Delek Royalties (2012) Ltd.

Monitoring Report | June 2019

This credit rating report is a translation of a report that was written in Hebrew for a debt issued in Israel. The binding version is the one in the origin language.

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Delek Royalties (2012) Ltd.

Series Rating	Aa3.il	Outlook: Stable

Midroog affirms the Aa3.il rating of bonds (Series A) issued by Delek Royalties (2012) Ltd. ("Delek Royalties" or the "Company"). The rating outlook is stable.

Outstanding bonds rated by Midroog:

Bond series	ISIN	Rating	Outlook	Maturity
A	1147479	Aa3.il	Stable	30.08.2028

Summary of Rating Rationale

The rating takes into account the following considerations, among others: **(1)** The Tamar reservoir (the "**reservoir**") meets national needs and allows the State of Israel long-term energy independence, while reducing its dependence on coal and oil as well as lessening both economic and environmental costs; **(2)** The Gas Framework, which creates a clearer, more transparent and more stable regulatory environment; **(3)** The reservoir uses a proven technology with a positive track record, while the reservoir's operator, Noble Energy Mediterranean Ltd. ("**Noble Energy**"),[1] has international experience in drilling and producing gas in deep water, and the reservoir's performance depends on its continuing involvement as an owner and operator; **(4)** The reservoir has an operating history of more than six years, without any significant problems. As of the date of the report, the gas supply from the Tamar reservoir is stable, consistent and meets the performance targets set, while at the same time maintaining high availability; **(5)** A significant volume of gas reserves in the reservoir, amounting as of December 2018, according to an NSAI[2] estimate, to 315 BCM in the 2P[3] category, including proven gas reserves of 230 BCM in the 1P[4] category; **(6)** Transformations in the energy sector that support natural gas consumption in the economy; **(7)** Erosion of the reservoir's monopoly status, in light of the expected start of operation of the Leviathan reservoir in the short term and the Karish reservoir in the medium term; **(8)** The competitive environment is impacted, among other things, by the implementation of the emissions reduction policy of the Ministry of National Infrastructures, Energy and Water Resources ("**Energy Ministry**"), along with the increase in natural gas consumption in the economy and the construction of infrastructures for exporting natural gas; **(9)** The signing of agreements for the export of significant quantities of natural gas from the Tamar reservoir to Egypt and to Jordan, apart from an existing contractual commitment to supply 0.15 BCM annually to Jordan; **(10)** Realization of the agreement for export to Egypt depends to a great extent on the completion of the physical, legal and license-related conditions for the export of natural gas. Additionally, the realization of existing export contracts and the signing of additional export contracts are exposed to

[1] Noble Energy is held by Noble Energy, Inc., which is rated Baa3/stable by Moody's.
[2] Netherland, Sewell & Associates, Inc.
[3] The estimate for which there is a 50% probability that the quantities produced will be equal to or higher than the specified quantity.
[4] The estimate for which there is a 90% probability that the quantities produced will be equal to or higher than the specified quantity.

geopolitical risks; **(11)** Realization of the agreement for the acquisition of the shares of East Mediterranean Gas Limited ("**EMG**") will enable the use of a piping infrastructure for the transmission of natural gas to Egypt, in line with the progress in expanding local capacity; **(12)** An as yet unsigned and unapproved understanding regarding the amendment of the gas supply agreement between the Tamar partners and the Israel Electric Corp. Ltd. ("**IEC**"),[5] whereby beginning in January 2019 and up to July 1, 2021 (the "**First Adjustment Date**"), the price paid will be the contractual price that was in effect during 2018; **(13)** Impairment of the reservoir's cash flow due to the award of an IEC tender to Leviathan for a total of 4 BCM and a value of USD 700 million[6]; **(14)** The existence of a partial lockup mechanism, which is triggered in the event of a fundamental deterioration in the financial ratios; **(15)** The existence of a lockup mechanism to reduce the refinancing risk; **(16)** The reservoir's cash flow relies on long-term natural gas supply agreements that include a TOP[7] component and a floor price; however, a considerable proportion of the customers have an option to reduce the contractual quantity of gas over the years. Furthermore, a number of major electricity producers in the market have signed agreements with the Karish reservoir for the supply of additional natural gas; **(17)** According to the basic assumption in the DCF model published by the interest holders in the Tamar reservoir, the price for IEC will decrease by 12.5%-20% of the contractual price[8]; **(18)** The Company's rating is affected, under certain circumstances, by the activity and financial strength of the interest holders in the underlying assets – Delek Drilling Limited Partnership ("**Delek Drilling**") and Tamar Petroleum Ltd. ("**Tamar Petroleum**"), which are rated A1.il/stable; **(19)** The cash flow seniority of the overriding royalties, which are derived directly from the gross revenues of Delek Drilling and Tamar Petroleum[9]; **(20)** The debt structure, which includes a refinancing component of USD 16-23 million[10] in 2028 (representing 14%-20% of the bond offering amount). We note that most of the reservoir's existing natural gas supply agreements, especially those with IEC, will end by or around that time; **(21)** A special reserve to reduce the refinancing risk upon the sale of natural gas in substantial amounts from the Tamar reservoir; **(22)** A debt-service buffer at less than the accepted amount in the sector until 2022; **(23)** According to the Company's reports, for the 12-month examination period commencing on April 1, 2019, the projected ADSCR stands at 1.42. Additionally, as of December 31, 2018, the historical coverage ratio stood at an actual 1.88. The coverage ratios obtained in the updated financial model that was received on the monitoring date have deteriorated relative to the financial model on which we relied at the time of the initial rating, due to changes in several parameters, among them a decrease in the selling prices as well as changes resulting from the final amount of the royalty acquisition transaction and the timing of the Company's offering.

[5] IEC is rated Aa2.il/stable by Midroog.

[6] On April 18, 2019, some of the partnerships in the Tamar reservoir filed an administrative petition against IEC and the Leviathan partners.

[7] Take or Pay.

[8] Which includes the implementation of the linkage provided for in the Tamar-IEC agreement.

[9] The Reservoir's expenses and/or costs have an impact on the amount and timing of the levy that is to be paid by the Company. Hence, an increase in the Reservoir's expenses and/or costs in the coming years, by the Tamar partners, is expected to have a favorable effect on the Company since it moderates the rate of the levy that applies to the Company.

[10] The difference is derived from the dedicated lockup reserve for reducing the refinancing risk.

According to Midroog's base-case scenario, the reservoir's monopoly status is expected to erode in the short term, with competition in the supply of natural gas in the domestic market expected to develop following the start of commercial operation of the Leviathan reservoir (by 2020) and to intensify following the start of commercial operation of the Karish reservoir (expected by the end of 2022) and the Tanin reservoir (no date has been set for its development). We have assumed that Noble Energy will maintain the reservoir's performance, including the regular and continuous supply of natural gas. We estimate that in the coming years, consumption of natural gas in the local market will be in the range of 10.5-11.5 BCM. Moreover, our base-case scenario assumes that beginning in 2020 natural gas will be exported in larger quantities from the Tamar reservoir and in substantial quantities from the Leviathan reservoir to Egypt and Jordan, after the physical and contractual infrastructure for the export of natural gas in significant quantities will have been completed. Furthermore, Midroog's base-case scenario is based, inter alia, on the existing gas reserves in the reservoir according to the 1P category, and it also takes into account a reduction in the price of natural gas at a rate of 12.5% of the contractual price.[11] Additionally, we took into account that the natural gas reserves remaining in the reservoir at the refinancing date are expected to stand at 71% of the reservoir's total reserves according to category 2P, and at 63% according to category 1P. We estimate that the average and minimum ADSCR will stand at 1.41 and 1.25 (in 2021), respectively, and the minimum PLCR will stand at 2.01 (in 2019). Additionally, we have assumed that the PLCR at the refinancing date, in 2028, will be in the range of 4.5-5.5. We note that in the event of further erosion in the coverage ratios and/or in the cash flow certainty, the Company's rating may be adversely affected.

Rating Outlook

Factors that could lead to a rating upgrade:

- Significant and ongoing improvement in the Company's coverage ratios, including through diversification with additional quality cash flow sources.
- A significant rise in the value of the Tamar reservoir, and a substantial improvement in the LTV ratio at the refinancing date, including through the signing of significant long-term agreements.

Factors that could lead to a rating downgrade:

- Significant and ongoing deterioration in the coverage ratios and/or in the LTV ratio.
- A regulatory change in the electricity sector or in the gas sector that may have a material adverse impact on the Tamar reservoir.
- A change in the quality of the end customers and in the natural gas supply agreements, which could lead to impairment of the financial strength of the Tamar reservoir.
- Intensified competition resulting in a significant decline in the quantities sold and/or in the natural gas prices.
- A change in the identity of the interest holders in the underlying assets and/or in their rating, which could negatively impact their financial strength and the Company's repayment capacity.
- A change in the identity and/or rating of the reservoir's operator.

[11] The contractual price includes the implementation of the linkage provided for in the Tamar-IEC agreement for IEC beginning in 2021.

Detailed Rating Considerations

Significant economic resource for the Israeli economy

The Tamar reservoir allows the State of Israel energy independence, and it is of supreme strategic and economic importance for the state. The reservoir will enable the state to meet its energy needs during tens of years, making it a significant factor in the development of the economy. Over the years, natural gas has become the main source of energy in electricity production, its use enabling reduced dependence on coal and oil, while lowering both economic and environmental costs.

The Reservoir's operation is based on the experience of Noble Energy

The Tamar reservoir has an operating history of more than six years, while the reservoir's operator, Noble Energy, has international experience in drilling and producing gas in deep waters – in the Gulf of Mexico, West Africa and also Israel.[12] Noble Energy, which is held by Noble Energy, Inc.,[13] operates in accordance with international standards and it complies with global safety and environmental standards. As of the report date, the gas supply from the Tamar reservoir is stable, consistent and meets the performance targets set, while at the same time maintaining high availability.[14] Midroog estimates that the performance of the Tamar reservoir depends on the continuing involvement of Noble Energy in the reservoir as both an owner and operator.

Transformations in the energy sector support natural gas consumption in the economy

The use of natural gas in the Israeli economy has been growing steadily over time, with natural gas becoming the primary source of energy in the economy, substituting coal and oil. Pursuant to the Regulator's decisions concerning the reduction of coal use,[15] including the shutdown of Coal Units 1 through 4 at the Orot Rabin power plant, and continued implementation of the policy favoring electric power generation using natural gas over electric power generation using coal. Said policy will be implemented following the disabling of the Coal Units (no later than June 2022), subject to redundancy in natural gas infrastructures, through the connection of three natural gas reservoirs. Moreover, given the development of the energy sector, reflected in the expanding activity of existing consumers, rising demand for export, in light of the sale of natural gas to Jordan from the Tamar reservoir, and increasing demand for natural gas for power generation, the demand for natural gas is expected to continue growing. In 2018, consumption of natural gas from the Tamar reservoir totaled 10.3 BCM, compared to 9.7 BCM in 2017 and 9.3 BCM in 2016, indicating an average annual growth rate of 6.2% during said period.[16] In our estimation, implementation of the Energy Ministry's emissions reduction policy coupled with growth of natural gas consumption in the economy, construction of infrastructures for exporting natural gas, and signing of export agreements, are key factors in the

[12] Noble Energy built and operated the Yam Tethys reservoir, adhering to the timetables, the budgets and the targets that were set.

[13] Rated Baa3/stable by Moody's.

[14] We would note that on May 5, 2019, the flow of gas from the Tamar Reservoir was stopped for 24 hours by the decision of the Energy Minister in light of the national security situation during that period.

[15] The policy for the reduction of power generation via coal-fired power stations, which started in 2016, continued into 2017, with electricity production from coal expected to drop by 30% compared to that in 2015.

[16] According to Ministry of Energy figures, the use of natural gas in Israel rose from 9.7 BCM in 2016 to 10.3 BCM in 2017, and to 11 BCM in 2018, accounting for an annual growth of 6.5%.

rating. To the extent that the gas export volume is not significant and stable over time and alternatives are not found on the domestic market, the Company's rating could be adversely affected.

EROSION OF THE RESERVOIR'S MONOPOLY STATUS, IN LIGHT OF THE EXPECTED START OF OPERATION OF THE LEVIATHAN RESERVOIR IN THE SHORT TERM AND THE KARISH RESERVOIR IN THE MEDIUM TERM

The Tamar reservoir is the almost exclusive source of gas supply for the Israeli economy, except for limited quantities of liquefied natural gas from the buoy. The interest holders in the Tamar reservoir constitute a monopoly in the field of natural gas supply, as of the start of the reservoir's commercial operation (March 2013) until the start of operation of the Leviathan reservoir, which, according to estimates, is expected by 2020.[17] Likewise, we estimate that Energean Oil & Gas S.A. will complete the development of the Karish reservoir by 2022. Additionally, we would note that the Karish reservoir has signed sales contracts for the sale of natural gas at lower prices than those under existing contracts in the market, with material customers of the Tamar reservoir. Further, in light of the expected growth in the supply side of the natural gas market, the interest holders in the Tamar reservoir have assumed a decrease in price for the sale of an energy unit (MMBTU) to IEC starting from 2021, ranging between 12.5% and 20%[18] of the contractual price, which includes implementation of the linkage prescribed in the Tamar-IEC Agreement, in accordance with the option set out in the contract between the parties. Concurrently, in the last year, significant agreements have been signed for the supply of gas to Jordan and Egypt from the Tamar reservoir and Leviathan reservoir alike, but agreements have yet to be signed for the sale of the full production capacity of the Leviathan reservoir, following completion of the initial stage development. In our estimation, once the Leviathan reservoir begins to operate, there will be a certain degree of competition between the two reservoirs, which will grow stronger after the start of commercial operation of the Karish reservoir. In the event that the emissions reduction policy of the Energy Ministry is not implemented and/or a physical and contractual infrastructure for exporting natural gas is not created, the supply of natural gas in the economy could exceed demand and create a more highly competitive environment, which would be reflected, among other things, in the prices of natural gas. We would note that the signing of additional export agreements and the realization of existing agreements are exposed to geopolitical risks associated with Arab countries in general, and with Jordan and Egypt in particular. Moreover, the ratings of Jordan and Egypt[19] could expose the Company to the countries' credit risks. In this context, we would note that according to the Company's reports, it plans to grow and diversify its asset portfolio by acquiring further royalties from producing oil and gas assets, both inside and outside Israel.

[17] We would note that according to the official timetable of the project, the projected date for the completion of development of the Leviathan Reservoir and the start of its commercial operation is the end of 2019.

[18] In the company's estimation, the expected reduction in price for the sale of an energy unit (MMBTU) to IEC is 12.5% of the contractual price, which includes implementation of the linkage prescribed in the Tamar-IEC agreement.

[19] Jordan was assigned a rating of B1 with a stable outlook, by Moody's, and Egypt was assigned a rating of B3 with a positive outlook, by Moody's.

RESERVOIR'S CASH FLOW NEGATIVELY IMPACTED BY LEVIATHAN WINNING IEC'S TENDER FOR THE SUPPLY OF 4 BCM, WORTH USD 700 MILLION

In December 2018, IEC turned to the Tamar and Leviathan reservoir partnerships to receive bids for the supply of 2 BCM of natural gas per year, to be supplied from the start of gas production from the Leviathan reservoir[20] until the start of gas production from the Karish reservoir,[21] during which period of supply IEC will turn only to the winner to buy gas, according to its needs, beyond the gas supplied to it under the agreement. On April 4, 2019, IEC announced that it chose the Leviathan reservoir. Accordingly, on April 18, 2019, some of the Tamar reservoir partnerships filed an administrative petition against IEC and the Leviathan partners. Following the petition, the parties submitted their response, with a pre-hearing scheduled for June 2019. On June 12, 2019, Delek Drilling issued a report to the Stock Exchange informing that an agreement for the supply of natural gas was signed between the Leviathan partners and IEC on the order of 4 BCM, worth approximately USD 700 million.[22]

SIGNING OF AN AGREEMENT FOR THE ACQUISITION OF EMG SHARES IS EXPECTED TO CREATE INFRASTRUCTURE FOR THE TRANSMISSION OF NATURAL GAS TO EGYPT

On September 26, 2018, EMED Pipeline B.V. ("**EMED**")[23] signed agreements for the acquisition of 39% of the share capital of EMG, for the purpose of realizing the agreements for exporting gas to Egypt. EMG is a private Egyptian company that owns a sea pipeline, which connects between the Israeli transmission system in the Ashkelon area and the Egyptian transmission system in the El-Arish area, as well as associated facilities. The EMG pipeline was designed for a capacity of 7 BCM per year, with the possibility of increasing the capacity to 9 BCM per year. It should be noted that as of the report date, there is a capacity limitation of 4.5 BCM in the local network, and full realization of the gas contract with Egypt depends on the progress made in the completion of the gas infrastructure alternatives in Israel and its neighbors. The transmission of gas through the EMG pipeline from Egypt to Israel was stopped several years ago, and as of the report date, EMG has no commercial activity. Completion of the deal is contingent, inter alia, on the signing of an agreement for the award of capacity and operating rights between the parties, in which framework EMG will grant EMED the exclusive right to lease and operate the EMG pipeline for transmitting natural gas from Israel to Egypt. In our estimation, the realization of this agreement is highly important for advancing and meeting the timetables for exporting natural gas to Egypt in 2019.

[20] The later of date of start of gas production from the Leviathan Reservoir or October 1, 2019.

[21] The earlier of date of start of gas production from the Karish Reservoir or June 30, 2021.

[22] In the report, Delek Drilling states that on June 3-4, 2019, a pre-hearing was held regarding the petition and the application for an interim injunction. On June 11, 2019, the Leviathan partners notified the court that attempts to end the proceeding by reaching a mutual agreement were unsuccessful, and a ruling has yet to be issued on the petition.

[23] EMED is a dedicated company registered in the Netherlands, 25% of whose shares are held by a wholly owned subsidiary of Delek Drilling, which is registered in Cyprus.

AMENDMENT OF THE GAS SUPPLY AGREEMENT BETWEEN THE TAMAR PARTNERS AND IEC

On February 17, 2019, the Company reported that the Tamar partners had reached an understanding with IEC regarding the amendment of the gas supply agreement between the Tamar partners and IEC (the "**Tamar-IEC Agreement**"), whereby beginning in January 2019 and up to the First Adjustment Date (the "**Interim Period**"), the linkage clause stipulated in the Tamar-IEC Agreement would not be applied, thus the price payable by IEC would be the contractual price that was in effect during 2018. On the First Adjustment Date the contractual price would be adjusted in the manner provided in the Tamar-IEC Agreement, taking into account the contractual price that would have been paid if not for the amendment to the agreement – i.e., the contractual price assuming implementation of the linkage prescribed in the Tamar-IEC Agreement. The Tamar partners estimate the amount of the cumulative savings that will accrue to IEC from the freezing of the price pursuant to the aforesaid amendment to the agreement during the Interim Period at USD 85 million. Additionally, the amendment to the Tamar-IEC Agreement provides that starting from the date of the commercial operation of the Leviathan project, the maximum daily quantity of gas IEC is permitted to order under the agreement will be reduced from 655,200 energy units (MMBTU) to 500,000 MMBTU, without reducing the TOP component provided for in the agreement. It is worth noting that up to the date of the monitoring report the amendment to the Tamar-IEC Agreement had not been signed, and it is subject, inter alia, to receipt of the regulatory approvals required by IEC, the approval of the lenders of some of the Tamar partners as well as the approval of the Competition Authority, insofar as such approval is required by law.[24]

A STABLE CASH FLOW BASED ON LONG-TERM GAS SUPPLY AGREEMENTS CONTAINING A TOP COMPONENT AND A FLOOR PRICE, WHICH MAY ERODE AS A RESULT OF THE MIGRATION OF CUSTOMERS TO THE KARISH RESERVOIR

The Tamar reservoir enjoys the advantage of being the first to sign long-term agreements with the large consumers in the market. The reservoir has agreements for the supply of natural gas for a period and in amounts that are appropriate for the rating. The reservoir's primary customer is IEC (rated Aa2.il/stable[25]), which has provided more than half of the reservoir's revenues since the start of natural gas production. However, in 2021 IEC has an option to reduce the natural gas price by a maximum rate of 25%. According to the basic assumption in the DCF model published by the interest holders in the Tamar reservoir, a price decrease is expected in the range of 12.5%-20% of the contractual price including implementation of the linkage prescribed in the Tamar-IEC Agreement. The gas supply agreements include a TOP component, a bottom price and various linkage terms, which, in our estimation, greatly contribute to the Company's cash flow stability. At the same time, most of the customers of the Tamar reservoir have an option to reduce the contractual quantity of gas over the years, which may affect cash flow stability in the long term. In this connection, we note that several major electricity producers in the economy have already signed natural gas supply agreements with the Karish reservoir.

[24] For further details see the Company's report dated February 17, 2019: https://maya.tase.co.il/reports/details/1213903/2/0

[25] Rating – Israel Electric Corporation Ltd.

DETERIORATION IN THE COVERAGE RATIOS DUE TO A DECREASE IN THE SELLING PRICES AND A CHANGE IN THE AMOUNT AND TIMING OF THE TRANSACTION

The updated financial model received in the monitoring period includes changes with respect to the selling price forecasts and a transition to maximum annual production of 12 BCM, together with additional investments by the Tamar partners and changes in the projected sales quantities starting from 2027 and in the quantity of reserves attributed to the oil asset. Additionally, the model takes into account a 12.5%[26] reduction in the tariff for IEC on the First Adjustment Date (July 1, 2021), according to the option granted in the agreement to reduce the tariff by up to 25%, in the specified period, but without a further reduction on the Second Adjustment Date (July 1, 2024). The model also includes assumptions regarding revenue from gas exports to the domestic markets in Egypt and in Jordan, in an aggregate quantity of 42 BCM, up to the year 2040.

In accordance with the financing agreements, the projected ADSCR is examined in each quarter, while the historical ratio is examined every half year, and these ratios are calculated for 12 months. Based on the Company's reports, for the 12-month examination period beginning on April 1, 2019, the projected ADSCR stands at 1.42. Additionally, as of December 31, 2018, the historical coverage ratio stood at an actual 1.88. According to Midroog's base-case scenario,[27] which is based on the updated financial model provided during the monitoring period, the average and minimum ADSCR will stand at 1.41 and 1.25 (in 2021), respectively, and the minimum PLCR will stand at 2.01 (in 2019). The coverage ratios have deteriorated relative to the financial model that was analyzed at the time of the initial rating, due to changes in several parameters, among them a decrease in the selling prices as well as changes resulting from the final amount of the royalty acquisition transaction and the timing of the Company's offering.

ADDITIONAL RATING CONSIDERATIONS

REFINANCING RISK MODERATED BY A LOCKUP MECHANISM AND A SIGNIFICANT VOLUME OF GAS RESERVES IN THE TAMAR RESERVOIR

The debt structure includes a refinancing risk, which was taken into account in the rating of the bonds. On August 30, 2028 the balance of the debt will stand at USD 16-23 million (representing 14%-20% of the amount raised). Prior to or around the refinancing date, the natural gas agreement of the Tamar reservoir with IEC will end, as will all the other major natural gas supply agreements of the reservoir with the private electricity producers. Additionally, during this period at least three natural gas reservoirs are expected to operate in the Israeli economy, alongside other reservoirs in the Middle East. At the same time, demand is also expected to grow beyond the present level. According to an NSAI estimate, as of December 2018 the reservoir contains a significant volume of gas reserves, amounting to 315 BCM in the 2P category, including 230 BCM of proven gas reserves in the 1P category. According to Midroog's base-case scenario, the natural gas reserves remaining in the reservoir on the refinancing date are expected to amount to 71% of the reservoir's total reserves in the 2P category and to 61% in the 1P category. Additionally, we have assumed in the base-case

[26] From the contractual price including implementation of the linkage prescribed in the Tamar-IEC Agreement.
[27] According to category 1P.

scenario[28] that the PLCR ratio on the refinancing date, in 2028, will be in the range of 4.5-5.5. In Midroog's estimation, a substantial volume of natural gas reserves in the reservoir on the refinancing date, coupled with a debt structure that matches the reservoir's cash flow certainty, the lockup mechanism to reduce the refinancing risk and the special reserve, which are anchored in the deed of trust, significantly moderate the refinancing risk, including in the event that natural gas is sold in substantial quantities during the debt period.

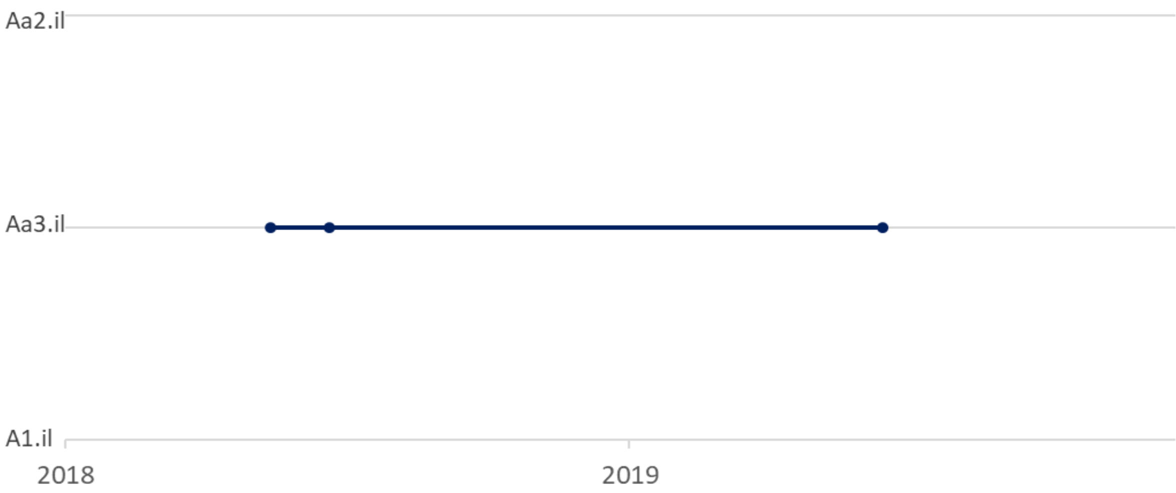
Company Profile

Delek Royalties (2012) Ltd. was incorporated in Israel on November 6, 2012 as a private company limited by shares under the Companies Law, 5759-1999. According to the Company's bylaws, its purposes are to hold the royalties of companies operating in the oil and gas sectors. The Company's principal shareholder is Delek Energy Systems Ltd.[29] ("**Delek Energy**" – 39.93%), which does not have voting rights in the Company. Under an agreement signed between the Company and Delek Energy, Delek Energy assigned irrevocably to the Company its right to receive royalties directly from the I/12 Tamar and I/13 Dalit leases, out of the share of Delek Drilling LP and Tamar Petroleum Ltd. (directly in respect of 22% and 9.25%, respectively).[30] The royalty rate to which the Company currently is entitled is 4.875%,[31] and it is registered in the Oil Register in the Company's favor.

The Tamar reservoir was discovered in January 2009, roughly 100 kilometers west of Haifa, in waters that are 1,670 meters deep and at an average depth of 3 kilometers below the seabed. The Tamar reservoir includes a natural gas production infrastructure and the production and sale of the gas to various customers, chief among them IEC. First gas was piped from the Tamar reservoir on March 31, 2013. The reservoir is a joint venture owned by the partners: Noble Energy (25%), which serves, inter alia, as the reservoir's operator; Isramco Negev 2 Limited Partnership (28.75%), Delek Drilling (22%), Tamar Petroleum (16.75%), Everest Infrastructure Limited Partnership (3.5%) and Dor Gas Exploration Limited Partnership (4%). Based on NSAI[32] estimates, as of December 2018 the reservoir contains gas reserves amounting to 315 BCM in the 2P[33] category, including proven gas reserves of 230 BCM in the 1P[34] category.

[28] According to category 1P.
[29] Delek Energy is required to sell its holdings in the Company by no later than December 17, 2021.
[30] Additional interests at a rate of 7.5% (out of 100%) in the Tamar and Dalit leases, which are held by Tamar Petroleum, do not include commitments to pay overriding royalties to the Company.
[31] This rate is the royalty rate to which the Company is entitled after the date of recovery of the investment in the Tamar project.
[32] Netherland, Sewell & Associates, Inc.
[33] The estimate for which there is a 50% probability that the quantities produced will be equal to or higher than the specified quantity
[34] The estimate for which there is a 90% probability that the quantities produced will be equal to or higher than the specified quantity.

Rating History



Related Reports

[Delek Royalties (2012) Ltd.]

[Generic Project Finance Rating]

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[Rating Symbols and Definitions]

The reports are published on the Midroog website at www.midroog.co.il

General Information

Date of rating report:	June 25, 2019
Date of last revision of the rating:	June 25, 2018
Date of first publication of the rating:	May 14, 2018
Rating commissioned by:	Delek Royalties (2012) Ltd.
Rating paid for by:	Delek Royalties (2012) Ltd.

Information from the Issuer

Midroog relies in its ratings inter alia on information received from competent personnel at the issuer.

Long-Term Rating Scale

Aaa.il	Issuers or issues rated Aaa.il are those that, in Midroog judgment, have highest creditworthiness relative to other local issuers.
Aa.il	Issuers or issues rated Aa.il are those that, in Midroog judgment, have very strong creditworthiness relative to other local issuers.
A.il	Issuers or issues rated A.il are those that, in Midroog judgment, have relatively high creditworthiness relative to other local issuers.
Baa.il	Issuers or issues rated Baa.il are those that, in Midroog judgment, have relatively moderate credit risk relative to other local issuers, and could involve certain speculative characteristics.
Ba.il	Issuers or issues rated Ba.il are those that, in Midroog judgment, have relatively weak creditworthiness relative to other local issuers, and involve speculative characteristics.
B.il	Issuers or issues rated B.il are those that, in Midroog judgment, have relatively very weak creditworthiness relative to other local issuers, and involve significant speculative characteristics.
Caa.il	Issuers or issues rated Caa.il are those that, in Midroog judgment, have extremely weak creditworthiness relative to other local issuers, and involve very significant speculative characteristics.
Ca.il	Issuers or issues rated Ca.il are those that, in Midroog judgment, have extremely weak creditworthiness and very near default, with some prospect of recovery of principal and interest.
C.il	Issuers or issues rated C are those that, in Midroog judgment, have the weakest creditworthiness and are usually in a situation of default, with little prospect of recovery of principal and interest.

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