Delek Group

Agreement to acquire a producing oil and gas assets company in the UK North Sea region

Tel Aviv, May 30, 2019**. Delek Group (TASE: DLEKG, US ADR: DGRLY)** (“the Company”) announces that Further to the Immediate Report issued by the Company on April 28, 2019 (Ref. No.: 2019-01-040285) with regard to the bid submitted for the acquisition of oil and natural gas assets in the UK North Sea territorial waters, the Company is pleased to announce that on May 29, 2019 Ithaca Energy (UK) Limited, a wholly-owned subsidiary of the Company (“Ithaca”), engaged in an agreement with Chevron North Sea Holdings Limited (the “Seller”), for the acquisition of 100% of the shares of Chevron North Sea Limited (“CNSL”) wholly owned by the Seller ("Acquisition Agreement"). CNSL holds various interests in oil and gas assets located in the UK North Sea. CNSL's key oil and gas assets as per the Acquisition Agreement consist of ten producing oil and gas fields and an exploratory license as described in detail below (the “Acquired Assets”). CNSL serves as Operator in five of the Acquired Assets that constitute 67% of the 2P reserves attributable to the Acquired Assets.

To the best of the Company's knowledge, and based on information received from the Seller, as at December 31, 2018, the total proved and probable (2P) reserves and 2C contingent reserves attributable to the Acquired Assets are approximately 131 MBoe[1] and 45 MBoe, respectively (net to CNSL). As the Company was informed, in the first quarter of 2019, the daily average production capacity of the Acquired Assets was more than 60,000 BOE (net to CNSL). Ithaca estimates that the completion of this Transaction will generate USD 1 billion of EBITDA for the form in the coming year.

As at signing of the Acquisition Agreement CNSL holds other assets, in addition to the Acquired Assets (including oil and gas assets and a number of subsidiaries) (“Assets Excluded from the Acquisition Agreement”). In accordance with the provisions of the Acquisition Agreement, the transaction is subject to the Seller completing pre-closing restructuring of CNSL's operations, so that at closing of the transaction (as set out below) CNSL will hold the Acquired Assets only and will retain human capital of approximately 450 employees who will remain as part of the

[1] Conversion key – the conversion to equivalent units of energy calculation used the following data: natural gas conversion ratio is 1:6 mmcf to BOE, i.e. every 6 mmcf is equivalent to 1 BOE; the conversion ratio for units of oil and LNG is 1:1 mmcf to 1 BOE, i.e. every 1 BBL is equivalent to 1 BOE. Caution – energy equivalence units may be misleading, particularly if they are used without taking additional factors into account; the conversion was based on the ration between combustion energy' but does not represent similar financial equivalence.

operations of the Acquired Assets and three late life oil assets that the Seller decided to abandon (“Discontinued Assets”). It is clarified that the costs involved in abandonment of the Discontinued Assets will be covered by the Seller.

The acquisition transaction as described in this report will be referred to below as: (the “**Transaction**”).

1. **Key terms of the Acquisition Agreement**

Below is a brief description of the highlights of the Acquisition Agreement:

A. The consideration as fixed in the Acquisition Agreement for acquiring 100% of CNSL’s share capital is USD 2 billion, subject to required adjustments under the terms of the Acquisition Agreement ("Acquisition Price"). Subject to closing of the Transaction, the effective date of the Transaction is January 1, 2019 (“Transaction Effective Date”). The Acquisition Price will be paid at closing date of the Transaction (as set out below) less cash accrued from the Acquired Assets from Transaction Effective Date through closing date of the Transaction (as set out below), which is estimated to be USD 350 million.

Forward-looking information - the foregoing estimate of the amount to be deducted from the Acquisition Price constitutes forward-looking information as defined in the Securities Law, 1968 (“Securities Law”), and is based, among other things, on assessments regarding information that the Company does not have or that the Company has not yet assessed in full. The actual amount to be deducted from the Acquisition Price depends on factors outside of the Company’s control, and may therefore differ materially from that stated above.

B. On the date of signing of the Acquisition Agreement and as part of the Acquisition Price, a deposit of USD 200 million has been paid to the Seller (the “Deposit”). The Deposit will be deducted from the Acquisition Price to be paid at closing of the Transaction (as set out below). If the Transaction cannot be completed for the reasons specified in the Acquisition Agreement, and not due to a breach of the Acquisition Agreement by Ithaca, the Deposit will be refunded by the Seller. The foregoing Deposit will be used by the Seller as its exclusive and sole remedy in the event that the transaction does not close.

C. Closing of the Transaction is subject, among other things, to the following conditions set out in the Acquisition Agreement (the “Pre-conditions”) and include, among other things: (1) completing the required restructuring of CNSL, as set out above; (2) receipt of customary regulatory approvals, including confirmation from the UK Oil and Gas Authority ("OGA"); (3) Ithaca will provide letters of credit with respect to CNSL's decommissioning obligations in the Acquired Assets, replacing the assurances given to date by the Seller (or its affiliates). (With regard to this matter, see section 2 below).

It should be clarified that as at Reporting Date, the Pre-conditions have not yet been fulfilled, and there it is not certain that these Pre-conditions will in fact be met by the deadline set in the Acquisition Agreement for closing of the Transaction.

D. Acquisition Agreement will close after these conditions have been satisfied or waived by the parties provided this occurs no later than 9 months from the date of the Acquisition Agreement (or such other date as agreed by both parties) (the “Transaction Closing Date”).

E. Subsequent to Closing, Ithaca will assume all the rights and obligations of CNSL concerning the Acquired Assets, including, undertakings for operating the Assets in accordance with the legislative and regulatory requirements (including with respect to decommissioning and environmental liabilities).

F. The Acquisition Agreement includes additional provisions, representations, warranties, undertakings and indemnification arrangements between the parties in respect of any breach of such representations, warranties or undertakings, as is customary in transactions of this type. Additionally, pursuant to the Acquisition Agreement, the Seller will retain certain decommissioning and environmental obligations (including the payment of decommissioning costs and restoration costs and posting of security) in respect of the Discontinued Assets.

G. As part of the Transaction, approximately 450 of CNSL's workforce will be employed by CNSL following the foregoing restructuring. In addition, as part of the Transaction, supplementary agreements will be signed at closing between the Seller and CNSL, regulating, inter alia, transitional services, intellectual property license agreement, and an agreement concerning abandonment obligations (including guarantees).

H. On the date of signing of the Acquisition Agreement, the Company provided a guarantee in favor of the Seller for securing full payment of the Acquisition Price by Ithaca (“Company’s Guarantee”). In addition, on signing of the Acquisition Agreement, Ithaca Energy Limited (Ithaca's parent company) (“Ithaca Energy”) issued a guarantee in favor of the Seller for Ithaca's obligations under the Acquisition Agreement (excluding the undertaking to pay the Acquisition Price backed by the Company's Guarantee) (“Ithaca Energy’s Guarantee”). It should also be noted that the Company provided a Letter of Comfort to the Seller regarding the Ithaca Energy’s guaranteed obligations.

At Closing of the Transaction, a subsidiary of the Seller with the appropriate financial robustness strength will provide a guarantee in favor of Ithaca, for executing the Seller's obligations under the Acquisition Agreement.

I. The law applicable to the Acquisition Agreement is UK Law.

2. **Means for financing the acquisition**:

Ithaca intends to finance the Transaction as set out below:

A. A reserve based lending (RBL) facility from a consortium of international banks in the amount of USD 1.65 billion, under non-recourse terms. The RBL facility will be backed by a first ranking lien on Ithaca Group assets, with the loan repayment date 5 years from the date of provision of the loan. At Closing of the Transaction, Ithaca will draw an amount of USD 1 billion from the foregoing facility for financing part of the Acquisition Price, and the remaining balance of the facility will serve as an unutilized facility and for providing guarantees for CNSL's abandonment obligations for the Acquired Assets, replacing the guarantees provided by the Seller prior to the acquisition.

B. A bridge loan of USD 700 million from an international bank, and funds raised from debentures on the global market that will replace the bridge loan.

C. Ithaca will finance the balance of the consideration for the Transaction by way of shareholders' equity and/or shareholders' loans. It is noted that the financing to be provided by the Company under the Transaction will replace Ithaca's existing liabilities as set out in section 1.8.19 of the Company's Periodic Report dated March 31, 2019 (Ref. No.: 2019-01-029344) (the "Period Report of the Company").

Ithaca and the Company began carrying out hedging transactions (mainly PUT and SWAP transactions) of 20 MBOE, on oil prices in respect of part of the future production of the Acquired Assets for the coming three years. These transactions are in addition to Ithaca's existing hedging transactions for 10 MBOE. The average hedged price is USD 65 per barrel of oil and 53 penny (GBp) per unit of gas. The cost of the additional hedging transactions carried out with regard to the Transaction, as described above, amount to USD 150 million, and will primarily be redeemed throughout the term of the transactions (deferred premium).

3. **Taxes and Levies:**

To the best of the Company's knowledge, there are no taxes or levies arising from the Acquisition, other than stamp duty of 0.5% of the total Acquisition Price that Ithaca will pay, subject to closing of the Transaction, on the date of transfer of CNSL shares to Ithaca.

4. **The Company's plans regarding CNSL:**

The Transaction supports Ithaca's strategy to continue to grow and expand its operations in the UK North Sea and to increase its production capacity and diversify its Assets. Ithaca intends to incorporate CNSL's existing operations and to continue developing the Acquired Assets.

5. **<u>Description of CNSL's operations</u>**

CNSL is a private company, incorporated in 1981 in England and Wales, and since its incorporation, has engaged in the exploration, development and production of North Sea gas and oil assets on the UK continental shelf. CNSL has recognized operating capabilities and well-invested infrastructure supporting stable production, low operating costs for existing assets and significant free cash flows from its ongoing operations. For further information regarding the Acquired Assets under the Acquisition Agreement, see **<u>Appendix A</u>** below.

It should be noted that CNSL's business operations and environment, including its primary areas of operations and the sectors in which it operates are similar to and synergize with those of Ithaca, being the UK North Sea region. In addition, some of the oil and gas assets owned by Ithaca are located in the same sector of the UK North Sea as CNSL's oil and natural gas fields. For further information regarding the structure of the Company's operations in the energy sector in the UK, see section 1.8.4 of the Company's Periodic Report.

6. **<u>Key financial data</u>**

Further to the foregoing regarding the restructuring of CNSL, as at Reporting Date, the Company is unable to provide key financial data regarding CNSL as the existing financial statements do not reflect the assets acquired under the transaction alone. Under the Transaction, the Seller undertook to provide Ithaca, by Transaction Closing Date, CNSL's proforma data subsequent to the foregoing restructuring.

7. **<u>Special risk factors</u>**

For details of the risk factors related to CNSL's operations, see section 1.8.27 of Chapter A of the Periodic Report of the Company. In addition, and without derogating from these risk factors, an additional risk factor applicable to CNSL's operations is its dependence on ongoing supply of the polymer chemical from a third party supplier, for executing the enhanced oil recovery method (EOR) in Captain Field (see Appendix A to the Report). Other than the risk factors relevant to CNSL's operations, with regard to the Transaction there is the risk of losing the Deposit paid on account of the Acquisition Price (as set out in section 1 above).

Forward-looking information - Closing of the Transaction as set out above, the Transaction Closing Date, as well as fulfillment of the Pre-conditions and the Company's estimates regarding its plans regarding CNSL, and the Transaction

influence on Ithaca's results constitute forward-looking information as defined in section 32A of the Securities Law, regarding which it is not certain that they will materialize at all or which may materialize in a manner that is materially different from the aforesaid, due to various factors, including due to failure to fulfill the Transaction Pre-conditions, and failure to obtain duly required approvals.

Sincerely,
Delek Group Ltd.
Approved for reporting by:
Asi Bartfeld, CEO
Leora Pratt Levin, chief legal counsel and Company secretary

This is a convenience translation of the original HEBREW immediate report issued to the Tel Aviv Stock Exchange by the Company on May 30, 2019. The original immediate report in Hebrew, which includes an asset information appendix not appearing in this convenience translation, can be found at this link.

About The Delek Group

Delek Group is an independent E&P and the pioneering visionary behind the development of the East Med. With major finds in the Levant Basin, including the Leviathan (21.4 TCF) and Tamar (11.2 TCF) reservoirs and others, Delek is leading the region's development into a major natural gas export hub. In addition, Delek has embarked on an international expansion with a focus on high-potential opportunities in the North Sea and North America. 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 (TASE:DLEKG) and are part of the TA 35 Index.

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

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