Delek Group

Delek Group reports an increase in revenues from its energy business in Israel and abroad

Tel Aviv, June 30, 2020. Delek Group (TASE: DLEKG, US ADR: DGRLY) ("the Company") published its Q1 2020 reports.

- **Start of production at Leviathan field leads to an increase of 88% in revenues from energy business in Israel and an almost 4-times increase in operating income;**
- **Sharp rise in Ithaca's revenues, which amounted to USD 348 million, compared with USD 108 million in the corresponding quarter last year;**
- **Ithaca's cash flow has grown almost threefold to USD 221 million;**
- **Increase of 49% in the Group's quarterly revenues;**
- **Ithaca recorded a non-cash asset impairment resulting from the fall in oil prices, leading to a net quarterly loss of NIS 2.77 billion for Delek Group's.**

Idan Wallace, President and CEO of Delek Group: "The first quarter results show a cash flow improvement in the Company's two core businesses: energy in the North Sea and the energy business in Israel. Over the last three months we have carried out, on time and in order, payments of principal and interest of almost a quarter of a billion shekels to the debenture holders; we have completed a range of important business actions, including accords we reached with the Group's debenture holders, which received the support of 98% of the holders of every series of debentures, and a plan formulated together with the lender banks concerning the stand still period. We sold the overriding royalties from Karish - Tanin, we have signed agreements for the disposal of Delek Israel assets in an overall amount of NIS 1.1 billion, and in May completed capital raising of NIS 136 million. All these actions represent significant milestones in the improvement of the Group's strength and implementation of our strategy to successfully exit the crisis."

Delek Group published its financial statements for Q1 2020. According to the financial statements there has been a material increase in the Company's revenues from gas and oil operations in Israel and the North Sea.

The Group's revenues in the quarter were NIS 2.95 billion, as compared with revenues of NIS 2 billion in the comparable quarter last year, an increase of 49%. As a result, the gross profit rose to NIS 939 million as compared with NIS 591 million in Q1 2019.

As a result of Ithaca's asset impairment recorded in the quarter, driven by the drop in world energy prices due to the implications of Covid-19, in an overall amount of USD 667 million, Delek Group ended the quarter with a loss of NIS 2.77 billion, as compared with a profit of NIS 290 million in the parallel quarter the previous year.

Nevertheless, the impact on the Group's shareholders' equity was much more moderate due to the significant hedging transactions that were made by Ithaca on oil and gas prices. The revaluation contributed USD 306 million net of taxes to shareholders' equity, so that the net impact on Delek Group's shareholders' equity as a result of the impairment amounted to USD 361 million.

Energy business in Israel

Sales of gas from the Leviathan and Tamar fields came to 3.6 BCM in Q1 2020. Revenues from the sales of gas in Israel net of royalties were NIS 674 million compared with NIS 358 million in the corresponding quarter last year, an increase of 88%. EBITDA almost doubled to NIS 580 million while net profit attributable to the Group's shareholders from the energy business in Israel came to NIS 158 million, compared with NIS 104 million in the corresponding quarter last year.

Delek Drilling has reported that as part of mitigating the global energy crisis, the Partnership has prepared, together with its partners in the gas reservoirs, a streamlining plan in which operating budgets have been reduced and non-urgent investments have been deferred. As a result, a saving of USD 131 million has been posted in operations of the Leviathan, Tamar and Aphrodite gas reservoirs (the Partnership's share of the savings is USD 41 million).

In addition, Delek Drilling has provided an update that it is working to formulate a plan to refinance the Leviathan debt through two parallel channels - bank finance and raising debt based on Leviathan's cash flow. At the publication date of its financial statements Delek Drilling reported it had received an indicative rating within the BB group for potential borrowing, from three international rating agencies.

Energy business in the North Sea

Ithaca, which is wholly owned by Delek Group, has reported a sharp rise in revenues from gas and oil sales in the North Sea, to USD 348 compared with USD 108 million in the parallel period last year, an increase of 222%. The growth was driven by a sharp increase in the average daily production in the company's assets, following completion of the acquisition of Chevron North Sea. The average daily production during the quarter rose sharply and came to 75,200 barrels of oil equivalents daily (BOED), higher then Ithaca's forecast for the annual average of 63 - 68 thousand BOED, and as compared with 21,000 BOED in the corresponding quarter the previous year. The average production cost per barrel dropped to USD 16 from USD 17 in the corresponding quarter in the previous year.

This performance has led to an operational cash flow of USD 221 million, almost three times the corresponding quarter the previous year. The Company's exposure to a drop in oil prices is limited on account of major hedging assets, which contributed USD 81 million to the cash flow in Q1.

Ithaca's strong cash flow has allowed it to reduce by USD 150 million its financial debt during the quarter to USD 1.4 billion. The Company estimates that net debt will drop by a further USD 100 million in Q2.

Ithaca continues to retain high liquidity with an unused Reserve Base Lending Facility (RBL) of USD 300 million. Ithaca also successfully completed the Redetermination process that the banks carried out on the Company's RBL in April, as part of which the lender banks approved a usable RBL facility for Ithaca of USD 1.1 billion. Based on this Ithaca distributed a dividend of USD 20 million to Delek Group. This distribution represents 40% of the dividends that Delek Group expects to receive from Ithaca by the end of 2020.

As a result of the sharp drop in oil prices in March Ithaca posted a non-cash impairment of oil its and gas assets of USD 795 million after tax, that led to a loss of a similar amount in Q1. At the same time, thanks to the hedging transactions that Ithaca carried out, prior to the Covid-19 crisis, the impact on shareholders' equity following the impairment came to USD 489 million, after setting off USD 306 million after tax for the profit on the hedging transactions.

Ithaca is continuing to implement an efficiency plan. In addition to a cut of 50% in investments this year, from USD 250 million to USD 125 million, the Company is also implementing a voluntary retirement plan that started in April and is expected to be completed by the end of Q3.

Fuel business in Israel

Implementation of the lockdown policy from the second half of March led to a drop of 14% in the revenues of Delek Israel to NIS 960 million. The sharp reduction in activity in this period created surplus inventories, which together with the drop in fuels prices caused inventory losses, which led to a reduction in gross profit to NIS 103 million as compared with NIS 163 million in the parallel quarter the previous year. Net of inventory impacts, gross profit amounted to NIS 154 million as compared with NIS 170 in the parallel quarter the previous year. Delek Israel's net loss in the quarter was NIS 303 million as a result of book amortizations and on account of the loss of NIS 192 million posted in power plants business, mostly due to the revaluation of assets.

Implementation of the Company's strategy to strengthen capital and liquidity

In recent months Delek Group has continued to implement measures to strengthen its capital structure and liquidity, and after the balance sheet date has recorded significant achievements on this front. Among other things, the Company reached accords with the debenture holders and the lender banks. Amendment of the new debentures' Deed of Trust was approved by over 98% of the debenture holders.

At the same time Delek Group reached accords with the lender banks regarding a stand still period. The banks have undertaken during the stand still period that they will not demand immediate repayment of the debt or realize the collateral, except for specific events as stipulated in the Deed of Consent.

Delek Group is in the midst of Delek Israel's asset disposal process as well as other assets that are expected to yield significant cash flow, part of which can be used to repay debt to the Company's lender banks, and at the same time release the participation units of Delek Drilling pledged to the banks, and transfer them as collateral to the Group's debenture holders. To date, agreements have been signed for the sale of Pi-Gelilot for NIS 720 million and the rights to overriding royalties from Karish and Tanin for NIS 318 million, and a binding memorandum of understanding has been signed for the sale of the power stations in Sorek and Ashkelon for NIS 367 million.

In addition, the Company is acting to raise capital of NIS 450 million during 2020 and NIS 50 million in the first third of 2021. Of this amount, in May 2020 the Company already carried out a capital issue of NIS 137 million.

As of March 30, the Company's net debt totaled NIS 6.24 billion. Net debt dropped to NIS 5.94 billion close to the publication date of the financial statements. Debt to banks, including debt backed by Ithaca's shares dropped from NIS 1.95 billion to NIS 1.6 billion. Delek Group will continue to act to increase its liquidity and to reduce its financial liabilities, according to the agreements signed with its lender banks and bondholders.

Conference call details:

The Company's management will hold a conference call in English to review its financial statements on Wednesday, July 1, 2020 at 8am EST (1pm BST, 3pm Israel Time).

Dial-in numbers: USA 1-888-668-9141
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 June 30, 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

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