in this report above regarding the performance of an issue of the Bonds on the closing date and the listing of the Bonds on the TACT-Institutional system, constitute forward-looking information within the meaning thereof in the Securities Law, 5728-1968. It is emphasized that as of the date of this report, not all of the closing conditions set forth in the Underwriting Agreement and the other Financing Documents have been fulfilled, and not all of the approvals required to close the Issue have been received. The fulfillment of the conditions to the performance of the Issue on the closing date depends, *inter alia*, on factors that are beyond the Partnership's control, and therefore there is no certainty that such conditions will be fulfilled by the closing date, if at all.**

**The information included in this report is not an offer to buy or sell the Bonds or any other securities of the Partnership and/or of the Issuer or of any other corporation, and it is not a recommendation or an opinion.**

Sincerely,

**Delek Drilling Management (1993) Ltd.  
General Partner of Delek Drilling - Limited Partnership**

By Yossi Abu, CEO  
And Yossi Gvura, Deputy CEO – Finance

**This is a convenience translation of the original HEBREW immediate report issued to the Tel Aviv Stock Exchange by the Company on August 4, 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 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](http://www.delek-group.com)

#### **Contact**

##### **Investors**

##### **Limor Gruber**

Head of Investor Relations

Delek Group Ltd.

Tel: +972 9 8638443

[Limorg@delek-group.com](mailto:Limorg@delek-group.com)