Delek Royalties (2012) Ltd.

Monitoring | June 2020

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	Rating outlook: Stable

Midroog affirms the Aa3.il rating for debentures (Series A) issued by Delek Royalties (2012) Ltd. (hereinafter: "Delek Royalties" and/or "the Company"). The rating outlook is Stable.

Outstanding debentures rated by Midroog:

Series	Securities ID	Rating	Outlook	Maturity
Delek Royalties debentures (Series A)	1147479	Aa3.il	Stable	August 30, 2028

Summary of Rating Rationale

The rating takes into account, *inter alia*, the following considerations: (1) Tamar gas field ("the **Gas Field**") provides a solution for national needs and allows Israel to achieve long-term energy independence, while reducing dependence on coal and oil while reducing both economic and environmental costs; (2) The Gas Outline provides a clear, transparent and stable regulatory environment; (3) The Gas Field technology is proven and has a positive track record, and the Gas Field operator, Noble Energy Mediterranean Ltd. (hereinafter: "**Noble Energy**"), has international experience in gas drilling and production in deep waters and Gas Field performance is dependent on its continued involvement as owner and operator; (4) The Gas Field has an operating track of over 7 years with no significant malfunctions. As of the report date, gas supply from Tamar Gas Field is stable, consistent and in conformity with specified performance targets, while maintaining high availability;(5) Significant gas reserves in the Gas Field, as estimated by NSAI[1] as of December 31, 2019, the Gas Field contains gas reserves, 305 BCM in category 2P[2], of which 219 BCM proven gas reserves in category 1P[3]; (6) Changes in the energy market support natural gas consumption in the market. In particular, the growth in consumption of natural gas (including export), which continued in 2019 and amounted to 11.3 BCM, compared to 11.1 BCM in 2018; (7) Erosion in the monopolistic standing of the Gas Field, as competition grew in the local natural gas market with commercial operation of Leviathan gas field (in late 2019) and expected operation of Karish gas field (by 2022), as well as impact to expected cash flows from Tamar gas field, compared to previous estimates. Midroog believes that these changes have fundamentally eroded operations of Tamar gas field; (8) The competitive environment is impacted, *inter alia*, by application of the emission reduction policy of the Ministry of National Infrastructure, Energy and Water (hereinafter: "**Ministry of Energy**"), along with growth in natural gas consumption in the local market and creation of infrastructure for exporting natural gas; (9) Signing of agreements for large scale export of natural gas from Tamar gas field to Egypt; (10) Continued implementation of existing export contracts, primarily to Egypt, and signing of other export contracts that are subject to geo-political risk; (11) Development regarding the legal dispute concerning amendment of the gas supply agreement between Tamar Partners and IEC, whereby the

[1] Netherland, Sewell & Associates, Inc.

[2] The estimate with a likelihood of 50% that volume produced would be equal to or larger than the indicated volume.

[3] The estimate with a likelihood of 90% that volume produced would be equal to or larger than the indicated volume.

Tamar Partners submitted for approval by regulators an agreed outline of principles for joint marketing from Tamar gas field. The outline of principles includes various provisions and arrangements with regard to securing the parties' interests and improving the competitive position of Tamar gas field in marketing natural gas to consumers in the local market; (12) Amendment of agreements for large scale export of natural gas to Egypt, along with signing of a capacity allocation agreement, and a resolution by the Natural Gas Council of the Ministry of Energy to increase the capacity of the Israeli transmission system, so as to allow for full-scale gas flow to Egypt of the contracted volume; (13) The Corona Virus crisis may impact the full implementation of natural gas export contracts, and consequently may even exacerbate the competition between gas fields; (14) Existence of a partial lock-up provision, applied in case of fundamental erosion of financial ratios; (15) Existence of a lock-up provision to mitigate re-financing risk; (16) Despite expected impact to Company cash flow, the existence of long-term agreements to supply natural gas, including a Take or Pay component and minimum price, is supportive for the Company's financial profile and provide a minimum for expected revenues. However, a significant number of customers have the option to reduce the contractual gas volume over time. Furthermore, several major power generators in the market have signed additional natural gas supply agreements with Karish gas field; (17) According to DCF issued by the Company in January 2020, it was assumed that the natural gas price for IEC would decrease as from July 2021 by the maximum rate (25%), in conformity with the option provided for in the contract between the parties; (18) The Company rating is affected, under certain circumstances, by operations and financial robustness of the rights holders in the underlying assets. Thus, the rating of Delek Drilling LP ("**Delek Drilling**") was lowered in June 2020 to A2.il and was placed on CreditWatch with negative implications. Concurrently, the rating outlook for Tamar Petroleum Ltd. ("**Tamar Petroleum**"), rated A1.il, was revised from Stable to Negative in late March 2020; (19) The cash flow precedence of overriding royalties, derived directly from gross revenues of Delek Drilling and Tamar Petroleum and therefore less impacted by expenses and/or costs associated with the production process, compared to partnerships with direct holdings in the Gas Field[4] (20) Debt structure including a re-financing component amounting to USD 23-27 million[5] in 2028 (or 21%-24% of the total original issuance). We note that most of the natural gas agreements in the Gas Field, primarily with IEC, would expire by or soon after this date; (21) Debt service safety cushion that is smaller than customary for the sector through 2022; (22) Stable coverage ratios, due to application of provisions to maintain some excess cash in the safety cushion, along with a repayment schedule that matches developments in the gas market with regard to competition, which are supportive for the Company's debt service capacity; (23) As reported by the Company, for the twelve-month period ended December 31, 2020, the expected ADSCR was 1.30. Furthermore, for the twelve-month period ended December 31, 2019, the historical coverage ratio was actually 1.37.

According to Midroog's baseline scenario, over the short term, we expect stronger competition between Tamar and Leviathan gas fields, which would increase with commercial operation of Karish

[4] Expenses and/or costs for Gas Field operation impact the amount and timing of the levy payable by the Company. Therefore, higher expenses and/or costs for the Gas Field in the coming years by Tamar Partners, should moderate the amount of the levy payable by the Company.

[5] This range is derived from a specific lock-up fund to mitigate re-financing risk.

gas field (expected by 2022) and Tanin gas field (development schedule TBD); we believe that if Leviathan gas field would not implement significant natural gas export agreements, the supply of natural gas is expected to further exceed demand in the market, resulting in a saturated natural gas market and growing competition for natural gas price and customer quality. We assumed that Noble Energy would maintain Gas Field performance, including regular, continuous production of natural gas. Moreover, the Ministry of Energy policy with regard to reduced power generation using coal should be maintained in coming years, resulting in further growth in demand for natural gas in the local economy. This is in addition to completion of construction of two integrated cycle generation units by IEC, powered by natural gas (1,200 MW) by end of 2022 and completion of conversion of coal-burning generation units in Hadera and Ashkelon to use natural gas by end of 2025. We assumed that in 2021, the selling price of natural gas to IEC would decrease by 25%. At this stage we do not assume a further decrease in 2024. In conformity with Midroog's baseline scenario, the average and minimum historical ADSCR would be 1.40 and 1.29 (in 2028), respectively and the minimum PLCR would be 2.33 (in 2020). We also assumed that PLCR upon the re-financing date, in 2028, would range between 4.5-5.5. We should note that coverage ratios have eroded, primarily due to expected changes to natural gas sales in the local market. Consequently, the Company has stated that it would maintain sufficient liquid balances in the designated cushion, in line with the rating, so as to balance the coverage ratio in the current environment, along with conservative policy on dividend distributions in the short term, until the uncertainty will have clarified, maintaining a balance between debt and equity holders.

Factors that could lead to a rating upgrade

- Significant, continuous improvement in coverage ratios for the Company, including through diversification of other high-quality cash flow sources
- Significant appreciation of Tamar gas field and significant improvement in leverage ratio upon re-financing, including by way of signing significant long-term agreements

Factors thar could lead to a rating downgrade

- Significant, continuous erosion of coverage ratios and/or leverage ratio
- Regulatory changes in the power or gas sectors, which would have material negative impact Tamar gas field
- Change to quality of end customers and to natural gas supply agreements, which may impact the financial robustness of Tamar gas field
- Increased competition resulting in significant erosion of sold volume and/or price of natural gas
- Change in identity or rating of rights holders in the Underlying Assets, which would impact the Company's financial robustness and repayment capacity
- Change in identity or rating of the Gas Field operator

Detailed Rating Considerations

Tamar gas field is a material economic resource for the Israeli market

The Tamar gas field allows Israel to achieve energy independence and is of the utmost strategic and economic importance for the country. This gas field can provide for the energy needs of the country for decades, hence it is a significant factor in economic development. Furthermore, the Gas Field, together with Leviathan and Karish-Tanin gas fields, positions the country as a regional gas supplier. Over time,

natural gas has become the primary source of energy for power generation and its use allows for lower dependence on coal and oil, while reducing both economic and environmental costs.

Gas Field operation based on Noble Energy's experience

Commercial production from Tamar gas field started on March 31, 2013 and has continued since then (for 7 years) with no material malfunctions. The project operator, Noble Energy, which is owned by Noble Energy Inc. [6]has global experience in drilling and production of natural gas in deep water – in the Gulf of Mexico, in West Africa and in Israel[7]. Noble Energy holds a 25% interest in Tamar gas field, which has shown positive and stable operating track record, with achievement of specified performance targets while maintaining high availability. Midroog believes that Project performance is dependent on continued involvement of Noble Energy in the gas field as owner and operator.

Continued growth trend in natural gas consumption in the Israeli economy

Use of natural gas in the Israeli economy constantly grows, so much so that natural gas has become the primary source of energy in the local economy, replacing coal and oil. According to publications by the Tamar gas field partners and based on data from the Natural Gas Authority of the Ministry of Energy[8], in 2019 the growth trend in natural gas consumption (including export) continued and reached 11.3 BCM (an increase of only 2% over total consumption in 2018), of which 10.5 BCM provided by Tamar gas field and the rest provided through the maritime buoy. Most of the growth in natural gas consumption is due to growth in population and in power consumption, while reducing the use of coal. We believe that local natural gas consumption should continue to range between 11.5-13.0 BCM over the next two years, with exports to Egypt and Jordan ranging between 4.5-7.5 BCM. Accordingly, we estimate natural gas delivery from Tamar gas field over the next two years should range between 8-9 BCM. Over the medium to long term, we assume significant growth in demand in the local market due, *inter alia*, to the policy of the Ministry of Energy regarding reduction of power generation through coal (as set forth below). This is in addition to completion of construction of two integrated cycle generation units by IEC (1,200 MW) by end of 2022, completion of conversion of coal-burning generation units in Hadera and Ashkelon to use natural gas by end of 2025 and continued growth in population and in power consumption.

Policy of the Ministry of Energy regarding reduced use of coal, with shorter schedule for converting coal-based power stations to natural gas, should support further growth in demand for natural gas

In conjunction with the policy of the Minister of Energy to reduce power generation through coal-based power plants, generation units 1-4 of Orot Rabin power plant in Hadera (with a total capacity of 1,440 MW) should be shut down by June 2022, in conformity with a Government resolution, with the remaining units continuing to operate in conformity with the policy regarding reduced use of coal, as resolved by the Minister of Energy. That is to say, these units would be operated at a minimum and the load on these units would only increase when no gas-based alternative is available. This policy, should

[6] Rated Baa3 / Negative outlook by Moody's.

[7] Noble Energy has constructed and operated the Yam Tethys gas field and operates the Tamar and Leviathan gas fields in compliance with the specified schedules, budgets and targets.

[8] Ministry of Energy, Natural Gas Authority: Overview of developments in natural gas market, summary for 2019.

it continue, is expected to reduce the share of coal, from 30% of the current fuel mix to only 15% of the future average fuel mix. Moreover, a policy is being reviewed to fully reduce the use of coal in the local economy, as directed by the Minister of Energy[9]. Upon conclusion of this review, the Minister of Energy announced that after review of all relevant considerations, the schedule for conversion of coal-based power plants in Hadera and Ashkelon to natural gas may be shortened to the end of 2025, when use of coal in Israel would effectively end[10]. We believe that Government policy on reducing the use of coal and pollutant fuels, as reflected by multiple resolutions passed in recent years, should support further growth in demand for natural gas. Note that implementation of the Ministry of Energy's policy on schedule is required for stability of the natural gas sector.

Operation of Leviathan gas field, along with expected operation of Karish gas field, impacts the monopoly position of Tamar gas field

On December 31, 2019, Delek Drilling announced the start of natural gas flow from Leviathan gas field[11], thereby impacting the monopoly position of Tamar gas field, which was practically the sole source of natural gas supply to the Israeli market (as from March 2013), other than limited volumes of liquid natural gas from the maritime buoy and minute volumes from Yam Tethys gas field. Competition in the local gas market should now evolve, with commercial operation of Leviathan gas field which, in the first stage, would allow for maximum gas production of 12 BCM per year[12] and should increase with the commercial operation of Karish gas field (by 2022) and Tanin gas field (development schedule TBD). Leviathan gas field should continue to focus on natural gas export to Jordan and Egypt, along with sales to the local market, whereas Karish gas field should focus on natural gas supply to the local market. Note that some of the customers who have signed up with Leviathan and Karish gas fields have consumed and/or are currently consuming natural gas from Tamar gas field, hence the commercial operation of these gas fields impacts the monopoly position of Tamar gas field. Moreover, contracts for supply of natural gas signed by customers of Karish gas field are at a significantly lower price than contracts signed with Tamar gas field. Midroog believes that these changes have fundamentally eroded operations of Tamar gas field.

In addition to the foregoing, note that signing additional export agreements and realization of existing agreements are subject to geo-political risk with regard to Arab countries in general, and with regard to Jordan and Egypt in particular. Moreover, the ratings of Jordan and Egypt[13] may expose the Company to credit risk with respect to these countries. Note, in this regard, that as reported by the Company, it intends to grow and diversify its asset portfolio by acquiring other royalties from producing oil and gas assets in Israel and elsewhere.

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[9] PUA: Response to request for consultation regarding setting policy principles for reduction or elimination of the use of coal, other than in case of emergency, November 2019.

[10] Ministry of Energy: The end of coal usage in Israel re-scheduled for 2025 – the schedule for conversion of coal-based power plants in Israel to natural gas to be shortened.

[11] For more information see: Report by Delek Drilling dated December 31, 2019 on the MAYA website.

[12] In the second stage (a decision to launch this stage is still pending), through expanded development, a maximum of 21 BCM per year may be produced.

[13] Jordan is rated B1 / Stable outlook by Moody's. Egypt is rated B2 / Stable outlook by Moody's.

The Corona Virus crisis may impact the full implementation of natural gas export contracts, and consequently may even exacerbate the competition between gas fields

The Corona Virus outbreak and global pandemic negatively impacts a wide range of economic aspects and results in significant uncertainty in markets. This pandemic has resulted, *inter alia*, in many restrictions imposed by various countries, including border closure, impact to international trade and reduced economic activity, due to concern about the spread of the virus, which has been classified as a global pandemic. These processes have resulted in sharp declines in financial markets, changes to exchange rates and real effects, which may reduce power consumption in the market and, consequently, natural gas consumption by customers of Tamar gas field[14]. Moreover, Midroog believes that the Corona Virus crisis may impact full implementation of contracts for export of natural gas from Tamar gas field to Egypt and to Jordan, where in addition to exposure to geo-political risk and credit risk of these countries, there is a challenge with regard to implementation of contracts in a period with significant price gaps between prices in export contracts and SPOT prices (which are significantly lower). Note that the revised export agreement, signed by Tamar partners and Dolphinus, includes a provision for reduction of the minimum contractual volume (Take or Pay) to 50% of the annual contractual volume, but only in any year in which the average daily price per Brent oil barrel is lower than USD 50. Note, in this regard, that according to Moody's forecasts, the price of WTI oil[15] should range between USD 40-45 in 2020 and between USD 50-55 in 2021. We believe that should Egypt reduce the contractual volume purchased from Tamar and Leviathan gas fields, the competition between these natural gas fields should significantly increase. Midroog would continue to monitor developments in this regard and to revise the baseline scenario as required.

Amendment of agreements for large scale export of natural gas to Egypt

On October 2, 2019, the Company reported that on September 26, 2019, Delek Drilling and Noble Energy and Dolphinus have signed two agreements to amend agreements for export of natural gas from Tamar and Leviathan gas fields to Egypt. The gas supply to Dolphinus, in conformity with the amendment to the Tamar agreement, is firm whereas the original export agreement was interruptible, with an option for Tamar partners to turn this into a firm agreement. The total contractual gas volume which Tamar partners have committed to provide to Dolphinus, pursuant to the amended export agreement, is 25.3 BCM, compared to 32 BCM pursuant to the original export agreement which was, as noted above, interruptible. Delivery in conformity with the amended Tamar agreement would start on June 30, 2020 and would continue through December 31, 2034 or through delivery of the full contractual volume, whichever is sooner (hereinafter: "**Agreement End Date**"). Should Dolphinus not purchase the total contractual volume by December 31, 2034, either party may extend the delivery period by a maximum of two more years. In conformity with the amended export agreement, Tamar partners have committed to deliver to Dolphinus the following annual gas volumes: (a) For the period from June 30, 2020 through June 30, 2022, 1 BCM per year; (b) For the period from July 1, 2022 through the Tamar Agreement End Date, 2 BCM per year. Dolphinus has committed to take or pay for the minimum annual volumes in conformity with the amended export agreement. Midroog believes that supply pursuant to the

[14] For more information see: Sector note - Natural gas sector, issued on March 17, 2020.

[15] West Texas Intermediate.

amended Tamar agreement (25.3 BCM) may be lower than supply previously agreed by Tamar partners and Dolphinus, but this is firm delivery of natural gas with a TOP component and minimum price, rather than interruptible delivery, which provides for higher stability and certainty in cash flow forecasting.

Developments regarding the legal dispute concerning amendment of natural gas supply agreement with IEC

On February 17, 2019, the Company reported that Tamar partners have reached agreement with IEC with regard to amendment of the natural gas supply agreement between Tamar partners and IEC (hereinafter: "**Tamar-IEC Agreement**")[16]. Further to this report, on September 24, 2019, Delek Drilling announced that signing of the amendment to the agreement, should it be signed, is subject to consent of all Tamar partners, which is uncertain[17]. As of the report date and based on Company announcements[18], the Tamar Partners submitted for approval by regulators an agreed outline of principles for joint marketing from Tamar gas field (hereinafter: "the **Marketing Agreement**"), which stipulates that partners in Tamar gas field would continue joint marketing of natural gas from Tamar gas field. The Marketing Agreement includes various provisions and arrangements with regard to securing the parties' interests and improving the competitive position of Tamar gas field in marketing natural gas to consumers in the local market. These agreements and provisions stipulate, *inter alia*, the manner and parameters for negotiating with customers in the local market on certain commercial issues regarding price, price linkage and Take or Pay levels customary in the local market, with participation by gas field partners that own other producing oil assets, as well as parameters, terms and conditions for contracting agreements with customers in the local market for sale of natural gas. The Tamar gas field partners have also informed the regulators that they had reached understandings in principle among themselves and with Leviathan partners, with regard to issues that had been disputed by them with regard to agreements for sale of natural gas to IEC, and that they are in advanced discussions with IEC with regard to implementation of these understandings.

Despite the expected impact to cash flow, the existence of long-term agreements for natural gas delivery, including a Take or Pay component and minimum price, is supportive of the Company's financial profile and provides a minimum for expected revenues

Tamar gas field enjoys first-mover advantage in signing long-term agreements with major consumers in the market, but it would appear that its monopoly position has been impacted in recent years, as set forth above. Moreover, the material customer of this project, IEC (rated Aa2.il / Positive outlook), which accounted for more than half of project revenues from its commercial launch in 2013 through 2019, has signed an interruptible agreement for natural gas delivery with Leviathan partners, as described above. Moreover, according to DCF issued by the Company in January 2020, it was assumed that the natural gas price for IEC would decrease by 25% as from the first adjustment date (July 1, 2021). Despite the expected impact to certainty and stability of Company cash flow, due to exercise of the option to reduce the contractual volume of natural gas purchased from Tamar gas field over the years, the great majority of gas delivery agreements from Tamar gas field include a Take or Pay commitment for the contractual

16 For more information see: Report by Delek Royalties dated February 17, 2019 on the MAYA website.

17 For more information see: Report by Delek Drilling dated September 24, 2019 on the MAYA website.

18 For more information see: Report by Delek Royalties dated May 31, 2020 on the MAYA website.

volume of natural gas, as well as a minimum price and various linkage provisions. Moreover, Tamar gas field has signed a material export agreement with Egypt, with gas flow expected to start on June 30, 2020 (export to Egypt has been going on for several months from Leviathan gas field). We believe that these provisions are supportive of the Company's financial profile, provide a minimum for expected revenues and significantly contribute to the Company's financial stability. However, due to the fact that some customers of Tamar gas field have signed contracts for natural gas delivery from Karish gas field, revenues with respect to the TOP component also decreased. Note that failure to sign additional agreements for natural gas delivery and/or increased consumption by existing customers may impact the rating.

Coverage ratios remained stable, due to application of provisions to maintain some excess cash in the safety cushion

The revised financial model provided in the monitoring period includes revisions to forecasted sale prices and volumes, based on the DCF issued by the Company in January 2020. Moreover, the model takes into account the reduced IEC tariff upon the first adjustment date (July 1, 2021) by 25%[19], in conformity with the existing option, with no further reduction upon the second adjustment date (July 1, 2024). Pursuant to the financing agreements, in each quarter the expected ADSCR is reviewed, and the historical ratio is reviewed semi-annually, calculated for 12 months. As reported by the Company, the historical coverage ratio for the twelve-month period ended December 31, 2019 was 1.37. For the twelve months starting on January 1, 2020, the expected ADSCR was 1.30.

In conformity with Midroog's baseline scenario, the average and minimum historical ADSCR would be 1.40 and 1.29 (in 2028), respectively and the minimum PLCR would be 2.33 (in 2020). These ratios are based on Company assumptions with regard to dividend distribution and funds transfer to the safety cushion, pursuant to Midroog's baseline scenario. This coverage ratio environment remains stable compared to the previous monitoring date, despite our assessment of expected impact to royalty revenues of the Company, due to provisions for calculation of coverage ratios specified in the Company's Deed of Trust, where calculation of free cash flow for debt service includes the excess amounts transferred to the safety cushion (beyond the required safety cushion amount). As of December 31, 2019, this excess amounted to USD 1.8 million, in addition to the required safety cushion amount of USD 4.8 million and to cash and deposit balances amounting to USD 11.5 million[20]. These balances are high compared to previous years, since the Company has not made any dividend distributions since the third quarter of 2019, despite its distribution policy[21], due to uncertainty in the markets as a result, *inter alia*, of the Corona Virus market. Note that the average and minimum ADSCR, excluding the excess amounts, would be 1.16 and 1.01, respectively (in 2021). Therefore, it is of utmost importance to maintain the excess balances in the safety cushion and the liquidity balances, so as to generate sufficient margin for coverage ratios.

In addition to the foregoing, the debt repayment schedule matches developments in the gas market

[19] Of the contractual price, including application of linkage as set forth in the Tamar-IEC Agreement.

[20] Note that in February 2020, the Company made semi-annual principal and interest payments amounting to USD 9.7 million.

[21] The Company may distribute dividends provided that the expected coverage ratio would be at least 1.3 or 1.2, as the case may be, as set forth in the Deed of Trust.

with regard to competition. Thus, as from August 2021 (close to the expected operation date of Karish gas field), the annual principal repayment decreases significantly. Moreover, the safety cushion at the end of this year increased from three months' debt service to six months. We believe these features are supportive of the Company's debt service capacity.

Other Rating Considerations

Re-financing risk, mitigated by the Lock Up provisions and significant gas reserves in Tamar gas field

The debt structure involves re-financing risk, which has been accounted for in the debenture rating. On August 30, 2028, the re-financing date, the debt balance would be between USD 23-27 million (or 21%-24% of the original issuance amount). Soon prior to or after the re-financing date, the natural gas agreement between Tamar and IEC would expire, as would the other key natural gas supply agreements of Tamar with private power producers. Furthermore, at that time at least three natural gas fields should be in operation in Israel, along with others in the Eastern Mediterranean. However, demand should also be higher than it is currently. As estimated by NSAI[22] as of December 31, 2019, the Gas Field contains gas reserves, 305 BCM in category 2P[23], of which 219 BCM proven gas reserves in category 1P[24]; In conformity with Midroog's base scenario, the natural gas remaining in the gas field upon the re-financing date should be at 74% of total reserves in the gas field at 2P, or 63% of reserves at 1P. We also assumed in the base scenario[25] that PLCR upon the re-financing date, in 2028, would range between 5.5-4.5. Midroog believes that the significant natural gas reserves in the gas field upon the re-financing date, along with a debt structure that matches the certainty of cash flow in the Gas Field, the Lock Up provision to reduce re-financing risk provided for in the Deed of Trust, significantly mitigate the re-financing risk, including in case of sale of significant volumes during the debt term.

Company Profile

Delek Royalties (2012) Ltd. was incorporated in Israel on November 6, 2012 as a private company limited by shares, pursuant to the Corporate Act, 1999. Pursuant to the Company's Articles of Association, the objectives of the Company are to hold royalties of companies in the oil and gas segment. The largest shareholder of the Company is Delek Energy Systems Ltd.[26] (hereinafter: "**Delek Energy**", 39.93%) and has no voting or management rights in the Company. In conformity with an agreement signed by the Company and Delek Energy, Delek Energy has assigned to the Company, by irrevocable assignment, its eligibility to directly receive royalties from the leases Tamar/12I and Dalit/13I, out of the share of Delek Drilling and Tamar Petroleum Ltd. (with respect to 22% and 9.25%, respectively)[27]. The royalties to which

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22 Netherland, Sewell & Associates, Inc.

23 The estimate with a likelihood of 50% that volume produced would be equal to or larger than the indicated volume.

24 The estimate with a likelihood of 90% that volume produced would be equal to or larger than the indicated volume.

25 At category 1P.

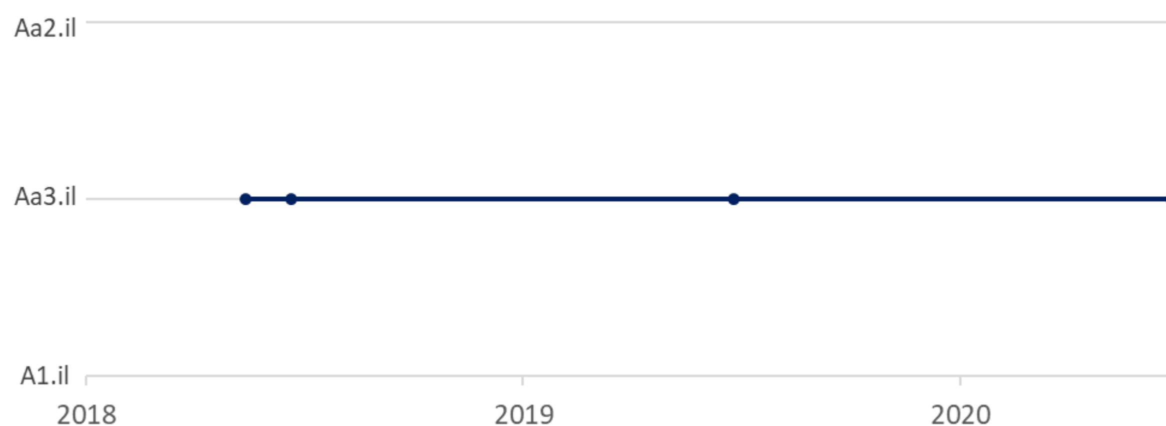
26 Delek Energy is required to sell its holding stake in the Company by December 17, 2021.

27 A further 7.5% interest (out of 100%) in the Tamar and Dalit leases, owned by Tamar Petroleum, do not include any commitments to pay overriding royalties to the Company.

the Company is currently entitled are at 4.875%[28] and it is recorded in the Petroleum Registry in the Company's name.

Tamar gas field was discovered in January 2009, 100 kms west of Haifa, at water depth of 1,670 meters at an average depth of 3 kms below the sea bed. Tamar gas field includes infrastructure for natural gas production and sale to various customers, with the major one being IEC. First gas was delivered from Tamar gas field on March 31, 2013. The Gas Field is a joint venture owned by the partners: Noble Energy (25%), who also serves as Gas Field operator; Isramco Negev 2 Limited Partnership (28.75%); Delek Drilling (22%); Tamar Petroleum (16.75%); Everest Infrastructure Limited Partnership (4%) and Dor Gas Exploration Limited Partnership (3.5%).

Rating History



Related Reports

Delek Royalties (2012) Ltd.

Methodology for rating financing for construction and operation of projects and infrastructure

Table of affinities and holdings

Midroog's rating scales and definitions

These reports are available on the Midroog website at www.midroog.co.il

[28] This is the royalties rate to which the Company is entitled as from after recouping the investment in Tamar Project.

General Information

Rating report date:	June 23, 2020
Most recent rating revision date:	June 25, 2019
Initial rating issue date:	May 14 2018
Rating initiated by:	Delek Royalties (2012) Ltd.
Rating paid for by:	Delek Royalties (2012) Ltd.

Information From The Issuer

In its ratings, Midroog relies, *inter alia*, on information received from competent organs of 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.

Note: Midroog appends numeric modifiers 1, 2, and 3 to each rating category from Aa.il to Caa.il. The modifier '1' indicates that the obligation ranks in the higher end of its rating category, which is denoted by letters. The modifier '2' indicates that it ranks in the middle of its rating category and the modifier '3' indicates that the obligation ranks in the lower end of that category, denoted by letters.

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