Delek Group

FINANCIAL STATEMENTS

UNAUDITED

AS OF JUNE 30, 2020

IMPORTANT

This document is an unofficial translation for convenience only of the Hebrew original of the June 30, 2020 financial report of Delek Group Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on August 31, 2020.

The Hebrew version submitted to the TASE and the Israeli Securities Authority shall be the sole binding legal version.

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Chapter A

Corporate Description

Update of Chapter A (Description of the Company's Business) to the 2019 Periodic Report[1] of the Delek Group Ltd. ("the Company")

Part One – Description of the General Development of the Company's Business:

A. Referring to Section 1.3 of the Periodic Report - Investments in Company Equity

1. On August 2, 2020, the Company offered to the public, by way of a shelf offering, up to 2,198,200 ordinary shares in the Company, up to 758,000 warrants (Series 9), up to 379,000 warrants (Series 10), up to 758,000 warrants (Series 11), and up to 379,000 warrants (Series 12). All warrants (Series 9-12) are exercisable into ordinary shares in the Company ("the Offered Securities"). Based on the results of the tender for purchasing the Offered Securities, the Company issued all of the Offered Securities for a total (gross) consideration of NIS 175,856 thousand. For more information, see the Company's immediate reports of August 2, 2020 (ref. no. 2020-01-081795) and August 4, 2020 (ref. no. 2020-01-083622), included here by way of reference. It is noted that prior to the public shelf offering, and in light of the Company's obligations as detailed in Section 1.1. to the Q1/2020 Report, on July 15, 2020, the Company requested that the trustees for the debentures approve a short extension of the capital raising deadline specified in Section 2.1.2 to the amendment to the deeds of trust of June 17, 2020 ("the Amended Deed"), so that said capital raising would be completed by September 30, 2020. The Company's request for an extension was denied by the meeting of the Company's debenture holders. For more information, see the Company's immediate reports of Wednesday, July 15, 2020 (ref. no. 2020-01-075735), July 17, 2020 (ref. no. 2020-01-076263), Sunday, July 19, 2020 (ref. no. 2020-01-076515), July 21, 2020 (ref. no. 2020-01-077445) and July 27, 2020 (ref. no. 2020-01-072847), included here by way of reference.

2. For information concerning the exercise of warrants (Series 7) into Company shares, and concerning the expiration of warrants (Series 7), see the Company's immediate reports of July 7, 2020 (ref. no. 2020-01-072315) and July 16, 2020 (ref. no. 2020-01-076086), included here by way of reference.

B. For details of an investor presentation concerning the shelf offering, see the Company's immediate report of July 29, 2020 (ref. no. 2020-01-074641), included herein by way of reference.

C. Referring to Section 1.6.6 to the Periodic Report - Economic Conditions and Impact of External Factors and Section 1.16 to the Periodic Report - Financing

Following on Section 3.2.3 to Chapter 1 of the Q1/2020 Report, concerning the Company's plans to reduce its debt to the various banks which provided the Company and/or Delek Energy Systems Ltd. ("Delek Energy") credit facilities secured by liens on participation units in Delek Drilling Limited Partnership ("the Partnership") and with a foreign bank which provided a loan to DKL Investment Limited ("the Relevant Banks") - On July 8, 2020, the Company announced that it would effect the early repayment of NIS 450 million to the Relevant Banks. Such early repayment would be made in accordance with the letter of consent with the Relevant Banks and the amendment to the deeds of trust for the Company's debentures in effect from June 17, 2020. For more information, see the Company's immediate report of July 8, 2020 (ref. no. 2020-01-073074), included herein by way of reference.

[1] The update contains material changes or developments in the Company's business in the second quarter of 2020 and up to immediately prior to the date of this report, in any matter requiring disclosure in the Periodic Report and which was not updated in the quarterly report for the first quarter of 2020, as published on June 30, 2020 (ref. no. 2020-01-061492)("the Q1/2020 Report"). The update refers to the section numbers in Chapter A - Description of the Company's Business in the Periodic Report for 2019, as published on May 3, 2020 (ref. no. 2020-01-043356) ("the Periodic Report") and supplements the content disclosed therein.

Part Three – Description of the Company's Business by Operating Segment:

A. Energy operations in Israel

1. Energy Operations in Israel

Referring to Sections 1.7.2(f), 1.7.4(j), and 1.7.5(k) to the Periodic Report - COVID-19 Epidemic and Possible Effects on the Partnership's Business

Following on the Periodic Report, Section 12.4 to the Company's shelf report of May 17, 2020 (ref. no. 2020-01-048828), and Section A2 to Part 3 of the Q1/2020 Report, concerning the COVID-19 epidemic and its possible effects on the Partnership's business and forecasts ("the COVID-19 Epidemic") - On July 12, 2020, and July 22, 2020, the Company published updated discounted cash flows for the Leviathan and Tamar reservoirs as of June 30, 2020, respectively (ref. no. 2020-01-073839 and 2020-01-077778), included herein by way of reference.

2. Section 1.7.3 to the Periodic Report - General Information on Operating Segments

On July 20, 2020, Noble Energy Inc. ("Noble Inc."), the parent company of Noble Energy Mediterranean Ltd. ("Noble"), announced that it had signed a merger agreement with the Chevron Corporation ("Chevron"), whereby subject to certain conditions a wholly-owned Chevron subsidiary would merge with and into Noble Inc., so that Noble Inc. would become a wholly-owned Chevron subsidiary.

3. Sections 1.7.7, 7.5 and 1.7.30(l) to the Periodic Report - 405/Ofek Hadash License ("Ofek Hadash License")

To the best of the Company's knowledge, the operator for the Ofek Hadash License updated the Partnership that it had submitted to the Ministry of Energy's Oil Commissioner ("the Commissioner") an agreement it had signed with a contractor for performing production tests in the License. The operator further submitted an engineering plan in accordance with the work plan for the Ofek Hadash License, and had requested to delay the start of production testing in the Ofek Hadash License until September 25, 2020, due to the COVID-19 Epidemic. As of the publication date of this report, the Commissioner's reply to the application has yet to be received.

4. Section 1.7.9 to the Periodic Report - 367/Alon D License ("Alon D License")

Concerning a petition to the Supreme Court convened as the High Court of Justice, filed by the partners in the Alon D License (the Partnership and Noble), whereby, among other things, a temporary injunction was requested to prevent the expiration of the license, or alternatively to prohibit the start of a competitive process for granting a new license to the license area (or any part thereof) or for granting such license to a third party until the petition has been decided, and an interim injunction until the petition for a temporary injunction had been decided - On June 30, 2020, the Energy Minister ("the Minister") and the Commissioner submitted their reply to the application for a temporary injunction, whereby they argued for dismissal of the application for the temporary injunction, as the application essentially constitutes an application for mandatory injunction (extending the license after it has expired), and since the motion had been filed with delay (three days before the license's expiration and near the start of the competitive process). The Minister and the Commissioner further argued that the motion's chances of being granted are not good, as (they claim) the motion effectively refers to the Minister's decision of 2017, and so it can already be considered to have been filed with delay. On July 6, 2020, the partners in the Alon D License submitted their response to the Minister's and the Commissioner's reply to the motion for an interim injunction. In their response, the detailed why the Minister's and the Commissioner's arguments should be rejected. On July 7, 2020, the motion for an interim injunction was denied. A hearing has been scheduled for December 21, 2020.

It is noted that, as of the publication date of this report, the Partnership and Noble are considering options for participating in the competitive process announced by the Ministry of Energy on June 23, 2020, for granting a natural gas and oil exploration license for the area on which the Alon D License is located.

5. Referring to Section 1.7.11 to the Periodic Report - Sale of Rights to Overriding Royalties from the Karish and Tanin Leases

On July 8, 2020, the Company announced that it had completed a transaction with a third party to sell of of the Company's and Delek Energy's rights to overriding royalties from the I/17 Karish and I/16 Tanin leases, currently held by Energean Israel Limited. The full consideration of NIS 318 million, plus VAT, was paid upon the transaction's completion. For more information, see the Company's immediate reports of July 1, 2020 (ref. no. 2020-01-069840) and July 8, 2020 (ref. no. 2020-01-073059), included herein by way of reference.

6. Referring to Section 1.7.14(d)(1)d22 to the Periodic Report - Dispute between the Partnership and Noble and the Other Tamar Partners

Following on Section A.9 to Part 3 of the Q1/2020 Report, concerning submittal to the regulators of a principle agreement outline for joint marketing of Tamar Reservoir products - The Tamar partners are conducting negotiations, between themselves and with the regulators, concerning an update to the principle outline. As of the publication date of this report, the parties had yet to reach any final understandings, and had yet to conclude their discussions with IEC. Thus, there is no certainty that the regulators will approve the principle outline or that the principle outline would mature into a binding agreement.

7. Referring to Section 1.7.14(d)(2)c to the Periodic Report - Information concerning a Gas Supply Agreement between the Leviathan Partners and IEC

Following on Section A.10 to Part 3 of the Q1/2020 Report , concerning the Leviathan partners contacting IEC about IEC's purchase of several shipments of liquid natural gas (LNG) from a third-party supplier, which the Leviathan partners allege violates the agreement - It is noted that negotiations are currently underway between the Leviathan partners and IEC, in order to resolve the issue.

8. Referring to Sections 1.7.14(e)(1), 1.7.14(e)(2), and 1.7.15(b)(2)b2 to the Periodic Report - Agreements to Export Natural Gas from the Tamar and Leviathan Projects to Egypt and to Supply to Egypt through Existing Infrastructure

A. Following on Section A.11 to Part 3 of the Q1/2020 Report, concerning completion of compressor installation works on EAPC's facility in Ashkelon, receipt of a gas supply permit from the Natural Gas Authority, and start of the run-in phase for the compressors - It is noted that, upon completion of the compressors' run-in phase in July 2020, supply of natural gas began from the Tamar Reservoir to Egypt, and the supply capacity of EMG's pipeline increased, as detailed in Sections 1.7.14(e)(1), 1.7.14(e)(2), and 1.7.15(b)(2)b2 to the Periodic Report.

B. In June 2020, Dolphinus Holdings Limited ("Dolphinus") transferred its export agreements with Egypt to Blue Ocean Energy, a Company related to Dolphinus.

9. Referring to Section 1.7.23 to the Periodic Report - Financing

A. Refinancing of existing loans

For information concerning the issuance of debentures to foreign and Israeli institutional investors, in accordance with Rule 144A and Regulation S, by Leviathan Bond Ltd., a wholly-owned special-purpose company (SPC) of the Partnership ("Leviathan Bond"), to a total amount of USD 2.25 billion ("the Debentures" and "the Leviathan Bond Issuance", respectively), see the Company's immediate reports of July 27, 2020, August 5, 2020, and August 18, 2020 (ref. no. 2020-01-079440, 2020-01-084072, and 2020-01-090411, respectively), included herein by way of reference.

B. The Partnership's Debentures (Series 1)

(1) On July 26, 2020, the general partner's board of directors approved a plan to buy debentures (Series 1) issued by the Partnership ("Debentures (Series 1)") and to buy debentures issued by Delek and Avner (Tamar Bond) Ltd. ("Tamar Bond Debentures"), at an estimated total cost of USD 50 million (overall, for the purchase of both Debentures (Series 1) and the Tamar Bond Debentures). The buyback plan will be in effect from July 27, 2020 to December 31, 2021. Purchases will be scheduled from time to time at the discretion of the Partnership's management.

(2) Following on Section 1.7.23(i)(1) to the Periodic Report, it is noted that the Partnership complied with the financial covenants undertaken in the issue of its Debentures (Series 1) to the public, as detailed in Section 1.7.23(f)to the Periodic Report, as follows:[2]

[2] For information concerning measurement methods for the terms presented in the table, see Section 1.7.23(i)(1) to the Periodic Report:

Financial Covenant	Examined ratio as of June 30, 2020 and the reporting date
Partnership's economic capital	3,551
Economic capital to debt ratio	5
Distribution	-

C. Loan for financing the Partnership's share in the balance of the investment in the Leviathan Project's development

Following on Section 1.7.23(a) to the Periodic Report, concerning a loan given to the Partnership to finance its share in the balance of the investment in the Leviathan Project's development - On August 18, 2020, upon completion of the Leviathan Bond Issuance, the loan was repaid in full.

It is noted, following on Section 1.7.23(b) to the Periodic Report, that the Partnership has complied with the financial covenants undertaken under the loan agreement, as follows:

Financial Covenant	Examined ratio as of June 30, 2020	Examined ratio as of July 23, 2020 - the withdrawal date[3]	Examined ratio as of the reporting date
Required debt coverage ratio*	2.8	2.8	-[4]

* The ratio between the value of the resources in the Leviathan Reservoir (measured based on the most recent discounted cash flow data published by the Partnership for the project, prior to such measurement, plus the contractual value set for each gas unit not taken into account in the discounted cash flow) and the balance outstanding of the loan will not fall below 2:1.

D. Loans to a total amount of USD 300 million

Upon completion of the Leviathan Issuance on August 18, 2020, the loans provided to the Partnership, of a total amount of USD 300 million, were repaid in full. For information about these loans, see Section 1.7.23(b) to the Periodic Report.

It is noted, following on Section 1.7.23(c) to the Periodic Report, that the Partnership has complied with the financial covenants undertaken under the loan agreements, as follows:

Financial Covenant	Examined ratio as of June 30, 2020	Examined ratio as of the reporting date
Financial ratio of no less than 3.5 to 1 (3.5:1) between the value of the Partnership's assets and its outstanding debt balance *	4.2	-[5]

* For these purposes, the value of the "Partnership's Assets" is measured based on the discounted cash flow for the Partnership's resources, subject to such adjustments as dictated in the loan agreements, net of the principal outstanding for settling the Tamar Bond debentures and the loan for financing the Partnership's share in the Leviathan Project, and the "Outstanding Debt Balance" includes the net balance payable on the Partnership's loans and Debentures (Series 1).

[3] Following on Section 1.7.23 to the Periodic Report, compliance with the required debt coverage ratio will be measured, among other times, upon any withdrawal. From May 17, 2017 and until the report's approval date, the Partnership has made 41 such withdrawals, the last one occurring on July 23, 2020. On each of these withdrawal dates, the Partnership met the required ratio.

[4] It is noted that the Leviathan Bond Issuance served, among other things, to repay existing loans as detailed in Sections 1.7.23(a) and (b) to the Periodic Report. It is therefor not necessary to note the examined ratio as of the report's publication date.

[5] See footnote 4, above.

10. Referring to Section 24 to the Periodic Report - Taxes

A. The Partnership and the general partner have submitted an originating motion to the Tel Aviv District Court, requesting among other things that the court specify the suitable regulations for balancing between individuals and corporations holding participation units in the Partnership, in light of tax payments due of the Partnership under Section 19 of the Taxation of Profits from Natural Resources Law, 2011. This includes: (a) any tax payments as may arise from differences between the taxable income estimate prepared by the Partnership toward the end of the tax year, and the self-assessment filed by the Partnership; and/or any tax payments as may arise from differences between the self-assessment filed by the Partnership and the final tax assessment issued for the Partnership ("Assessment Differences"); and (b) tax payments on account of the 2015-2016 tax years ("Past Periods"); taking into account that holders of participation units on the date of record for a tax year in Past Periods will no longer hold such units when (and if) it is determined that the Partnership must pay additional taxes for that tax year (or vice versa), and also considering the different tax rates applicable to individuals and to companies. In the originating motion, the court was presented with various alternatives for regulating tax payments due to Assessment Differences and due to Past Periods, so that the court may decide which method of regulation would be most suitable. It is noted that, in addition to the originating motion, the Partnership and the general partner submitted to the court an application to permit an alternative service of process to the holders of participation units, by way of public advertisement. Should the application be accepted, it would also allow all holders of participation units in the Partnership at the relevant dates for the originating motion (including all current holders of participation units in the Partnership) to join in the proceedings as a formal party. In its decision of July 14, 2020, the court submitted the application for comment by the Partnership's regulator, the Israel Securities Authority, and the Capital Market Commissioner.

B. For information concerning objections made to the Israel Tax Authority, see Note 5O and 5P to the financial statements, below.

11. Referring to Sections 1.7.4(e), 1.7.15(b), and 1.7.19(a)(1) to the Periodic Report - Phase 1A of the Leviathan Project Development Plan

A. Following on Section A.14 to Part 3 of the Q1/2020 Report, concerning a gradual ramp-up of production capacity in the Leviathan Project to 1,200 MMCF/day using the turbo expander systems - It s noted that, near the publication date of this report, overall production capacity in the Leviathan Project was 940 MMCF/day. Nobel estimates that the run-in phase of the turbo expander systems will be completed in the fourth quarter of 2020, subject to receipt of regulatory approvals from the Ministry of Energy. It is clarified that these updated schedules are not expected to affect the sales forecast for the Leviathan Reservoir in 2020, as included in the discounted cash flow for the Leviathan Project, published on July 9, 2020 (ref. no. 2020-01-073839).

B. Following on Section 1.7.4(e)(a) to the Periodic Report, work to build condensate storage systems in the Hagit facility has been completed. Once all the required permits have been received, the storage systems will be brought online.

C. In August 2020, Noble updated that maintenance works are planned on the Leviathan rig in November 2020. The works will last for five days, during which supply of natural gas from the rig will be stopped.

12. Referring to Section 1.7.25(f) to the Periodic Report - Material Legal or Administrative Actions Concerning Environmental Issues

A. Following on Section 1.7.25(f)(2) to the Periodic Report concerning an appeal filed by the Homeland Guards association (in this Section - "the Petitioner") on February 3, 2020 with the Supreme Court against the Ministry of Environmental Protection and several of it staff and against Noble and the Ministry of Energy, in connection with the emissions permit for the Leviathan rig - It is noted that the Supreme Court has set dates for the parties to submit their summations, and has scheduled a hearing for March 18, 2021.

B. Following on Section 1.7.25(f)(3) to the Periodic Report and Section A.16.a to Part 3 of the Q1/2020 Report, concerning an appeal filed to the Supreme Court by several local and regional councils against the head of the Ministry of Environmental Protection's Air Quality Division and against Noble in connection with the Leviathan rig's emissions permit - It is noted that a hearing has been set for the appeal for June 30, 2021.

C. Following on Section 1.7.25(f)(4) to the Periodic Report and Section A.16.b to Part 3 of the Q1/2020 Report, concerning notice received by Noble from the Ministry of Environmental Protection concerning the latter's intention to impose a fine, of immaterial amount, in connection with the discharge to sea permit given to the Leviathan rig - It is noted that, on July 26, 2020, Noble submitted written arguments in response to said notice. As of the publication date of this report, the Ministry of Environmental Protection's decision in the matter had yet to be received. It is further noted that, on July 1, 2020, Noble received additional notice from the Ministry of Environmental Protection concerning its intention to impose a fine, of immaterial amount, for alleged violations of the Leviathan rig's emissions permit and of the Clean Air Law, 2008, allegedly caused by operation of torches on the production platform. On August 16, 2020, Noble submitted to the Ministry of Environmental Protection its arguments concerning said fine. Near the publication date of this report, the Ministry of Environmental Protection's decision in the matter had yet to be received.

13. Referring to Section 1.7.29 to the Periodic Report - Additional Regulatory Restrictions

A. Following on Section 1.7.29(d) to the Periodic Report and Section A.19.a to Part 3 of the Q1/2020 Report, concerning a decision by the Natural Gas Authority concerning the cost of the Ashdod-Ashkelon integrated segment - It is noted that, as of the publication date of this report, the Tamar partners and the Leviathan partners are negotiating with INGL with the aim of signing a pipeline utilization agreement to supply the entire contractual quantity of natural gas to be supplied to Egypt under the export agreements. It is clarified that there is no certainty that such negotiations will lead to a binding pipeline utilization agreement. As of the publication date of this report, in light of prolonged negotiations, the Tamar partners and the Leviathan partners are considering various alternatives that would allow them to supply to Egypt the entire contractual quantity of natural gas specified by the export agreements, and in principle connecting the production facilities directly with EMG's infrastructure.

B. Following on Section 1.7.29(g) to the Periodic Report and Section A.19.c to Part 3 of the Q1/2020 Report, concerning the Israel Electricity Authority's notice that it was considering raising its target for energy generated from renewable sources to 30% by 2030 - On August 3, 2020, the Minister of Energy issued a principle policy decision to raise the power generation target for renewable energy sources, so that the target for power generation from renewable energy sources would be 30% of all energy consumption in 2030[6], as compared to the previous target of 17% power generation from renewables in 2030. It is noted that in a local market review prepared on July 26, 2020 for the Partnership by third-party consultants (BDO Ziv Haft Consulting & Management Ltd.)[7] ("the Market Report"), which was taken into account in preparing cash flow projections, the consultants included an assessment concerning adoption of the policy target for power generation from renewable energy sources. The consultants assumed a partial achievement of this target, to the amount of 25% of all electricity consumption in 2030. The remaining 75% of electricity consumption in 2030 were assumed to be generated from natural gas.

On August 11, 2020, the Minister of Energy announced[8] that, in accordance with said policy, planning would be discontinued or suspended for four natural gas-based power plants, which the Ministry of Energy had promoted, with an output o 4,860 MW. However, planning would continue for gas-based power plants with an output o 4,000 MW, with planning focusing on approved sites or sites adjacent to existing power generation facilities. Furthermore, a Ministry of Energy presentation presented that same day to the National Planning and Building Council noted that additional gas-based power plants would be required in 2025. It is noted that the power plants whose planning was discontinued or suspended had not been taken into account in the demand forecast for natural gas in the domestic market, used in preparing cash flow projections. Therefore, the aforesaid decision does not affect the Partnership's forecasts as included in these cash flow projections.

14. Referring to Section 1.7.31 to the Periodic Report - Legal Actions

A. Following on Section 1.7.31(b) to the Periodic Report and Section A.20.b to Part 3 of the Q1/2020 Report, concerning an application for approval as a class action filed by an IEC consumer against the Tamar partners on June 18, 2014 with the Tel Aviv District Court - It is noted that, on July 27, 2020, the Court granted the Tamar partners' request to submit the position prepared by the Attorney General of Israel, concerning his interpretation of Section 29A(b)(1) to the Economic

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6 https://www.gov.il/BlobFolder/policy/elecricity_aug_2020/he/re_2030_minister.pdf

8 https://www.gov.il/he/departments/news/electricity_110820

Competition Law, 1988, recently submitted to the Supreme Court in unrelated proceedings (in this Section - "the Attorney General's Position"). On July 29, 2020, the Tamar partners accordingly submitted the Attorney General's Position.

B. Following on Section 1.7.31(c) to the Periodic Report and Section A.20.c to Part 3 of the Q1/2020 Report, concerning a suit filed by the Partnership and Noble (in this Section - "the Plaintiffs") against the State of Israel, through its representatives from the Ministry of Energy (in this Section - "the Defendant"), mainly concerning excessive and contested royalties paid by the Plaintiffs to the Defendant, for revenues generated through gas supply agreements between third party customers and the Yam Tethys partners - It is noted that the Plaintiffs must submit their primary summations by September 30, 2020. The Defendant must submit its response summations by January 10, 2021. And the Plaintiffs may submit their reply summations in reaction to the Defendant's summations within 30 days, i.e. - by February 8, 2021.

C. Following on Section 1.7.31(e) to the Periodic Report and Section A.20.d to Part 3 of the Q1/2020 Report, concerning a class action and application for approval as a class action filed with the Tel Aviv District Court by an IEC consumer (in this Section - "the Applicant" and "the Application for Approval") against the Partnership and Noble and against the other holders in the Tamar Project and the Leviathan Project (as litigants against which no relief is sought), in connection with the competitive process for supplying natural gas conducted by IEC and in connection with a possible amendment to the agreement for supplying natural gas from the Tamar Project to IEC, as agreed by the other holders in the Tamar Project, without the Partnership's or Noble's involvement - It is noted that, according to the court's decision, all the Respondents must submit their responses to the Application for Approval by October 1, 2020.

D. Following on Note 24A3(3) to the Periodic Report, Section 1.7.31(f) to the Periodic Report, and Section A.20.e to Part 3 of the Q1/2020 Report, concerning statements of claim filed by the Commissioner against the Partnership, the general partner in the Partnership, and the royalty-holders (which include the Delek Group Ltd., Delek Energy Systems Ltd., and Delek Royalties (2012) Ltd.) ("the Commissioner's Claim") and a statement of counter-claim filed by the royalty-holders, and all in connection with the return on investment date for the Tamar Project - It is noted that, on July 9, 2020, the parties filed consensual notice that the regulators and the Partnership had completed their preliminary proceedings, while the regulators and the royalty-holders requested to extend the deadline for completing their preliminary proceedings until July 23, 2020. On July 12, 2020, the court ratified the parties' agreements. In the court's decision of August 18, 2020, dates were set for submitting evidence, and a pre-trial hearing was scheduled for December 20, 2020.

E. Following on Note 24A2(5) to the Periodic Report as at December 31, 2019, concerning an appeal by some of the Tamar partners (in this Section - "the Appellants") to the Supreme Court against the ruling handed down by the Tel Aviv District Court denying the administrative petition they had submitted against IEC and the Leviathan Partners concerning the selection of the Leviathan Partners' proposal as the winning bid in the competitive process to supply natural gas to IEC (in this Section - "the Appeal") – On August 24, 2020, the Supreme Court handed down its ruling, deying the Appeal and requiring the Appellants to cover IEC's costs and attorneys' fees to the amount of NIS 50,000.

F. Following on Sections 1.7.14(e)(1)(b)(5) and 1.7.14(e)(2)(b)(4) to the Periodic Report, concerning an option granted to the buyer under the export agreements to Egypt to reduce the take-or-pay quantities under certain specified circumstances - On July 27, 2020, the Company announced that it has received at its offices a demand from the Israel Securities Authority to provide information and documents as part of an administrative inquiry with the Company. For more information, see the Company's immediate report of July 27, 2020 (ref. no. 2020-01-072853).

G. Natural gas and condensate production data from the Tamar Project for the second quarter of 2020:[9] [10]

		Q1		Q2	
		Natural gas	**Condensate**	**Natural gas**	**Condensate**
Total output (attributable to equity holders of the Company) for the period (in MMCF for natural gas and MBBL for condensate)		9,376	12.2	5,842	7.8
Average price per output unit (attributable to equity holders of the Company) (USD per MCF and BBL)		5.28	33.93	5.0	28.18
Average royalties (each payment derived from the output of the producing asset, including the gross income from the oil asset) paid per output unit (attributable to equity holders of the Company) (USD per MCF and BBL)	The State	0.61	3.88	0.56	3.1
	Third parties	0.18	1.11	0.22	1.2
	Principal shareholders	0.31	1.96	0.22	1.21
Proceeds for average royalties (each payment derived from the output of the producing asset, including the gross income from the oil asset) received per output unit (attributable to the Company's share) (USD per MCF and BBL)		0.09	0.54	-	-
Average production costs per output unit (attributable to equity holders of the Company) (USD per MCF and BBL)[11]		0.34	1.89	0.54	2.95
Average net proceeds per output unit (attributable to equity holders of the Company) (USD per MCF and BBL)		3.93	25.63	3.46	19.72

9 The data in the table concerning the percentage attributable to holders of the Company's equity rights in the average cost per output unit, royalty payments, production costs and net proceeds have been rounded to two decimal digits.

10 Production data include the Partnership's direct holdings in the Tamar Project, of 22%.

11 It is emphasized that the average production costs per output unit only include current production costs and do not include reservoir exploration and development costs.

H. <u>Natural Gas and condensate production data from the Leviathan Project for the second quarter of 2020:</u>[12 13]

		Q1	Q2
		Natural gas	**Natural gas**
Total output (attributable to equity holders of the Company) for the period (in MMCF for natural gas and MBBL for condensate)		15,611	12,480
Average price per output unit (attributable to equity holders of the Company) (USD per MCF and BBL)		5.43	5.01
Average royalties (each payment derived from the output of the producing asset, including the gross income from the oil asset) paid per output unit (attributable to equity holders of the Company) (USD per MCF and BBL)	The State	0.60	0.54
	Third parties	0.07	0.13
	Principal shareholders	0.14	0.07
Proceeds for average royalties (each payment derived from the output of the producing asset, including the gross income from the oil asset) received per output unit (attributable to the Company’s share) (USD per MCF and BBL)		0.18	0.12
Average production costs per output unit (attributable to equity holders of the Company) (USD per MCF and BBL)[14]		0.66	0.80
Average net proceeds per output unit (attributable to equity holders of the Company) (USD per MCF and BBL)		4.14	3.59

B. Energy operations abroad

1. Referring to Section 1.8.4 to the Periodic Report - Resources Attributable to Oil Assets Held by Ithaca Energy (UK) Limited ("Ithaca")

Referring to the Periodic Report as aforesaid, and to Section 12.4.1(b) to the Company's shelf offering report of May 17, 2020 (ref. no. 2020-01-048828), concerning the COVID-19 Epidemic's effect on the resources attributable to Ithaca's assets - On July 13, 2020, the Company issued a report on reserves, contingent resources, and discounted cash flows for Ithaca's oil assets. For more information, see the immediate report of July 13, 2020 (ref. no. 2020-01-074451), included here by way of reference.

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12 The data in the table concerning the percentage attributable to holders of the Company's equity rights in the average cost per output unit, royalty payments, production costs and net proceeds have been rounded to two decimal digits.

13 In the first quarter of 2020, the Leviathan partners sold 34 thousand barrels of condensate (Partnership's share - 18 thousand barrels of condensate) to an international fuel trading company, for a total consideration of USD 748 thousand (Partnership's share - USD 339 thousand). For more information, see Section 1.7.14(f)(3) to the Periodic Report. The Leviathan partners also supplied 86 thousand barrels of condensate (Partnership's share - 39 thousand barrels of condensate) to Bazan Ltd., for no consideration. For more information, see Section 1.7.14(f)(1) to the Periodic Report. As the overall cost of condensate production in the first quarter of 2020 exceeded the overall revenue from such condensate, and as condensate is a by-product of natural gas production, the table does not present separate date for condensate production. All net costs and expenses associated with condensate production in the first and second quarter of 2020, to the amount of USD 0.5 million and USD 0.3 million, respectively, were attributed to natural gas production.

14 It is emphasized that the average production costs per output unit only include current production costs and do not include reservoir exploration and development costs.

2. Production data for Ithaca's producing oil assets:

A. Production data attributable to the Company's share in Captain-area assets for the first and second quarter of 2020:

	Q1			Q2		
	Oil	**Natural gas**	**Condensate**	**Oil**	**Natural gas**	**Condensate**
Total output in the period	2,327,704 bbl	-	-	2,076,611 bbl	-	-
Average price per output unit (attributable to equity holders of the Company) (USD per boe)[15]	59.2	-	-	24.4	-	-
Average production costs per output unit (USD per boe)	17.5	-	-	13.8	-	-
Average net proceeds per output unit (USD per boe)	41.7	-	-	10.6	-	-

B. Production data attributable to the Company's share in the GSA Project for the first and second quarter of 2020:

	Q1			Q2		
	Oil	**Natural gas**	**Condensate**	**Oil**	**Natural gas**	**Condensate**
Total output in the period	165,690 bbl	4,389 mcf (731,486 boe)	147,515 bbl	135,468 bbl[16]	3,715 mcf (619,212 boe)	105,927 bbl
Average price per output unit (attributable to equity holders of the Company) (USD per boe)[17]	49.5	18.6	32.9	-	8.6	17.4
Average royalties to third parties (any payment derived from the output of the producing asset, including the gross income from the oil asset) paid per output unit (attributable to equity holders of the Company) (USD per boe)	0.8	0.8	0.8	-	0.5	0.5
Average production costs per output unit (USD per boe)	16.7	16.7	16.7	-	17.1	17.1
Average net proceeds per output unit (USD per boe)	32.0	1.1	15.4	-	(9.0)	(0.2)

C. Production data attributable to the Company's share in Ithaca-operated assets for the first and second quarter of 2020:

	Q1			Q2		
	Oil	**Natural gas**	**Condensate**	**Oil**	**Natural gas**	**Condensate**
Total output in the period	712,999 bbl	4,354 mcf (725,676 boe)	43,359 bbl	736,524 bbl	4,270 mcf (711,673 boe)	66,048 bbl
Average price per output unit (attributable to equity holders of the Company) (USD per boe)[18]	57.8	18.4	35.5	41.1	8.5	15.9
Average production costs per output unit (USD per boe)	16.4	16.4	16.4	15.9	15.9	15.9
Average net proceeds per output unit (USD per boe)	41.4	2.0	19.1	25.2	(7.4)	-

[15] The average price per output unit is presented before hedging – see Note 8C to the financial statements below.

[16] Total oil produced in Q2 prior to transfer to end customers and therefore income and costs not recorded for it.

[17] The average price per output unit is presented before hedging – see Note 8C to the financial statements below.

[18] The average price per output unit is presented before hedging – see Note 8C to the financial statements below.

D. Production data attributable to the Company's share in Ithaca's other active oil assets for the first and second quarter of 2020:

	Q1			Q2		
	Oil	**Natural gas**	**Condensate**	**Oil**	**Natural gas**	**Condensate**
Total output in the period	646,838 bbl	7,105 mcf (1,184,116 boe)	154,793 bbl	582,081 bbl	7,248 mcf (1,208,002 boe)	162,399 bbl
Average price per output unit (attributable to equity holders of the Company) (USD per boe)[19]	50.1	20.5	30.8	30.8	8.7	14.2
Average production costs per output unit (USD per boe)	12.1	12.1	12.1	10.2	10.2	10.2
Average net proceeds per output unit (USD per boe)	38.0	8.4	18.7	20.6	(1.5)	4.0

C. Fuel products in Israel

1. Referring to Section 1.9.1 and 1.9.2(d) - Agreement to sell Pi Gliloth

A. On July 6, 2020, the sale was completed of all of the rights held by the subsidiary, Delek the Israel Fuel Corporation Ltd. ("Delek Israel"), in Pi Gliloth Limited Partnership ("Pi Gliloth"), and in the land housing the fuel terminals operated by Pi Gliloth in Haifa, Ashdod, Be'er Sheva, and Jerusalem. Consideration for the sale totaled NIS 720 million. For more information, see the Company’s immediate reports of July 1, 2020 (ref. no. 2020-01-069840), and July 7, 2020 (ref. no. 2020-01-072168), included herein by way of reference.

B. On August 19, 2020, the Company and Delek Petroleum Ltd. ("Delek Petroleum") signed a memorandum of understanding with a third party ("the Investor"), whereby the Investor would make a capital investment of NIS 450 million in senior shares issued by Delek Israel and/or through such other format as the parties may decide in a detailed investment agreement. For more information, see the Company’s immediate report of August 19, 2020 (ref. no. 2020-01-090789), included herein by way of reference.

2. Referring to Section 1.9.1 and 1.9.2(e) - MOU to sell power plants

On July 23, 2020, Delek Israel signed a detailed agreement with Rapac Energy Ltd. for selling the entire share capital of two of Delek Israel's wholly-owned special-purpose subsidiaries, which hold power plants located in the Sorek 1 desalination facility and in the Ashkelon desalination facility. Consideration for the sale totaled NIS 367.5 million. For more information, see the Company’s immediate report of July 23, 2020 (ref. no. 2020-01-078138), included herein by way of reference.

Part Four – Matters Relating to the Company as a Whole

A. Referring to Section 1.13 to the Periodic Report - Human Capital

1. For information concerning the Company's announcement of Mr. Tamir Poliker, CPA's appointment as deputy CEO and CFO of the Company starting September 1, 2020, and of Mr. Barak Mashraki's appointment as deputy CEO, see the Company's immediate reports of July 23, 2020 (ref. no. 2020-01-078309, 2020-01-078306, and 2020-01-078303, respectively), included herein by way of reference.

2. For information concerning Mrs. Ruth Dahan-Portnoy's appointment as an external director in the Company, see the Company's immediate reports of July 20, 2020 (ref. no. 2020-01-076956) and of August 25, 2020 (ref. no. 2020-01-093498) included herein by way of reference.

3. On August 24, 2020, Mr. Leslie James Thomas ceased serving as CEO of the subsidiary, Ithaca. Mr. Thomas was replaced by Mr. Bill Dunnet.

4. **Officers' insurance**

[19] The average price per output unit is presented before hedging – see Note 8C to the financial statements below.

A. As detailed in Section A.5 to Part 4 of the Q1/2020 Report, in June 2020 the Company exercised its option under the collective insurance policy, to include a seven-year discovery period starting July 1, 2020 for events occurring up to June 30, 2020, as part of the liability limit set in the collective insurance policy, i.e. - USD 150 million per incident and overall for the insurance period (including the 7 year extension). According to this extension, the policy will continue to apply to claims introduced in the discovery period due to acts which occurred before the start of the discovery period on July 1, 2020, subject to a USD 100 thousand deductible per claim.

B. In the Company's Board of Directors meetings of June 29, 2020, July 12, 2020, and July 20, 2020, and based on the Compensation Committee's recommendations of June 29, 2020, it was decided to approve the purchase of a new routine policy, which would reflect the optimal insurance coverage available under the current circumstances, and whose main terms are as follows: (1) a limit of liability of USD 25 million per claim and cumulatively plus reasonable litigation costs; (2) an annual premium of USD 2.269 million; (3) a deductible of USD 750 thousand per claim, which will not apply to officers if the Company cannot indemnify them.

It was furthermore decided to empower the Company's management to buy increased insurance coverage of up to an additional USD 75 million (in addition to the aforesaid USD 25 million), in consideration for additional premium payments, so that the overall annual premium for the new routine policy will not exceed USD 4 million. In July 2020, additional insurance coverage was therefore purchased to the amount of USD 6 million plus reasonable litigation costs, in addition to the initial coverage of USD 25 million. The premium for the additional period (July 28, 2020 to June 30, 2020) totaled USD 530 thousand. These decisions were made after the Compensation Committee and the Board of Directors reviewed the terms of the new policy as detailed above, and concluded that the contract is at arms' length terms and is not liable to materially affect the Company's financial results, its assets or its liabilities. For more information, see the Company’s immediate report of July 20, 2020 (ref. no. 2020-01-076956), included herein by way of reference.

B. Referring to Section 1.16.2 to the Periodic Report

1. Credit Facilities

Referring to Section 1.16.2 to the Periodic Report and Section B to Part 1 of the Q1/2020 report, concerning the Company's signing of an amendment to the deeds of trust and letter of consent and following on the Company's immediate report of July 8, 2020 (ref. no. 2020-01-073074) concerning early repayment to the relevant banks as aforesaid in Section B to Part 1 - The following table details the debt outstanding to the relevant banks, and the principal outstanding on the debentures, and the number of encumbered participation units, as of the financial statements' publication date:

Debt outstanding to the relevant banks (NIS millions)	339
Principal outstanding on the debentures (NIS millions)	5,891
Participation units pledged to the relevant banks	401,840,542
Participation units pledged to debenture holders	161,378,433
Unencumbered participation units (held directly and indirectly through the Company's wholly-owned investees)[20]	72,779,495

2. Loans – Loan no. 1

On August 27, 2020, wholly-owned foreign subsidiaries of the Company (DKL Energy Limited (“DKL”) and Delek North Sea Limited (“DNSL”); DKL and DNSL jointly – “the Foreign Subsidiaries”) signed an amendment and addition[21] to an agreement with a foreign bank concerning Loan no. 1, as detailed in Section 1.16.2(b) to the Periodic Report (“the Amended Agreements”). As of the amendment date, the loan balance was USD 137 million (the original loan was for USD 200 million). Under the Amended Agreements, the foreign bank waived (alleged) existing violations. It is emphasized that the amendment superseded a waiver given to the Company from time to time. No changes orccurred in the original payment dates on the loan principal. The interest on the loan was raised by 2% until November 2020, and then by a further 2% until the repayment date. The lender was also granted an option to convert part of the additional interest into principal payable upon maturity (PIK clause). The

[20] Excluding participation units held by Avner Oil and Gas Ltd., in which Delek Energy (a wholly-owned Company subsidiary) holds a 50% stake.

[21] Which will go into effect once registration of the collateral has been finalized.

existing sureties remained in effect, and additional collateral was added, consisting of the remaining shares in DNSL. Thus, 100% of the share capital of DNSL, Ithaca's parent (100%), would be pledged, as well as the capital notes and loan between DKL and DNSL. It is emphasized that the Amended Agreements do not change the events guaranteed by the Company.

The Company and the Foreign Subsidiaries have undertaken to make every effort to assure dividend distributions by Ithaca, subject to the neessary approvals including approval by the banks providing Ithaca with resource-based lending (RBL) facilities. The foreign bank is one of the principal creditors for this facility. Under the current agreements, any dividend payment in the Ithaca Group will first be used to repay the loan, and the Company's and the Foreign Subsidiaries' shareholder loans and capital notes will be subordinate to the loan. The Company and the Foreign Subsidiaries also undertook to make every effort to pursue a transaction with a potential buyer for shares in Ithaca or in Ithaca Group companies with the lender's approval, and to complete such a transaction by December 31, 2020. The consideration from such sale will serve to repay the loan.

In addition to the above, a negative lien was given for 6% of Delek Drilling's participation units, where the number of units is identical to the negative lien already given to another foreign bank (unencumbered units held by the Company).

Obligations, financial covenant, and grounds for immediate repayment:

(1) The Amended Agreements repealed the margin call events stipulated by the original agreement. The Amended Agreements also removed rating-related covenants and covenants concerning the Company's share price and various indices, as detailed in Section 1.16.2 to the Periodic Report.

(2) The Amended Agreements retained the pre-existing obligation to meet a financial covenant, whereby the ratio between the total net debt and the net profit before taxes and financing, excluding depreciation and amortization and excluding exploration and assessment costs (EBITDAX) will not exceed 2.5. This ratio must be examined at each measurement date (March 31, June 30, September 30, and December 31 of each year). As of June 30, 2020, the financial covenant has been met.

(3) The Amended Agreements entitle the lender to call for immediate repament of the loan (following a remediation period), among other things, upon any delinquent payment, failure to meet the dividend obligation as aforesaid, failure to comply with financial covenant as aforesaid, changes to certain inter-company loans in the Ithaca Group, failure to meet certain obligations under the agreements, change of control in assets, insolvency events and liquidation of Delek Group companies, and a drop in the closing price of the S&P Global Oil Index below a certain specified level. The Amended Agreements also entitle the lender to call for immediate repayment in case of early repayment of another debt (cross default clause) in any company in the borrower's group (DKL and subsidiary and parent companies), and upon the exercise fo such right.

(4) The Company undertook to comply with Sections 5.4 and 5.5 to the amended deed.

3. <u>Concerning section 1.22.2 of the Periodic Report – targets of commercial strategy</u>

The Company is holding discussions with third parties to assess the possibility of a merger between Ithaca and international companies in the energy field with the intention of turning the merged company into a public company traded in London. The plan for this merger is expected to include a cash payment component that will be transferred indirectly to the Company as part of the said merger and will also be used for repayment of the loan to the foreign bank as stated above.

Delek Group Ltd.
Date: August 30, 2020
Names and titles of signatories:
Gabriel Last, Chairman of the Board
Idan Wallace, CEO

Chapter

B

Board of Directors Report on the State of the Company's Affairs

August 30, 2020

Delek Group Ltd.

Board of Directors' report on the state of the Company's affairs

For the six and three months ended June 30, 2020

The Board of Directors of the Delek Group Ltd. ("the Company" and/or "the Group"), hereby presents the Company's Board of Directors' Report for the six and three months ended June 30, 2020.

A. The Board of Directors' explanations on the state of the Company's affairs:

1. Description of the Company and its business environment

The Company operates mainly through investees engaged in oil and gas exploration and production in Israel and abroad, and in marketing fuel products in Israel. In this regard it is noted that, in the fourth quarter of 2019, the Company completed the sale of its insurance and finance operations in Israel (The Phoenix). Furthermore, in November 2019, the Group completed the acquisition of assets in the North Sea, as detailed below.

The Group's financial data and its operating results are affected, among other things, by the financial data and operating results of its investees, and by its sale or acquisition of holdings. The Company's cash flow is affected, among other things, by dividends and management fees received from its investees, by inflows originating from the disposal of its holdings therein, by its ability to raise financing in Israel and abroad which depends, among other things, on the value of its holdings, financial market conditions in Israel and abroad, and by investments made by the Group and the dividends it distributes to its shareholders.

The Company's financial statements as of June 30, 2020, include Notes 1A and 1B and the Company's auditors, in their review, call attention to the disclosure made in these notes concerning the COVID-19 epidemic and the extremely significant drop in global oil and gas prices in 2020. This includes: a deficit in the Company's consolidated and separate working capital; significant impairment in the value of the Group's assets; a significant decrease in the six months ended June 30, 2020 in the equity attributable to the Company's shareholders; a downgrade of the Company's debentures' rating; and a significant volume of calls for repayment on the Company and the staff companies by debenture-holders and banks. On the other hand, it is noted that, as detailed in said notes, standstill agreements were approved with the debenture holders and banks whereby, among other things, amendments were made to the deeds of trust and associated financial covenants, that said creditors would not call for immediate repayment of the Company's liabilities toward them, provided the Company meets certain obligations to said creditors and various covenants. As of the financial statements' approval date, memorandums of understanding and binding agreements have been signed and/or carried out to sell substantial volumes of assets and investments. The Company has also completed a capital raising round, and received dividends from investees. Furthermore, in the reporting period and as of the financial statements' approval date, the Company has met repaid material volumes of its financial liabilities toward its creditors.

As detailed in said note, continued repayment of the Company's and the staff companies' liabilities on time relies and depends on their ability to dispose of significant amounts of assets and investments, their ability to raise substantial amounts of debt and capital some of which are required in the near future and are significantly affected by oil and gas prices, and their ability to receive substantial dividend payments from investees.

The Company has worked and continues working to carry out its plans to meet the conditions necessary to secure the sources required to repay its liabilities, including by way of capital raising and by disposing of assets and investments. The Company believes there is a good chance that it will be able to carry out its plans. In this regard, it is noted that the major initiatives that the Group has managed to complete very quickly in accordance with said plans, have allowed it to make early repayment on substantial amounts to banks and debenture holders, on time. However, since completion of the Company’s plans is outside its sole control and depends as aforesaid, among other things, on a large number of cumulative factors, which must occur in relatively short time frames and/or in significant amounts, there is uncertainty concerning the actual materialization of said plans. These factors, along with additional factors listed in said notes, raise substantial doubt as to the Company’s continued operation as a going concern. The financial statements do not include adjustments to the value or classification of assets or liabilities, which may become necessary if the Company is unable to continue operating as a going concern.

2. Principal Operations

Oil and gas operations in and around Israel

– The Group's gas and oil operations in Israel are carried out mainly through Delek Drilling Limited Partnership ("Delek Drilling" or "the Partnership"). As of the financial statements' approval date, the Partnership mainly deals in the exploration, development and production of natural gas, condensate and oil in Israel and Cyprus, and in promoting various natural gas-based projects, in order to increase natural gas sales from the Partnership's assets. The Partnership is also studying commercial opportunities for exploration, development, and production of natural gas and oil in the Mediterranean Basin. According to the Gas Outline Plan (see Note 12M1 to the financial statements as of December 31, 2019), the Partnership must transfer all of its rights in the I/12 Tamar and I/13 Dalit leases (jointly - "Tamar and Dalit") no later than December 2021. Therefore, as of the financial statements' approval date, the Partnership is studying and pursuing several options, including the sale of its holdings in the Tamar and Dalit leases to a third party, or splitting the Partnership's assets so that the assets and liabilities attributable to the Tamar and Dalit leases or the Partnership's assets and liabilities not attributable to the Tamar and Dalit leases, would be transferred to a public company, either Israeli or foreign, whose shares would be divided among holders of participation units. For more information about a possible split of the Partnership's assets, considered by the Partnership, see Note 12O to the financial statements as of December 31, 2019.

– On December 31, 2019, supply of natural gas started from the Leviathan Reservoir to the domestic market, and on January 1, 2020 and January 15, 2020 supply of natural gas began to Jordan and Egypt, respectively.

– In March 2020, Delek Energy sold 5% of Delek Drilling's capital (for more information, see Note 3C to the consolidated financial statements). Post-sale, the equity attributable to the Company's shareholders decreased by NIS 313 million (mainly due to attribution to capital reserves from transactions with non-controlling interests).[1]

– In April 2020, the Company sold its investment in Cohen Gas and Oil Development Ltd. in consideration for NIS 207 million (for more information, see Note 3D to the consolidated financial statements). The Group recognized NIS 235 million (post-tax) in losses on this sale in the second quarter of 2020.

– Subsequent to the financial position statement date, on July 8, 2020, a transaction was completed whereby the Company and Delek Energy Systems Ltd. ("Delek Energy") sold to a third party ("the Buyer") all of the Company's and Delek Energy's rights to overriding royalties from the Karish and Tanin leases (excluding the Partnership's royalty rights). Consideration for the sale totaled NIS 318 million. In light of this sale, the Group is expected to record a loss attributable to Company shareholders of NIS 44 million (post-tax) in the third quarter of 2020.

– Subsequent to the financial position statement date, in July 2020, the Partnership repaid by way of early repayment part of the third series of the Tamar Bond debentures, to the amount of USD 240 million. For more information, see Note 5L to the consolidated financial statements.

– Completion of Leviathan's refinancing

Subsequent to the financial position statement date, in August 2020, a debenture issuance was completed by Delek Leviathan Bond Ltd., a wholly-owned SPC of the Partnership. This issuance included debentures to a total amount of USD 2.25 billion, issued under Rule 144A and Regulation S.

[1] In this translation of the Board of Directors' Report, all amounts should be understood by the reader to be rounded to the nearest billion, million, or thousand, as the case may be.

The debentures were issued in 4 series, maturing in 2023, 2025, 2027, and 2030. The debentures are secured by a lien on Delek Drilling's rights in the Leviathan leases. The proceeds from this issuance will serve the Partnership, among other things, to repay USD 2 billion in existing loans. For more information, see Note 5K to the consolidated financial statements.

Oil and gas operations in the North Sea

- The Group's operations in this segment are carried out through Ithaca Energy Ltd. ("Ithaca"), a wholly-owned Group subsidiary dealing in oil and gas exploration, production and sale in the North Sea, and holding the rights to oil assets located in the North Sea in territorial waters off the coast of England. Furthermore, Ithaca serves as the operator in some of its assets.
- On November 8, 2019, Ithaca completed a strategic transaction for acquiring 100% of the shares of Chevron North Sea Limited ("CNSL") from Chevron Products UK Limited ("the Seller"). CNSL holds various right interests in ten production oil and gas assets located in the North Sea offshore of England, drilling and exploration licenses, a pipeline and infrastructure, and skilled professional staff, all of which were included in the acquisition. CNSL serves as the operator for four of the acquired assets, accounting for 67% of all 2P reserves in the acquired assets. CNSL's acquired operations join Ithaca's existing development and production operations, which focus mainly on developing reservoirs in the Greater Stella Area ("GSA"). Production in the GSA is conducted from a central floating platform known as FPF-1.
- In the reporting period, Ithaca continued production from the Stella and Harrier reservoirs in the GSA, and from the reservoirs acquired from CNSL as aforesaid. Ithaca is also continuing to develop the Vorlich reservoir (which is expected to come online in the fourth quarter of 2020). Over the next few years, Ithaca plans to drill additional wells in the Greater Stella Area, and connect them to FPF-1.
- The Company has an agreement with BP to market and sell gas and oil produced from all Company assets for a period of 3 years, with an option to extend the contract up to 5 years.
- Ithaca has enacted measures to allow operations under COVID-19 restrictions, mainly as concerns operations personnel and manning of facilities. Despite the COVID-19 restrictions, except for a delay in the Vorlich reservoir coming online, production from the Company's other assets was not impacted.
- In the first quarter of 2020, the Group included a provision for impairment of oil and gas assets in the North Sea, to the amount of USD 751 million, pre-tax (USD 451 million, post-tax). This impairment was due, among other things, to the COVID-19 epidemic, lower forecasts concerning oil and gas prices, corresponding updates to production rates, and changes in the discounting rate. For more information, see Note 5S to the consolidated financial statements. In 2019, the Group included a provision for impairment of oil and gas assets in the North Sea (mainly in connection with the GSA Reservoir), to the amount of USD 199 million (USD 120 million, post-tax). In the first quarter of 2020, the Group also included a provision for impairment of goodwill attributable to energy operations in the North Sea, to the amount of USD 216 million. Overall, write-downs (post-tax) to gas and oil operations in the North Sea totaled USD 667 million (NIS 2,378 million).

  As of June 30, 2020, the Group, through an independent third party appraiser, performed another test for impairment of goodwill attributable to the 'Oil and Gas Development and Production Assets in the North Sea' unit as whole. The unit's recoverable amount was measured as the fair value of the investment in oil and gas production operations in the North Sea, net of selling costs. As of June 30, 2020, this amount was estimated at USD 1.2 billion. This value is higher than the carrying amount of the investment in the unit as of that date, which amounts to USD 1.1 billion. The Company is thus not required to recognize additional impairment of goodwill. For more information, see Note 5S to the consolidated financial statements.

Fuel operations in Israel

- Subsequent to the financial position statement date, on July 7, 2020, a transaction was completed whereby Delek Israel sold to a third party all of its rights in Delek Pi Gliloth Limited Partnership ("Pi Gliloth") and in the land from which Pi Gliloth operates its fuel terminals in Haifa, Ashdod, Be'er Sheva, and Jerusalem. Consideration for the sale totaled NIS 720 million, paid in full to Delek Israel upon the transaction's completion. In the reporting period, based among other things on the price of this transaction, and the estimated capitalization fees due to the Israel Land Authority from Delek Israel under the agreement, Delek Israel recognized a provision for impairment of goodwill attributable to Pi Gliloth's operations to the amount of NIS 100 million (pre-tax). For more information, see Note 3E(1) to the consolidated financial statements.

– Subsequent to the financial position statement date, in July 2020, Delek Israel paid the Group a dividend of NIS 150 million.

– Subsequent to the financial position statement date, on July 23, 2020, Delek Israel signed a detailed agreement to sell 100% of the shares in IPP Ashkelon Limited and IPP Sorek Ltd. (which operate the power plants in Ashkelon and Sorek), for a total consideration of NIS 367 million. According to the agreement, the consideration is payable in two installments. The first installment, of NIS 307.5 million, is payable upon completion, and the remaining NIS 60 million is payable one year after the completion date (deferred consideration). In the reporting period, Delek Israel recognized a NIS 184 million provision for the power plants' impairment. For more information, see Note 3E(2) to the consolidated financial statements.

– Subsequent to the financial position statement date, on August 19, 2020, the Group signed a memorandum of understanding with a third party ("the Investor"), whereby the Investor would make a capital investment of NIS 450 million in senior shares issued by Delek Israel and/or through such other format as decided by the parties in the detailed investment agreement. Should it be completed, this investment will allow the Company to meet its obligations as detailed in the amended deed of trust signed by the Company and its debenture holders. The amended deed of trust went into effect on May 17, 2020, and calls for inflows of a total amount of NIS 600 million from Delek Israel (the investment of NIS 450 million as aforesaid, plus a NIS 150 million dividend already received from Delek Israel after completion of Delek Israel’s sale of Pi Gliloth). The amended deed of trust calls for these inflows to be used to fully repay the debt outstanding to the relevant banks, as defined in the deed of trust, to release all of Delek Drilling’s participation units from their pledge to the relevant banks, and to supplement the pledge of 40% of Delek Drilling’s participation units to the debenture holders, as specified by the amendment to the deed of trust. The memorandum of understanding guarantees a 10% annual return for the Investor over a 5 year period, payable from Delek Israel's sources (with no recourse rights for the Company and/or Delek Petroleum, except as concerns Delek Israel's shares). At the end of the investment period, the Group will be entitled to redeem the investment and the Investor will retain 20% of Delek Israel's share capital, with the remaining shares (80%) being held by the Group. Should the value of Delek Israel's shares retained by the Investor reflect an amount lower than an additional 5% added annual return on its investment, the Investor will receive additional shares in Delek Israel for no consideration, or a cash payment (at the Group's discretion), until reaching a 15% annual return over the investment period. Furthermore, in the investment period, the Investor will have an option to buy 5% of Delek Israel's shares, and all as per the mechanism that will be established in the detailed investment agreement to be signed by the parties. For more information, see Note 3E(3) to the consolidated financial statements.

Other Operations

– Exercise of swap transactions on The Phoenix Holdings Ltd. ("The Phoenix") shares

On April 27, 2020 and on May 10, 2020, the Company notified the banks with which it had undertaken swap contracts to sell 25,000,000 shares in The Phoenix, of the early completion of these swaps and the release to the Company of a net cash amount of NIS 143 million which had been pledged to the banks to secure the swaps, as common for such transactions. The shares were sold in an off-TASE transaction for a total consideration of NIS 413 million. For more information, see also Note 3A(3) to the consolidated financial statements.

– Seller's loan for the sale of The Phoenix's shares

As part of the sales agreement for The Phoenix's shares, the Company provided the buyer a subordinated debt whose balance as of June 30, 2020 totaled NIS 250 million ("the Seller's Loan").

The Seller's Loan, elements of the contingent considerations, and future adjustments (including as concerns the option) are measured in the financial statements at fair value through profit or loss. As of June 30, 2020, the net fair value of these instruments totaled NIS 69 million (as of December 31, 2019 - NIS 140 million). As such, the Company recognized a NIS 90 million loss in the reporting period, presented under the 'Profit (loss) from discontinued operations, net' item. For more information, see Note 3A(2) to the consolidated financial statements. It is further noted that, near the financial statements’ approval date, The Phoenix’s share price had gone up from its price as of June 30, 2020. Therefore, at this time, the net fair value of said loan is expected to increase. Thus, part of the decrease recognized as of June 30, 2020, is expected to be recognized as gains in the subsequent reporting period.

– Sale of IDE Holdings Ltd. ("IDE") shares

In March 2020, the Group sold its remaining holdings (20%) in IDE, for a total consideration of NIS 169 million. Thus, in the first quarter of 2020, the Group recognized net gains of NIS 20 million. For more information, see Note 3B to the consolidated financial statements.

– Sale of investment property

In March 2020, the Company sold to Gadot Biochemicals Ltd. ("Gadot") its title to land in the Haifa Bay area, on which Gadot's facility is located. Consideration for the sale totaled NIS 33 million, which was approximately the asset's carrying value.

Issuance of shares and warrants

In May 2020, the Company completed a capital raising (shares and warrants) with immediate proceeds of NIS 137 million. Furthermore, subsequent to the financial position statement date, in August 2020, the Company completed an additional capital raising (shares and warrants) with immediate proceeds of NIS 176 million. For more information, see Note 7 to the consolidated financial statements.

3. Results of Operations

A) Losses attributable to the Company's shareholders totaled NIS 3,092 million in the reporting period, as compared to a net profit of NIS 480 million in the same period last year.

Losses in the reporting period were mainly due to an accounting write-down which the Group was forced to recognize on its holdings in Ithaca in the first quarter of the year in light of the crisis in global energy markets caused by the COVID-19 pandemic, and the price war between Russia and the Gulf States in the first quarter of the year. Furthermore, in the second quarter of 2020, the Group recognized a loss of NIS 235 million (post-tax) on the sale of its investment in Cohen Development shares, and a loss of NIS 90 million in the reporting period from fair value changes to the seller's loans to The Phoenix's buyers. It is further noted that, as of the financial statements' approval date, The Phoenix's share price had gone up. Therefore, it is currently expected that the net fair value of this loan will increase, so that part of the decrease recognized as of June 30, 2020 will be reversed and recognized as profit in subsequent periods.

Contribution to net profit (loss) attributable to Company shareholders from principal operations (NIS millions):

	Q1/2020	Q2/2020	H1/2020		Q1/2019	Q2/2019	H1/2019		2019
Oil and gas exploration and production in and around Israel *)	136	11	147		117	58	175		384
Oil and gas exploration and production in the North Sea **)	37	102	139		57	27	84		285
Fuel operations in Israel	(111)	(48)	(159)		9	39	48		91
Contribution of continuing operations before discontinued operations and capital and other gains	**62**	**65**	**127**		**183**	**124**	**307**		**760**
Impairment of gas and oil assets, goodwill, and other expenses in oil and gas operations ***)	(2,358)	(220)	(2,578)		(13)	(1)	(14)		(718)
Finance, tax, and other income (expenses) ****)	(470)	(171)	(641)		120	67	187		192
Net profit (loss) attributable to Company shareholders	**(2,766)**	**(326)**	**(3,092)**		**290**	**190**	**480**		**234**

*) Excluding gains or losses on the sale of oil and gas assets and revaluation of amounts receivable and a right to royalties from the Karish and Tanin leases and the Tamar and Dalit leases; and also excluding losses recognized in the same period last year in profit or loss from fair value adjustments to the balance of the investment in Tamar Petroleum, included under the 'Finance, tax, and other income (expenses)' item.

**) Excluding impairment losses on oil and gas assets and goodwill of NIS 2,378 million, post-tax (USD 667 million)(in 2019 - NIS 413 million, post-tax (USD 120 million)).

***) For more information on impairment testing of gas and oil assets and goodwill, see Note 3F and Note 5 to the consolidated financial statements. In the reporting period, the item includes NIS 235 million (post-tax) in losses on the disposal of the investment in Cohen Development.

****) In the reporting period, the item includes a provision for impairment of power plant operations to the amount of NIS 174 million, erosion of the securities portfolio by NIS 210 million, and losses of NIS 90 million from fair value changes to the seller's loan extended to The Phoenix's buyers as aforesaid.

B) Revenues from operating activities (NIS millions):

The Group's revenues in the reporting period totaled NIS 4.8 billion, as compared to NIS 3.8 billion in the same period last year, as detailed in the table below (NIS millions):

	1-6/2020	1-6/2019	4-6/2020	4-6/2019		2019
Oil and gas exploration and production in and around Israel	1,172	662	498	304		1,332
Oil and gas asset development and production in the North Sea	2,190	742	971	350		2,062
Fuel operations in Israel	1,429	2,419	483	1,317		4,846
Other segments including adjustments	(30)	(24)	(17)	(15)		(38)
Total revenues	**4,761**	**3,799**	**1,935**	**1,956**		**8,202**

See also Note 9 to the consolidated financial statements - Information Regarding Operating Segments.

C) Operating profit (loss) (NIS millions):

	1-6/2020	1-6/2019	4-6/2020	4-6/2019		2019
Oil and gas exploration and production in and around Israel	411	254	4	150		649
Oil and gas asset development and production in the North Sea	(2,749)	212	340	49		(104)
Fuel operations in Israel	(76)	73	(4)	56		124
Other segments including adjustments	(3)	96	(3)	(47)		(118)
Total operating profit (loss)	**(2,417)**	**635**	**337**	**208**		**551**

See also Note 9 to the consolidated financial statements - Information Regarding Operating Segments.

D) The Group's share in the profits (losses) of associates, net (NIS millions):

The Group's share in the results of its principal associates:

	1-6/2020	1-6/2019	4-6/2020	4-6/2019		2019
IDE [1)]	2	13	-	3		15
Others	3	2	2	-		(40)
Total	**5**	**15**	**2**	**3**		**(25)**

1) In March 2020, the Group disposed of its remaining holdings in IDE's shares (see also Note 3B to the consolidated financial statements).

E) Highlights from the Company's consolidated income statements (NIS millions):

	1-6/2020	1-6/2019	4-6/2020	4-6/2019		2019
Revenues	4,761	3,799	1,935	1,956		8,202
Cost of sales	3,020	2,829	1,126	1,550		6,062
Gross profit	**1,741**	**970**	**809**	**406**		**2,140**
Sales, marketing and gas station operating expenses	231	239	110	120		487
General and administrative expenses	167	103	92	58		184
Group's share in earnings (losses) of operating associates, net	2	2	1	1		(39)
Other income (expenses), net	(3,762)	5	(271)	(21)		(879)
Operating profit (loss)	**(2,417)**	**635**	**337**	**208**		**551**
Finance income	101	339	35	86		572
Finance expenses	(1,308)	(539)	(535)	(285)		(1,288)
Profit (loss) after finance expenses, net	(3,624)	435	(163)	9		(165)
Group's share in the earnings of associates, net	3	13	1	3		14
Profit (loss) before income tax	**(3,621)**	**448**	**(162)**	**12**		**(151)**
Income tax (tax benefit)	(981)	81	16	(20)		(405)
Profit (loss) from continuing operations	**(2,640)**	**367**	**(178)**	**32**		**254**
Profit (loss) from discontinued operations, net	**(348)**	**476**	**(100)**	**334**		**532**
Net profit (loss)	**(2,988)**	**843**	**(278)**	**366**		**786**
Attributable to -						
Company shareholders	(3,092)	480	(326)	190		234
Non-controlling interests	104	363	48	176		552
	(2,988)	**843**	**(278)**	**366**		**786**

F) Movement in comprehensive income (loss) (in NIS millions):

	1-6/2020	1-6/2019	4-6/2020	4-6/2019		2019
Net profit (loss)	**(2,988)**	**843**	**(278)**	**366**		**786**
Other comprehensive income (loss) from continuing operations (post-tax):						
Profit (loss) from investment in equity instruments measured at fair value through other comprehensive income	(139)	(100)	10	(89)		(167)
Gain on financial assets at fair value through other comprehensive income	1	-	1	-		-
Transfer to profit or loss from adjustments from translation of overseas operations	28	14	13	-		14
Gain (loss) from cash flow hedges	985	88	(201)	81		92
Transfer to profit or loss from cash flow hedges	(379)	(52)	(248)	(27)		(100)
Adjustments from translation of overseas operations (*)	169	(591)	(241)	(212)		(969)
Other comprehensive income (loss) attributable to associates, net	(2)	-	-	1		(4)
Total other comprehensive income (loss) from continuing operations	**663**	**(641)**	**(666)**	**(246)**		**(1,134)**
Total other comprehensive income from discontinued operations, net	**-**	**139**	**-**	**6**		**148**
Total comprehensive income (loss)	**(2,325)**	**341**	**(944)**	**126**		**(200)**
Attributable to:						
Company shareholders	(2,442)	161	(963)	57		(501)
Non-controlling interests	117	180	19	69		301
	(2,325)	**341**	**(944)**	**126**		**(200)**

(*) The Group has material investments in investee companies and an investee partnership whose functional currency is not NIS (mainly USD). Thus, changes in currency exchange rates materially affect the Group's other comprehensive income or loss and the equity attributable to Company shareholders. In the reporting period, the USD gained 0.3% against the NIS, as compared to a decrease of 4.9% in the same period last year.

4. Financial Position

The Group's total assets as of June 30, 2020, amounted to NIS 41 billion, compared with NIS 47 billion as of December 31, 2019.

Principal changes in assets and liabilities as included in the consolidated statements as of June 30, 2020, compared with December 31, 2019:

Cash and cash equivalents and short-term investments

As of June 30, 2020, the Group had cash and short-term investment balances of NIS 1.6 billion, consisting mainly of balances of NIS 1.3 billion in Delek Drilling.

Current and non-current assets

The Group's total current assets (excluding cash and short-term investments), excluding held-for-sale assets, as of June 30, 2020, amounted to NIS 3.1 billion, as compared to NIS 3.2 billion as of December 31, 2019.

As of June 30, 2020, the Group's total non-current assets amounted to NIS 34.3 billion, compared to NIS 41.5 billion as of December 31, 2019, a decrease of NIS 7.2 billion. This decrease in non-current asset balances was mainly due to write-downs on gas and oil assets and goodwill attributable to energy operations in the North Sea, to the amount of USD 970 million (NIS 3.5 billion). The decrease was further attributable to the disposal and reclassification as held-for-sale assets of some of the Group's investments.

Short- and long-term liabilities

Financial liabilities (to banks and others and to debenture-holders and holders of convertible debentures), as of June 30, 2020, amounted to NIS 24.6 billion, as compared to NIS 27.8 billion as of December 31, 2019. This decrease was due to net repayment of bank debts to the amount of NIS 1.8 billion, and repayment of NIS 0.4 billion in debentures.

Contingent claims

In their opinion on the financial statements, the Company's auditors draw attention to legal actions brought against Group companies. For details, see Note 6 to the consolidated financial statements.

Additional information

For additional information regarding repayments of principal and interest on the Company's and the staff companies' debts, see Appendix A to the Board of Directors' Report.

5. Sources of Finance and Liquidity

The net financial debt of the Company and the staff companies as of June 30, 2020:[(2)]

	NIS millions
Liabilities	
Debentures	5,889
Bank and other loans	1,604
Other liabilities	311
Total liabilities	**7,804**
Assets	
Cash and deposits	82
Restricted deposits	214
Financial investments	92
Loans (*)	1,247
Other payables	49
Treasury shares (**)	48
Total assets	**1,732**
Financial debt, net	**(6,072)**

(*) Composition of loans extended as of June 30, 2020:

Borrower	Loan balance (NIS millions)
Loans to Ithaca	928
Seller's loan - The Phoenix transaction	69
Loan to Delek GOM (for insurance receivables)	69
Others	181
Total	**1,247**

(**) As of June 30, 2020, and as of the financial statements' approval date, Delek Financial Investments (2012) Limited Partnership, a wholly-owned subsidiary partnership of the Delek Group, held 586,422 shares of NIS 1 par value in the Delek Group. For more information, see Section (f) - *Additional information* below.

(2) Staff companies: Delek Group, Delek Petroleum, Delek Financial Investments (2012) Limited Partnership, Delek Power Plants Limited Partnership, DKL Energy, DKL Investments, Delek Infrastructure, Delek Hungary Holdings Limited, and Delek Energy.

The net financial debt of the Company and the staff companies as of the financial statements' approval date:(3)

Borrower	NIS millions
Liabilities	
Debentures	5,891
Bank and other loans	1,090
Other liabilities	301
Total liabilities	**7,282**
Assets	
Cash and deposits	153
Restricted deposits and securities	223
Financial investments	108
Loans (*)	1,165
Other payables	49
Treasury shares (**)	43
Total assets	**1,741**
Financial debt, net	**(5,541)**

(*) Composition of loans extended to others, as of the financial statements' approval date:

Borrower	Loan balance (NIS millions)
Loans to Ithaca	910
Seller's loan - The Phoenix transaction	69 *)
Loan to Delek GOM (for insurance receivables)	5
Others	181
Total	**1,165**

(*) Reflects the value as of June 30, 2020, based on the Company’s valuation.

Projected cash flows

According to Regulation 10(b)(14) of the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Securities Regulations"), companies which, upon publication of their financial statements, have debt certificates in circulation, must test for warning signs as defined in the Securities Regulations. If one or more warning signs are found, companies must provide disclosure concerning their projected cash flows.

The financial statements as of June 30, 2020, include the following warning signs: (1) the auditors' review as of the reporting date drew attention to significant doubts concerning the Company's continued operation as a going concern; (2) a working capital deficit for a period of twelve months, and the Company's Board of Directors did not determine that such deficit does not indicate a problem with the Company's liquidity.

The Company's Management has presented to the Company's Board of Directors all sources received until immediately prior to the financial statements' approval date, and all forecast sources which may serve the Company and the staff companies to meet their obligations in the next two years including the Company's forecast inflows from earning and dividend distributions from investee partnerships and companies, the Company's cash balances and securities portfolios (liquid balances) which service

(2) Staff companies: Delek Group, Delek Petroleum, Delek Financial Investments (2012) Limited Partnership, Delek Power Plants Limited Partnership, DKL Energy, DKL Investments, Delek Infrastructure, Delek Hungary, and Delek Energy.

operating activities and liability repayments, plans to raise significant funds, mainly through securitization of the overriding royalties from Leviathan, the Company's plans to sell its holdings in its investees / other assets, and the Company's options for raising capital (as of the financial statements' publication date, the Company raised a total of NIS 313 million).

The Company's Board of Directors, having reviewed the forecast sources and uses report presented by Management, under different scenarios, believes, based on past experience, the Company's proven ability to raise funds in recent years and the Company's assets, that the assumptions underlying the report are reasonable. The Company's Board of Directors also believes that the Company will be able to secure the sources of financing indicated in the projected cash flows, required to settle the Company's liabilities. See also Note 1 to the consolidated financial statements concerning the COVID-19 epidemic and its effects on the Company's business.

The forecast presented in this report refers to the Company and its wholly-owned staff companies, including Delek Energy Systems Ltd. ("Delek Energy"), and other wholly-owned staff companies such as: DKL Investments Limited, DKL Energy Limited, Delek Infrastructure Ltd., Delek Financial Investments (2012) Limited Partnership, Delek Petroleum Limited, and Delek Hungary Holdings Limited (jointly - "the Company and Its Staff Companies").

Projected cash flows for the Company and its wholly-owned Staff Companies:

	Assumptions	From Jul. 1, 2020 To Dec. 31, 2020	2021	From Jan. 1, 2022 To Jun. 30, 2022
Opening balance - cash and liquid balances	**1**	**174**	**739**	**1,806**
Inflows				
Forecast earning distributions from Delek Drilling	2	135	240	57
Forecast dividend distributions from Ithaca	3	105	298	105
Dividends from an investee	4	150	-	-
Total dividends from investees		**390**	**538**	**162**
Cash proceeds on the sale of overriding royalties from Karish and Tanin (see Note 5J to the consolidated financial statements)		318	-	-
Disposal of investees and other assets	5	600	-	-
Capital raising - Company shares / exercised warrants	6	313	50	-
Other inflows	7	117	-	-
Refinancing of existing loan against Ithaca shares and/or partial disposal of Ithaca shares	8	-	1,400	-
Total other inflows		**1,348**	**1,450**	**-**
Financing against pledge of Delek Drilling participation units coupled with a capital-raising round	9	-	600	-
Refinancing against pledge of Ithaca shares	10	350	-	-
Securitization of overriding royalties from Leviathan	11	630	-	-
Total loans and additional raising		**980**	**600**	**-**
Total inflows		**2,718**	**2,588**	**162**
Outflows				
Principal payments on debentures	12	(567)	(916)	(1,436)
Interest payments on debentures	12	(147)	(261)	(111)
Repayment of BNP loan / refinancing	13	(480)	(117)	-
Payments on bank loans	14	(504)	-	-
Loan payments to banks and others, net	14	(339)	-	-
Interest payments on bank loans and other liabilities	14	(67)	(112)	(59)
Total debt payments (principal and interest)		**(2,104)**	**(1,406)**	**(1,606)**
Other outflows	15	(49)	(115)	(63)
Total other outflows		**(49)**	**(115)**	**(63)**
Total outflows		**(2,153)**	**(1,521)**	**(1,669)**
Closing balance - cash and liquid balances		**739**	**1,806**	**299**

Assumptions underlying forecast cash flows for July 1, 2020 to June 30, 2022

General assumptions

- USD amounts were translated at an exchange rate of USD 1 = NIS 3.5.
- Debentures and loans are linked to the known CPI as of June 30, 2020.

  The projected cash flow report assumes early repayment of the entire bank debt to relevant banks as defined in the amended deed by the end of 2020, in order to release Delek Drilling's participation units pledged to secure the bank loans, and the subsequent pledge of some (40%) of these units to debenture holders as detailed in the amended deed.
- The projected cash flow report does not account for the restricted cash balances and the expected date of their release back to the Company. The Company's and the staff companies' pledged deposits and investments in marketable securities near the financial statements' approval date totaled NIS 223 million.
- Assumptions underlying specific projected cash flow items

1. Cash and liquid balances

   The item includes the following balances, as of June 30, 2020 (NIS millions):

	June 30, 2020
Cash balance	82
Financial investments (mainly marketable securities)	92
Total	**174**

2. Forecast earning distributions from Delek Drilling

   It is estimated that Delek Drilling will distribute USD 100 million in earnings (to all holders) for 2020 (USD 70 million by the end of 2020, and USD 30 million in early 2021), and USD 125 million for 2021 (USD 95 million in 2021, and USD 30 million in early 2022). The projected cash flow accounts for the Company's share (54.7%).
   Earning distributions from Delek Drilling are mainly based on expected cash flows from Delek Drilling's operating activities, and Delek Drilling's payout capacity.
   The assumption underlying this cash flow is that earning distributions by Delek Drilling receivable for Delek Drilling's pledged participation units will serve to repay the liabilities for which the units are pledged.

3. Forecast dividend distributions from Ithaca

   The assumptions underlying the forecast are that Ithaca will distribute USD 30 million in dividends by the end of 2020; USD 85 million in 2021; and USD 30 million (Company's share) in the first half of 2022.
   Dividend distributions from Ithaca are mainly based on expected cash flows from Ithaca's operating activities, and its payout capacity.

4. Dividend inflows from an investee

   Dividends received from Delek the Israel Fuel Corporation Ltd. ("Delek Israel").

5. Disposal of investees and other assets

   Reflects expected proceeds from the sale of Delek Israel shares and/or dividend payments following the sale of Delek Israel's assets and/or a capital investment in Delek Israel's share to a minimum amount of NIS 450 million, and expected cash proceeds from disposal of a real estate asset in Acre to the amount of NIS 150 million.

6. Capital raising - Company shares and warrants to Company shares

   The Company's Board of Directors has decided to work to raise NIS 450 million in capital in 2020, and NIS 50 million in the first four months of 2021. Of this amount, the Company raised a total of NIS 313 million (in May 2020, the Company raised a total of NIS 137 million in capital, and raised a further NIS 176 million in August 2020). The remaining amount which the

Company is actually required to raise by the end of 2020 totals NIS 137 million. This amount may be obtained by exercising warrants issued as part of the aforesaid capital raising rounds. For more information concerning these capital raising rounds and the issue of warrants accompanying these raising rounds, see Note 7 to the consolidated financial statements.

7. Other inflows

Other inflows mainly comprise USD 20 million of forecast insurance receivables due to problems encountered while drilling in the Gulf of Mexico, and other additional inflows. Of these amounts, USD 18 million were received in August 2020. The item also includes surplus cash inflows which the Company expects on the refinancing of its property in Herzliya.

8. Refinancing of existing loan against Ithaca shares and/or partial disposal of Ithaca shares

The Company is working to find a partner and/or to sell part of Ithaca's shares (including selling as part of an initial public offering) and/or to raise funds through a pre-IPO mechanism for Ithaca shares and/or a combination of the above, to the amount of USD 400 million. In this regard, it is noted that the Company is negotiating with third parties concerning a possible merger between Ithaca and international energy companies, with the intention of taking the merged company public on the London Stock Exchange. The potential merger is also expected to include a cash payment component which would be indirectly transferred to the Company as part of such merger. The talks are being consulted by foreign banks.

9. Financing against pledge of Delek Drilling participation units coupled with a capital-raising round

According to the amended deed which the Group has negotiated with its debenture holders, NIS 300 million in financing against the Group's unencumbered holdings in Delek Drilling participation units will be coupled with a capital raising round of similar value. The assumption is that these actions will yield cash flows of NIS 600 million.

10. Refinancing against pledge of Ithaca shares

The assumption underlying the projected cash flow is that Ithaca will pay out a dividend of USD 30 million which, together with surplus inflows from Delek Israel, will serve to repay BNP's loan. At the same time, the Company is also working to secure refinancing of USD 100 million against a pledge of Ithaca shares (which as of the financial statements' approval date are pledged to BNP). Such financing would serve to allow the early repayment of the debt to BNP by the end of 2020. The assumption is that the New Loan will be payable over three years, with the first principal payment due at the end of 2021.

11. Securitization of overriding royalties from Leviathan

This forecast assumes that the Company will raise a loan against a specific pledge of its rights and Delek Energy's rights to overriding royalties from Leviathan. Based on estimates concerning inflows expected from these royalties and based on discussions currently underway with financial institutions, the Company estimates that loans provided against the overriding royalties will total USD 180 million (NIS 630 million). Thus, the forecast did not include future inflows from said overriding royalties, and the assumption is that these inflows will service the interest and principal payments on this loan.

12. Principal and interest payments on debentures

Based on the amortization schedules for the Company's and staff companies' debentures.
For more information on agreements with debenture holders, see Note 10 to the consolidated financial statements.

13. Repayment of BNP loan

In 2020, the item refers to the full repayment of BNP's loan, to the amount of USD 137 million (see Section 10 above). In 2021, repayment reflects one third of the New Loan which will be secured by pledging Ithaca's shares and will replace the BNP loan.

14. Loan payments to banks and others, net

The above cash flow projection assumes full repayment of NIS 843 million in bank loans, according to the Company's obligations toward the various banks as of June 2020.
In July and August 2020, a total of NIS 504 million was repaid of this amount. The balance of the debt outstanding to the banks thus totals NIS 339 million. As of the financial statements'

approval date, a total of 401,840,542 participation units in Delek Drilling were pledged to the banks, accounting for 34% of Delek Drilling's participation units.

15. Other outflows

    The item includes tax payments on previous years, general and administrative expenses, other unforeseen payments, and changes in the value of financial investment balances, as of near the financial statements' approval date.

16. Possible disposals of other assets were not taken into account (in lieu or in addition to debt raising based on these assets). This includes: options to sell overriding royalties from Leviathan; options to dispose of unencumbered Delek Drilling shares; other capital actions concerning Delek Israel shares and Ithaca shares; etc. The Company will study such actions based on market conditions and on the materialization of the aforesaid assumptions underlying the cash flow.

Warning concerning forward-looking information - In the attached projected cash flow, the Company has included, both for its own operations and for the operations of its investees, forward-looking information as defined in the Securities Law, 1968. This information includes, among other things, the probability for the materialization of relevant business scenarios expected to yield inflows for the Company, the time frames for the materialization of such scenarios; results of operations; possible alternatives for securing sources to meet the liabilities of the Company and the staff Companies as they become due; the amounts and timing of debenture and loan repayments for the Company and the staff companies and other forecasts, assessments, assumptions, and other information concerning future events or matters, whose materialization is uncertain and outside the Company's or its investees' control, especially in light of the extreme uncertainty prevailing on the report's approval date due to the COVID-19 epidemic.

6. Analysis of Operations by Segment

A) Oil and gas exploration and production in and around Israel

As aforesaid, oil and gas exploration and production in and around Israel are carried out mainly through Delek Drilling.

Results of oil and gas exploration and production in and around Israel, as included in the Group's results (NIS millions):

	1-6/2020	1-6/2019	4-6/2020	4-6/2019		2019
Revenues from gas sales net of royalties	**1,172**	**662**	**498**	**304**		**1,332**
Operating profit (adjusted for impairment and disposal losses on oil and gas assets)	**744**	**254**	**280**	**150**		**652**
Loss on disposal of oil and gas assets and investment, post-tax	(235)	-	(235)	-		(3)
Impairment of oil and gas assets	(57)	-	-	-		-
EBITDA	**998**	**527**	**418**	**228**		**1,089**
Finance income (expenses), net	(368)	92	(183)	(13)		217
Net profit (loss) attributable to Group shareholders	**(53)**	**161**	**(211)**	**57**		**476**
Gas sales from Tamar, in BCM (*)	3.4	5.1	1.4	2.4		10.5
Gas sales from Leviathan, in BCM (*)	3.1	-	1.5	-		-
Gas sales in BCM (*)	**6.5**	**5.1**	**2.9**	**2.4**		**10.5**
Condensate sales - thousands of barrels (***)	**354**	**232**	**141**	**112**		**482**

(*) The data relate to sales of natural gas (100%) from the Tamar and Leviathan projects (previous year - Tamar and Yam Tethys), rounded to one tenth of one BCM.

(**) The data relate to condensate sales (100%) from the Tamar and Leviathan projects, rounded to thousands of barrels.

Analysis of the Oil and Gas Exploration and Production in and around Israel segment's results

In the reporting period, oil and gas exploration and production in and around Israel yielded a loss of NIS 53 million, as compared to a net profit of NIS 161 million in the same period last year. The loss in the present period was mainly due to losses on the sale of the investment in Cohen Development, to the amount of NIS 235 million (post-tax). It is also noted that, in the reporting period, the Partnership did not discount credit costs for the Leviathan Project, as gas production had begun. Profit attributable to the Group's shareholders, adjusted for losses from the sale of Cohen Development as aforesaid, totaled NIS 182 million in the reporting period. This increase in profit (adjusted for losses on disposal of Cohen Development, as aforesaid) was mainly due to the start of gas production in the Leviathan Reservoir, and supply to the domestic and regional markets. Furthermore, in the same period last year the Group recognized expenses of NIS 80 million from fair value adjustments to the investment in Tamar Petroleum.

In the second quarter of 2020, oil and gas exploration operations yielded a loss of NIS 211 million. Adjusted for the loss on the sale of the Group's investment in Cohen Development, operating results yielded a net profit of NIS 25 million, as compared to a net profit of NIS 57 million in the same quarter last year. This decrease in net profit was mainly due to the aforesaid factors concerning credit costs for the Leviathan project.

Revenues from gas sales net of royalties

In the reporting period, revenues from gas and oil sales, net of royalties, totaled NIS 1,172 million, compared with NIS 662 million in the same period last year. The increase was mainly attributable to the start of production in the Leviathan Reservoir, as aforesaid. This increase was partially offset by a year-on-year decrease in revenues from the Tamar Reservoir, mainly due to the COVID-19 epidemic (see Note 1 to the consolidated financial statements) and the start of production from the Leviathan Reservoir.

In the second quarter of 2020, revenues from gas and oil sales net of royalties amounted to NIS 498 million, compared to NIS 304 million in the same quarter last year. This increase was mainly due to the start of production from the Leviathan Reservoir as aforesaid, and was partially offset by lower revenues from the Tamar reservoir, as aforesaid.

Operating profit (excluding impairment of oil and gas assets and investment disposal losses)

Operating profit in the reporting period amounted to NIS 744 million, compared to NIS 254 million in the same period last year. This increase in operating profit was mainly due to the start of production from the Leviathan Reservoir. Furthermore, operating profit was lower in the corresponding period of last year due to a NIS 134 million fair value adjustment to the investment in Tamar Petroleum.

In the second quarter of 2020, operating profit totaled NIS 280 million, as compared to NIS 150 million in the same quarter last year. This increase in operating profit was mainly due to the start of production in the Leviathan Reservoir.

Finance income (expenses), net

In the reporting period, net finance expenses totaled NIS 368 million, as compared to net finance income of NIS 92 million in the same period last year. This year-on-year increase in finance expenses was mainly due to credit costs no longer being discounted for the Leviathan Project, as it reached the end of the development stage and began producing natural gas. Furthermore, in the corresponding period last year, the Company recognized NIS 125 million in income from revaluation of contingent considerations from the Karish and Tanin leases, as compared to NIS 57 million in revaluation income in the present period.

In the second quarter of 2020, net finance expenses amounted to NIS 183 million, compared with NIS 13 million in the corresponding quarter last year. This year-on-year increase in finance expenses was mainly due to credit costs no longer being discounted for the Leviathan Project, as it reached the end of the development stage and began producing natural gas.

Adjustment of the Partnership's results to the Group's share in oil and gas exploration and production in and around Israel (NIS millions):

	1-6/2020	1-6/2019	4-6/2020	4-6/2019	2019
Net profit from Delek Drilling's statements	**423**	**310**	**126**	**163**	**802**
Indirect holdings (%)	(*)	59.8%	54.7%	59.8%	59.8%
Group's share	**247**	**185**	**69**	**98**	**480**
Income tax	(32)	(60)	(24)	(18)	(112)
Revenues from overriding royalties	18	15	5	4	37
Results of direct holdings in Yam Tethys (4.44%)	(3)	(2)	(1)	(2)	(9)
Amortization of excess acquisition costs **)	(22)	(16)	(10)	(8)	(15)
General and administrative expenses	(3)	(11)	(2)	(5)	(18)
Finance income (expenses), net	(23)	50	(13)	(12)	93
Other income (expenses)	(235)	-	(235)	-	20
Contribution to net profit from oil and gas exploration and production	**(53)**	**161**	**(211)**	**57**	**476**

*) In 2019, the Group's indirect holdings in Delek Drilling totaled 59.8%. It is noted that, in March 2020, the Company's indirect holdings in Delek Drilling went down to 54.7%.

(**) Current amortization of excess cost attributable to the Tamar and Leviathan projects (previously recognized as part of the Cohen Development transaction).

For more information on oil and gas exploration and production in and around Israel, see Notes 1, 3F, 5, 6 and 10 to the consolidated financial statements.

B) Oil and gas exploration and production in the North Sea

Ithaca Energy ("Ithaca") is an independent oil and gas operator operating in the North Sea, holding both production and development oil and gas assets.

On November 8, 2019, Ithaca completed the purchase of 100% of CNSL's share capital from Chevron North Sea Limited ("CNSL"). CNSL owns ten actively-producing oil and gas assets and exploration licenses. CNSL's financial statements are consolidated in the Group's statements as of that date.

It is noted that the Group has reached the conclusion that CNSL's acquisition constitutes a proforma event as defined in the Securities Regulations (Periodic and Immediate Reports), 1970. Thus, the Group has prepared proforma financial statements to reflect the Group's results had CNSL's financial statements been consolidated in the Group's financial statements in the periods prior to the transaction, based on the proforma assumptions detailed in the proforma statement attached to this report.

For more information on this transaction, see Chapter 2 above, and Note 3 to the consolidated financial statements.

Ithaca's financial data as included in the financial statements (including attribution of excess acquisition costs incurred upon assuming control):

Statement of Financial Position

(USD millions)	June 30, 2020	December 31, 2019
Cash and cash equivalents	10	15
Financial derivatives	172	60
Other current assets	260	267
Investments in oil and gas exploration and production	1,985	2,903
Other assets, net (mainly deferred taxes)	757	589
Goodwill	767	982
Total assets	**3,951**	**4,816**
Current liabilities (trade and other payables)	303	419
Bank loans, RBL, and debentures	1,283	1,514
Loan from the Delek Group	267	261
Other long-term liabilities (mainly obligation to disassemble assets)	1,284	1,335
Equity attributable to Ithaca's shareholders	**814**	**1,287**
Total liabilities and equity	**3,951**	**4,816**

Income statement

(USD millions)	1-6/2020	1-6/2019	4-6/2020	4-6/2019		2019
Revenues from oil and gas sales	624	205	276	97		582
Cost of sales (excluding depreciation and inventory turnover)	(203)	(69)	(91)	(38)		(205)
Depreciation expenses	(197)	(54)	(80)	(22)		(190)
Oil and gas inventory turnover	(6)	(19)	7	(20)		2
Gross profit	**218**	**63**	**112**	**17**		**189**
Impairment of gas and oil assets and goodwill	(966)	-	-	-		(199)
Bargain purchase gains	-	-	-			(22)
Other expenses, net	(18)	(6)	(14)	(4)		(43)
Finance expenses, net	(125)	(39)	(57)	(19)		(112)
Profit (loss) before income tax	**(891)**	**18**	**41**	**(6)**		**(187)**
Tax benefit (tax expenses)	265	5	(12)	14		148
Net profit (loss) attributable to Ithaca's shareholders	**(626)**	**23**	**29**	**8**		**(39)**
Output in the reporting period (KBoe)	**13,244**	**3,277**	**6,404**	**1,387**		**10,435 (proforma - 27,590) *)**
Average daily output (KBoed)	**72.8**	**18.1**	**70.4**	**15.2**		**28.6 (proforma - 75) *)**

*) Proforma - including the output of CNSL's operations for all of 2019.

Cash flow from operating activities and adjustment to net profit

(USD millions)	1-6/2020	1-6/2019	4-6/2020	4-6/2019	2019
Sales (before hedges and net of inventory turnover)	393	157	141	63	493
Gains on hedges	217	15	136	7	91
Income after hedging	**610**	**172**	**277**	**70**	**584**
Operating expenses	(192)	(69)	(85)	(38)	(199)
General, administrative, currency, and other expenses	(19)	(6)	(14)	(4)	(27)
Cash flows from operating activities	**399**	**97**	**178**	**28**	**358**
Depreciation and amortization	(197)	(54)	(80)	(22)	(190)
Impairment of gas and oil assets and goodwill	(966)		-		(199)
Other non-cash income (expenses)	(7)	(9)	-	(4)	-
Finance expenses, net	(120)	(16)	(57)	(7)	(156)
Tax benefit (tax expenses)	265	5	(12)	13	148
Net profit (loss) attributable to Ithaca's shareholders	**(626)**	**23**	**29**	**8**	**(39)**

Additional data concerning Ithaca's results:

Revenues

Ithaca's revenues in the reporting period totaled USD 624 million, as compared to revenues of USD 205 million in the same period last year. Revenue composition was as follows:

(USD millions)	1-6/2020	1-6/2019	4-6/2020	4-6/2019	2019
Oil	315	108	113	61	334
Natural gas	73	53	22	16	127
NGL (natural gas liquids)	17	14	4	5	29
Other income	2	-	1	-	1
Gains on hedges	217	30	136	15	91
Total	**624**	**205**	**276**	**97**	**582**

The year-on-year increase in revenues in the reporting period was mainly due to increased volumes of oil and gas sales, mainly following the addition of new in-production oil assets through CNSL's acquisition. However, the COVID-19 epidemic caused a drop in oil and gas prices in the reporting period, which adversely affected Ithaca's revenues.

Output in the reporting period totaled 13.2 mmbl (72.8 bbl/day, on average). The average selling price for a barrel of oil (before hedging effects) was down to USD 44 in the reporting period, as compared to USD 66/bbl in the same period last year. Furthermore, gas prices were down in the reporting period, from 36 pennies/therm on average in the first half of 2019, to 17 pennies/therm on average in the present period, following a decrease in gas prices in England. It is noted that the negative impact of these price drops was largely mitigated by Ithaca's hedges on gas and oil prices, as part of its risk management policy. The effect of these hedges on Ithaca's revenues amounted to an additional USD 217 million in revenues in the reporting period.

Cost of sales

In the reporting period, cost of sales (excluding depreciation costs and inventory turnover) totaled USD 203 million, as compared to USD 69 million in the same period last year. The bulk of this year-on-year increase was due to the acquisition of CNSL's assets, as aforesaid. Average production costs totaled USD 15 per barrel in the reporting period, as compared to USD 20 per barrel in the same period last year.

In the reporting period, depreciation and amortization costs totaled USD 197 million, as compared to USD 54 million in the same period last year. This increase in depreciation costs was mainly due to amortization of newly-acquired assets (CNSL's assets and increased rights in the GSA Project), which are depreciated in line with their output.

Impairment of gas and oil assets and goodwill

In the first quarter of 2020, the Group recognized a provision for impairment of oil and gas assets in the North Sea and a write-down of goodwill, to the amount of USD 667 million, post-tax (NIS 2.4 billion). This impairment was mostly due to the crisis on the global energy markets, caused by the COVID-19 epidemic and the price war between Russia and Saudi Arabia, which lowered forecasts for oil and gas prices. The impairment was also partially driven by a decrease in reserves. The recoverable amount is set as the fair value of a cash-generating unit, net of selling costs. This fair value was measured by an independent third-party appraiser, based on the expected future cash flows from oil and gas sales, net of selling costs, and considering the assumptions used by reasonable market players to determine fair value. Cash flows were discounted using a post-tax discounting rate of 10.5%. It is noted that, as of June 30, 2020, the Group performed another valuation to test for impairment of goodwill attributable to Ithaca's operations. This valuation indicated that no additional impairment needed to be recognized. For more information, see Appendix B to the Board of Directors' Report and Note 5S to the consolidated financial statements.

Finance income (expenses) from hedges

As part of its risk management strategy, Ithaca hedges oil and gas prices, mainly through swaps and put options. As of June 30, 2020, Ithaca had open price hedges on 15 mmbl of oil, at an average hedged price of USD 51/bbl. Ithaca also had open price hedges on 409 million therms of gas, at an average hedged price of 50 pennies/therm. The value of these hedges as of June 30, 2020 reflects an asset of USD 194 million (NIS 672 million).

It is noted that, in light of the drop in oil prices, in the reporting period Ithaca exercised some of its hedges, and swapped them for hedges reflecting current oil price forecasts. These activities generated a cash flow of USD 156 million for Ithaca in the reporting period. For more information on these hedges, see note 8C to the consolidated financial statements.

Other finance expenses, net

Net finance expenses (excluding effects from hedges) totaled USD 85 million in the reporting period, as compared to USD 32 million in the same period last year. Finance expenses were up mainly due to changes in loan terms and volumes in connection with CNSL's acquisition.

Additional information

As of June 30, 2020, the Group performed an extremely material valuation to test for impairment of goodwill attributable to Ithaca's operations. This valuation was performed by an independent third party appraiser and is attached to the Group's statements. It is noted that the main factors used in this valuation included, among other things, the Group's assessments concerning future developments in oil and gas prices, as forecast on June 30, 2020. For more information, see Appendix B to the Board of Directors' Report and Note 5S to the consolidated financial statements.

For more information on Ithaca's operations, see Notes 1, 3, 5, 8 and 10 to the consolidated financial statements.

C) Fuel Operations in Israel

Data from the financial statements of Delek Israel, a wholly-owned (100%) Group subsidiary (NIS millions):

Statement of Financial Position

	June 30, 2020	December 31, 2019
Cash and cash equivalents	113	54
Current assets (excluding cash and cash equivalents and held-for-sale assets)	949	1,449
Held-for-sale assets	1,595	-
Property, plant and equipment	714	2,014
Right of use assets	840	864
Other long-term assets	239	619
Total assets	**4,450**	**5,000**
Short-term credit from banks and others	938	1,088
Liabilities attributed to held-for-sale assets	544	-
Current liabilities (excluding credit and liabilities on held-for-sale assets)	1,053	1,064
Long-term loans from banks and others	369	821
Other long-term liabilities (mainly from leasing)	745	835
Equity attributable to Delek Israel's shareholders	**800**	**1,191**
Non-controlling interests	**1**	**1**
Total liabilities and equity	**4,450**	**5,000**

Income statement

	1-6/2020	1-6/2019	4-6/2020	4-6/2019	2019
Revenues	1,429	2,419	483	1,317	4,846
Gross profit	**221**	**346**	**127**	**194**	**684**
Sales and gas station operating expenses	231	244	111	122	487
General and administrative expenses	40	30	16	16	63
Other income (expenses), net	(26)	1	(4)	-	(10)
Profit (loss) from operating activities	**(76)**	**73**	**(4)**	**56**	**124**
Finance expenses, net	39	29	23	15	45
The Company's share in the profits of associates, net	-	(1)	-	1	(2)
Profit (loss) before income tax	**(115)**	**43**	**(27)**	**42**	**77**
Income tax (tax benefit)	(26)	9	(10)	10	12
Profit (loss) from continuing fuel operations in Israel	**(89)**	**34**	**(17)**	**32**	**65**
Profit (loss) from discontinued operations *)	(70)	14	(31)	7	26
Net profit (loss) from continuing fuel operations in Israel	**(159)**	**48**	**(48)**	**39**	**91**
EBITDA (excluding other income (expenses) and IFRS 16)	45	90	30	64	187

*) Refers to Pi Gliloth operations, sold in July 2020. For more information, see Note 3E(1) to the consolidated financial statements.

Analysis of the results of continuing fuel operations in Israel

General

In the reporting period, Delek Israel's losses from continuing operations totaled NIS 89 million, as compared to a profit of NIS 34 million in the same period last year.
As of June 30, 2020, Delek Israel had 238 public gas stations (of which 179 were operated by Delek Israel) and 195 convenience stores (of which 161 were operated by Delek Israel, with the rest operated by franchises).

Revenues

Sales net of government fees ("Net Sales") totaled NIS 1,429 million in the reporting period, as compared to NIS 2,419 million in the same period last year. Net Sales for the second quarter of 2020 totaled NIS 483 thousand, as compared to NIS 1,317 million in the same quarter last year.
This decrease was mainly due to the COVID-19 epidemic, which caused a material drop in distillate prices and material disruption to economic activity in Israel from the latter half of March 2020, which also caused a sharp drop in distillate sale volumes.
Sales turnover in Company- and franchise-operated Menta convenience stores in the reporting period totaled NIS 236 million, as compared to NIS 245 million in the same period last year. Sales turnover in Company- and franchise-operated Menta convenience stores in the second quarter of 2020 totaled NIS 126 million, as compared to NIS 135 million in the same quarter last year.

Gross profit

Gross profit in the reporting period amounted to NIS 221 million, compared with NIS 346 million in the same period last year. Gross profit adjusted for inventory gains/losses amounted to NIS 291 million in the reporting period, as compared to NIS 344 million in the same period last year.
Gross profit in the second quarter of 2020 amounted to NIS 127 million, compared with NIS 194 million in the same quarter last year. Gross profit adjusted for inventory gains/losses amounted to NIS 143 million in the present quarter, as compared to NIS 185 million in the same quarter last year.
The year-on-year decrease in gross profit in the reporting period was mainly due to higher inventory losses (losses of NIS 70 million in the present quarter, as compared to a profit of NIS 2 million in the same period last year), and lower revenues, as aforesaid.

Sales, gas station operation and general and administrative expenses

In the reporting period, sales and gas station operation expenses totaled NIS 231 million, compared with NIS 244 million in the same period last year. In the second quarter of 2020, these expenses totaled NIS 111 million, as compared to NIS 122 million in the same quarter last year.
General and administrative expenses totaled NIS 40 million in the reporting period, as compared to NIS 30 million in the same period last year. In the second quarter of 2020, these expenses totaled NIS 16 million, similar to the figure for the same quarter last year.
Sales, and general and administrative expenses were down in the second quarter of 2020 due to streamlining efforts by Delek Israel to mitigate the effects of the COVID-19 epidemic.

Operating loss and EBITDA

Delek Israel's operating loss for the reporting period totaled NIS 76 million, as compared to operating profits of NIS 73 million in the same period last year. Adjusted for inventory gains/losses, the effects of IFRS 16, and other income ("Adjusted Operating Profit"), operating profit for the reporting period totaled NIS 12 million, as compared to NIS 58 million in the same period last year.
Operating losses for the second quarter of 2020 totaled NIS 4 million, as compared to operating profits of NIS 56 million in the same quarter last year. Adjusted Operating Profit for the second quarter of 2020 amounted to NIS 14 million, compared to NIS 41 million in the same quarter last year.
This year-on-year decrease in Adjusted Operating Profit in the reporting period and second quarter was mainly due to the COVID-19 epidemic, as aforesaid.
Delek Israel's EBITDA (operating profit excluding one-time results and inventory gains/losses and excluding the effects of IFRS 16) totaled NIS 45 million and NIS 90 million, respectively, in the reporting period and in the same period last year.

Finance expenses, net

Net finance expenses for the reporting period totaled NIS 39 million, as compared to NIS 29 million in the same period last year.
Net finance expenses for the second quarter of 2020, totaled NIS 23 million, as compared to NIS 14 million in the same quarter last year.

For more information concerning fuel operations in Israel, see Note 1, 3, and 6 to the consolidated financial statements.

D) Additional operations

Infrastructures

For information concerning the sale of the Group's holdings in power plants, see Note 3E2 to the consolidated financial statements.

For information concerning the sale of the Company's remaining holdings (20%) in IDE, see Note 3B to the consolidated financial statements.

B. Market Risk Exposure and Management

1. The following table details Israeli CPI data and exchange rates for the primary currencies used by the Group:

As of	USD representative exchange rate in NIS	GBP representative exchange rate	Known CPI Points *)
June 30, 2020	3.466	4.254	99.99
June 30, 2019	3.566	4.522	101.6
December 31, 2019	3.456	4.560	100.7
Change during the year	%	%	%
1-6/2020	0.3	(6.7)	(0.7)
1-6/2019	(4.9)	(5.7)	1.2
Q2/2020	(2.8)	(3.3)	(0.2)
Q2/2019	(1.8)	(4.5)	1.5

*) Base index - 2014 average.

3. Linkage bases report as of June 30, 2020:

	Israeli Currency		Foreign Currency						
	Unlinked	CPI-linked	USD	Other currencies	Fair value	Monetary items in overseas operations (USD)	Held-for-sale assets	Non-monetary item	Total
Assets									
Current assets	1,048	14	32	-	6	2,991	-	549	4,640
Held-for-sale assets	-	-	-	-	-	-	1,966	-	1,966
Non-current assets	229	34	-	22	553	1,850	-	31,639	34,327
Total assets	**1,277**	**48**	**32**	**22**	**559**	**4,841**	**1,966**	**32,188**	**40,933**
Liabilities									
Current liabilities	6,404	1,816	426	17	-	9,760	-	531	18,954
Held-for-sale liabilities	-	-	-	-	-	-	542	-	542
Non-current liabilities	396	579	85	94	-	8,515	-	6,606	16,275
Total liabilities	**6,800**	**2,395**	**511**	**111**	**-**	**18,275**	**542**	**7,137**	**35,771**
Assets less liabilities, net	**(5,523)**	**(2,347)**	**(479)**	**(89)**	**559**	**(13,434)**	**1,424**	**25,051**	**5,162**

C. Aspects of Corporate Governance

1. Directors with accounting and financial expertise

The Company’s Board of Directors has determined that the minimum number of directors with accounting and financial expertise shall be two. At the end of June 2020, Mr. Avi Harel and Mrs. Judith Teitelman-Zidenberg (external director), who have accounting and financial expertise, announced their resignation effective July 1, 2020. On June 29, 2020, Mr. Udi Erez was appointed a director in the Company. The Company’s Board of Directors has determined, based on Mr. Udi Erez’s declarations, that he constitutes a director with accounting and financial expertise. On August 25, 2020, Mrs. Ruth Dahan-Portnoy was appointed as an external director in the Company, with accounting and financial expertise.

D. Disclosure relating to the Company's financial reporting

1. Critical accounting estimates

For information about main accounting estimates, see Note 2B to the consolidated financial statements.

2. Events after the financial position statement date

For information on material events subsequent to the financial position statement date, see Chapter A to the Board of Directors' Report.

E. Dedicated disclosure for debenture holders

1. Information on debentures issued by the Company:

Series	Issue date (incl. expansions)	Original par value	Par value balance as of Jun. 30, 2020	Nominal interest rate	Linkage terms	Carrying amount - Jun. 30, 2020	Interest accrued in the books as of Jun. 30, 2020	Repayment dates - (principal/ interest)	Stock exchange value as of June 30, 2020	Trustee
B13	3/2007	913	274	Until listing - +5.1%, after listing - 4.6%	Israeli CPI	332	4	Principal and interest payments on Mar. 29 and Sept. 29 in each of 2020-2021	158	Hermetic Trust (1975) Ltd. 113 Hayarkon St. Tel Aviv Tel: 03-5274867 - Dan Avnon
B18	11/2009 6/2010 7/2011	1,062	531	6.1%	Israeli CPI	577	6	Interest payments on Apr. 30 and Oct. 31 and principal payments on Oct. 31 in each of 2020-2022	234	Reznik Paz Nevo RPN Trusts 2007 Ltd., 14 Yad Harutzim St., Tel Aviv Tel: 03-6389200, Elad Sirkis
B19	11/2010	560	419	4.65%	Israeli CPI	446	3	Interest payments on May 10 and Nov. 10 and principal payments on Nov. 10 in each of 2020-2022	180	Hermetic Capital Ltd. 113 Hayarkon St. Tel Aviv Tel: 03-5544553 - Tzuri Galili
B22	6/2007	500	188	4.50%	Israeli CPI	226	-	Principal and interest payments on Jun. 30 and Dec. 31 in each of 2020-2021	89	Mishmeret - Trusts Services Company Ltd., 48 Menahem Begin St., Tel Aviv, Tel: 03-6374335/4, Atty. Rami Katzav, CPA.
B31	2/2015 6/2015 10/2015 2/2017	3,276	3,108	Until the rating downgrade (Mar. 22, 2020) - 4.3% From Mar. 23, 2020 - 5.3%	Un-linked	3,108	56	Interest payments on Aug. 20 and Feb. 20 and principal payments on Feb. 20 in each of 2020-2025	933	Hermetic Trust (1975) Ltd. 113 Hayarkon St. Tel Aviv Tel: 03-5274867 - Dan Avnon
B33	7/2016	705	705	Until the rating downgrade (Mar. 22, 2020) - 2.8% From Mar. 23, 2020 - 3.8%	Convertible and non-linked	705	11	Interest payments on Jul. 10 and Jan. 10 in each of 2020-2022; principal payment on Jan. 10, 2022	211	Hermetic Trust (1975) Ltd. 113 Hayarkon St. Tel Aviv Tel: 03-5274867 - Dan Avnon
B34	2/2018	521	519	Until the rating downgrade (Mar. 22, 2020) - 4.48% From Mar. 23, 2020 - 5.48%	Un-linked	519	-	Interest payments on Jun. 30 and Dec. 31 and principal payments on Dec. 31 (except Dec. 31, 2022) in each of 2020-2028	154	Hermetic Trust (1975) Ltd. 113 Hayarkon St. Tel Aviv Tel: 03-5274867 - Dan Avnon

2. Additional information on debentures convertible to Company shares

Series	Conversion to shares	Conversion ratio	Key conversion terms	Forced conversion
B33	Delek Group Ordinary shares 1084188	Conversion ratio in the period from July 11, 2019 to December 31, 2021 - 1,278.52907	The right to conversion into Company shares will stand on each day of trading until December 31, 2021, such that every NIS 1,278.52907 par value in Debentures (Series B33) may be converted to one ordinary share in the Company. Adjustments will be made following distribution of bonus shares, participation in rights issuances, and dividend distributions.	The Company is entitled to forced conversion if the closing price for the Company's shares on the TASE for 15 consecutive days of trading exceeds NIS 2,000 (starting July 11, 2019)

3. For more information on the debenture plan, see Note 10 to the consolidated financial statements.

4. For a current rating report on the Company's Debentures (Series B13, B22, B31, B33, B34), see S&P Maalot's report of May 5, 2020, included herein by way of reference, downgrading the debentures from ilBBB-Negative to ilCCC-Negative. See the Company’s immediate report of May 5, 2020 (ref. no. 2020-01-044400), included herein by way of reference. It is noted that, as of April 1, 2020, S&P Maalot issued a report downgrading the Company's Debentures (Series B13, B22, B31, B33, B34) from ilA/stable to ilBBB-Negative.

Financial covenants (debentures)

In June 2020, the Company signed an amendment to the deeds of trust between the Company and the holders of its various debenture series. The amended deeds of trust specified grounds for immediate repayment, as follows:

- In the period until May 31, 2021, the trustee and the debenture holders will not call for immediate repayment of the debentures on grounds based solely on the state of the Company's business as it was at the time of the amended deed's publication and/or on grounds concerning a low rating of the Company's debentures.
- Until the publication date of the first quarter statements in 2021, the grounds for immediate repayment specified in the deeds of trust concerning low equity - shall not apply. For statements from the second quarter of 2021 and until the annual statements for 2023, the holders will have grounds for immediate repayment if the equity after deducting additional equity arising from revaluations and equity as presented in the statements are lower than the levels specified in the amended deed for these purposes. From the statements for the first quarter of 2024 onwards, the debenture holders will have ground to call for immediate repayment if the equity presented in the Company's statements falls below NIS 2.6 billion.
- Until the publication date of the first quarter statements in 2021, the grounds for immediate repayment specified in the deeds of trust concerning the equity to balance sheet ratio - shall not apply. For statements from the second quarter of 2021 and until the annual statements for 2023, requirements have been specified for the equity to balance sheet ratio. Should the company fail to meet these requirements for two consecutive quarters, the holders will have grounds for immediate repayment. From the statements for the first quarter of 2024, the debenture holders will have grounds to call for immediate repayment should the equity to balance sheet ratio according to the Company's separate statements fall below 20% for two consecutive quarters.

The amended deed includes additional declarations and obligations for the Company, including: (a) concerning uses for proceeds from capital issuances and/or dividends and/or sales and/or pledges of certain assets; (b) an obligation not to deposit monies and/or securities with the creditor banks of the Company or companies under its control, except for certain permissible exceptions; (c) an obligation not to acquire assets and/or make investments and/or assume credit and/or assume fiscal liabilities toward financial creditors and/or change the terms of certain credit agreements, except for certain permissible exceptions; (d) in the Effective Period: the Company's general and administrative expenses will not exceed such amounts as specified, the Company will not make distributions, the Company and companies under its control will not undertake transactions in which the controlling shareholder has a personal interest (except for officers' insurance and existing contracts as disclosed in the statements), the Company and private companies under its control will neither sell nor buy Company debentures; (e) obligations to provide the trustees with various notices; (f) an obligation to cover the fees and expenses of the trustees and their agents. It was furthermore agreed that a violation of any of the Company's obligations under the amended deed would grant the trustees and the debenture holders grounds to call for immediate repayment, and a right to exercise all sureties provided to the trustees.

For more information, see also Note 10 to the consolidated financial statements.

F. Additional information

1. Buyback of securities

On December 27, 2018, the Company's Board of Directors approved a buy-back plan (through the subsidiary partnership) of Company shares and/or debentures to a monetary amount of up to NIS 100 million, for the period of January 1, 2019 to December 31, 2019. Furthermore, on October 6, 2019, the Company's Board of Directors approved another buy-back plan (through the subsidiary partnership) of Company shares and/or debentures to a monetary amount of up to NIS 100 million, for the period of October 6, 2019 to October 7, 2020.

As part of these plans, in 2019 the subsidiary partnership bought an additional 207,821 shares in the Company, in consideration for NIS 111 million, as well as NIS 2 million in Company debentures.

As of December 31, 2019, the subsidiary partnership held 450,760 shares in the Company.

In the reporting period, the subsidiary partnership bought an additional 135,662 shares in the Company in consideration for NIS 60 million. As of the report's approval date, the subsidiary partnership held 586,422 Company shares. The Company and the subsidiary partnership also bought NIS 26 million in Company debentures.

2. Company employees

The Board of Directors would like to thank the Company's management, the management of the Company's investees, and to all the employees for their dedicated work and their contribution to the advancement of the Company.

Sincerely

Gabriel Last	**Idan Wallace**
Chairman of the Board	CEO

Signature date: August 30, 2020

Appendix A to the Board of Directors' Report

Breakdown of principal and interest payments on the Company and the staff companies' debentures and bank and other loans as of June 30, 2020 (in NIS millions):

		Jul. 1, 2020 - Dec. 31, 2020	2021	2022	2023	2024	2025 onward	Total
Debentures	Principal	565	914	1,778	796	796	1,040	**5,889**
	Interest	145	259	189	121	79	64	**857**
Loans and credit facilities from banks and others (*)	Principal	1,135	298	-	-	-	-	**1,433**
	Interest	51	35	25	25	25	-	**161**
Total		**1,896**	**1,506**	**1,992**	**942**	**900**	**1,104**	**8,340**

*) Excluding a convertible liability.

Breakdown of principal and interest payments on the Company and the staff companies' debentures and bank and other loans near the financial statements' approval date (in NIS millions):

		Aug. 26, 2020 - Dec. 31, 2020	2021	2022	2023	2024	2025 onward	Total
Debentures	Principal	566	915	1,778	796	796	1,040	**5,891**
	Interest	55	260	189	121	79	64	**768**
Loans and credit facilities from banks and others (*)	Principal	628	298	-	-	-	-	**926**
	Interest	29	35	25	25	25	-	**139**
Total		**1,278**	**1,508**	**1,992**	**942**	**900**	**1,104**	**7,724**

*) Excluding a convertible liability.

Appendix B to the Board of Directors' Report

In accordance with Regulation 8B to the Securities Regulations, the following valuations are attached herewith:

Testing for impairment of goodwill attributable to the cash-generating unit known as 'Oil and Gas Development and Production Assets in the North Sea'

As of June 30, 2020, the Group performed an extremely material valuation to test for impairment of goodwill attributable to the cash-generating unit 'Oil and Gas Development and Production Assets in the North Sea'. The financial study including this valuation is attached to the Group's statements. Highlights from this financial study:

Focus of valuation:	Measuring the recoverable amount for the cash-generating unit to which goodwill is attributed
Study date:	June 30, 2020
Value immediately prior to the valuation date had Israeli GAAP, including depreciation and amortization, not required a change in value pursuant to the valuation:	Not applicable.
Value following assessment:	The recoverable amount of the cash-generating unit known as 'Oil and Gas Development and Production Assets in the North Sea' to which goodwill is attributed, was estimated at USD 1,200 million.
Identity and details of appraiser:	The study was prepared by Duff & Phelps, a global consulting firm with over 3,500 employees across 28 countries. The company was founded in 1932, and provides consulting services to numerous clients, including about 50% of the S&P500 companies. The company provides a range of consulting services, including valuations, tax services, and M&A consultancy. The company's valuations team comprises more than 1,200 professional staff and experts in financial consulting, including PPAs, impairment testing for goodwill and intangible assets, and valuation analysis. According to the contract with the appraiser, except in the event of improper conduct or fraud by the appraiser, its liability is limited to its fees. The Company also undertook to indemnify the appraiser for any damage it may incur as a result of third party lawsuits, except if a competent court decides that the lawsuit was caused by gross negligence, intentional improper conduct or fraud by the appraiser.
The valuation model employed:	Discounted cash flows
Assumptions used by the appraiser in the valuation, under the valuation model:	The key assumptions underlying the valuation include revenue and expense forecasts bearing in mind, among other things, production flows and quantities, forecast oil and gas prices, the inflation rate, and removal costs. In its valuation, the appraiser applied the discounted cash flow method, using a post-tax discounting rate of 10%, and forecast Brent oil prices of USD 34.5/barrel in 2020, USD 44.8/barrel in 2021, and reaching USD 71.9/barrel in 2025.

Delek Group Ltd

Impairment Testing Under IAS 36

August 28, 2020

August 28, 2020

Private and Confidential

Barak Mashraki, Chief Financial Officer
Delek Group Ltd
19 ABBA eBAN BLVD
P.O.B 2054
Herzliya 4612001
Israel

Valuation Services in Connection with the Impairment Testing of Ithaca Energy Ltd under IAS 36

Dear Mr. Mashraki,

Pursuant to your request, Duff & Phelps Ltd ("Duff & Phelps" or "D&P") has performed valuation services in connection with the impairment analysis of Ithaca Energy Limited ("Ithaca" or the "Company") in connection with the application of International Accounting Standard 36: Impairment of Assets ("IAS 36").

The objective of our analysis was to provide recommendations of the recoverable amount ("Recoverable Amount") of Delek Group Ltd ("Delek") investment in Ithaca as of June 30, 2020 (the "Valuation Date"). We understand that the results of our analysis will be used solely for the purpose of assisting the management of Delek in estimating the Recoverable Amount of the Ithaca in accordance with IAS 36. The economic impact of the Coronavirus was considered a triggering event in accordance with IAS 36 and the valuation considered all facts and circumstances that were known or knowable as of the Valuation Date.

We are aware that you wish to use our opinion for the preparation of the financial statements of Delek Group Ltd and if necessary, also to attach it to the financial statements and publish it, and we give our consent.

The full details of the terms of our engagement are included in our engagement letter dated October 11, 2019.

We wish to note that we have no personal interest in the shares of the companies named in this report. In addition, the payment we receive for preparing it is not contingent upon the results of the valuation.

We have appreciated the opportunity to work with you on this engagement. Please call Mathias Schumacher on +44 20 7089 4720 if we can be of further assistance.

Yours sincerely,

Duff & Phelps Ltd

Duff & Phelps
By:
Mathias Schumacher
Managing Director

Contents

Section 01

Introduction

Scope of Services

Duff & Phelps was retained by Delek to assist with the performance of certain procedures, as set out below, relating to the application of IAS 36: Impairment of Assets. The outbreak of COVID-19 was declared a pandemic by the World Health Organization on March 11, 2020 and has severely impacted global economy, including the energy sector. The pandemic was considered a triggering event and is the rationale for conducting an impairment analysis as at the Valuation Date.

The Services consisted solely of assisting Delek with performing the impairment test of its investment in Ithaca under IAS 36 for financial reporting purposes.

Scope of Services – IAS 36

Based on discussions with Delek management ("Management"), we note that Ithaca is treated as a single investment in the Delek Group accounts. Ithaca acquired Chevron North Sea Limited ("CNSL") in November 2019, and the existing goodwill balance as of the Valuation Date largely results from this transaction. As part of our impairment testing analysis, we have first estimated the Recoverable Amount, as defined below, of the investment in Ithaca as a whole in order to determine the potential risk of impairment. Our estimation of the Recoverable Amount of the investment in Ithaca reflects the operation of both the original Ithaca and newly acquired CNSL assets. Further to our impairment testing of the Investment in Ithaca as a whole, we have also assessed the Fair Values of other fields which are treated as separate CGUs to facilitate impairment testing at the level of the CGU.

Introduction to Duff & Phelps

Duff & Phelps is a valuation and corporate finance advisor with a global presence, with more than 3,500 employees across more than 28 countries worldwide. Founded in 1932, Duff & Phelps provides advisory services to more than 7,500 clients, including nearly 50.0 percent of the S&P 500. We offer a variety of diverse services, including valuation advisory, tax services, mergers and acquisitions advisory, and restructuring services among others. The Valuation Advisory Services team within Duff & Phelps comprises over 1,200 professionals and specialises in financial reporting advisory, including purchase price allocations, goodwill and intangible impairment testing, fresh start accounting and business valuations.

Delek's acquisition of Ithaca

In October 2015, Delek acquired 19.9 percent of the equity of Ithaca. On February 6, 2017, Delek further announced that it had signed an agreement with Ithaca to purchase the remaining shares of the Company, then representing 80.8 percent of the total equity, through its subsidiary DKL Investments Ltd. This decision was made in support of Delek's greater strategy to expand its international energy operations. Delek's intention at the time of the transaction was to continue Ithaca's core operations, focusing on the development of the GSA assets.

Ithaca's acquisition of CNSL

Ithaca, as an indirectly wholly owned subsidiary of Delek, acquired the shares of CNSL for USD 1.7 billion in November 2019. The deal included ten producing fields (4 operated and 6 non-operated by CNSL) in the UK North Sea. The deal established Delek as the second largest independent oil and gas producer in the UK North Sea behind Chrysaor. Delek will continue to operate four of the ten fields (namely – Alba, Alder, Captain and Erksine). The transaction officially closed on November 08, 2019.

Company Profile(s)

Delek Group Ltd

Delek Group is an independent exploration and production company focused on the development of reserves in the Levant Basin off the coast of Israel, including Leviathan and Tamar among others. In addition, Delek has international operations, with a focus on high-potential opportunities in the North Sea through Ithaca, as well as in North America. Delek's shares are traded on the Tel Aviv Stock Exchange (TASE: DLEKG) and are part of the TA 35 Index.[1]

Ithaca Energy Ltd

Ithaca is an oil and gas operator with assets focused in the North Sea, with an asset base including both producing and exploratory oil and gas fields. Ithaca's primary focus is on the development of the Greater Stella Area ("GSA") licenses, located in the Central North Sea. Ithaca first became involved with the GSA assets in 2008, when it completed transactions with Shell, Esso, and Maersk to acquire an interest in the Stella and Harrier licenses.

The GSA assets are comprised of the Stella, Hurricane, Harrier, Vorlich, and Austen discoveries. These five fields are serviced from a central hub known as the FPF-1 floating production facility (the "FPF-1"). The FPF-1 was refurbished beginning in 2011 and work was completed in August 2016. Following the completion of FPF-1 updates, production began at the Stella field in February 2017. Ithaca currently operates the FPF-1 for extraction from six wells at the Stella field, with one well online at the Harrier field. The Hurricane, Vorlich and Courageous discoveries are at various maturities in the development stage, but eventually will also be serviced by the FPF-1.

Chevron North Sea Limited

Chevron North Sea Limited produces crude oil and natural gas from the United Kingdom North Sea. The company was incorporated in 1981 and is based in Aberdeen, United Kingdom.

[1] Delek-Group Company Website and S&P Capital IQ

World Oil & Gas Market

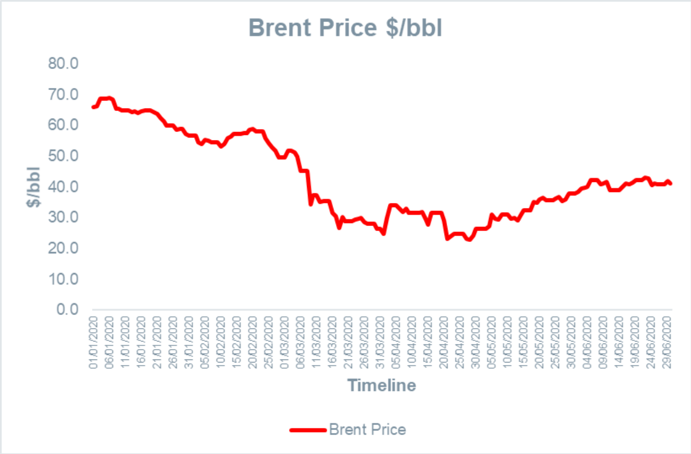
2019 witnessed ongoing geopolitical tensions in the Middle East including the drone strikes on two oil processing facilities in Saudi Arabia and a continued trend of US International Oil Companies exiting the North Sea, including both the Norwegian Continental Shelf (“NCS”) and UK North Sea (“UKNS”). 2019 was also characterized by a well-supplied oil market resulting in weak crude prices and against a backdrop of a subdued global economy. In addition, the US surpassed Saudi Arabia and Russia to become the world’s largest crude oil producer. In September 2019, two Saudi Arabian oil processing facilities were attacked in a drone strike. These plants produced 6 percent of the global oil production and the incident had the initial impact of increasing the Brent oil price by 20 percent before settling down. However, full production had been restored by the end of the month. The much-anticipated IPO of Saudi Aramco finally took place in December 2019, when the Saudi goliath’s shares started trading on the local exchange (Tadawul Stock Exchange).

The strategy behind the decision of US majors to exit the North Sea basin relies on the fact that oil economics seemed to be shifting towards unconventional plays. The merger between Chevron and Anadarko earlier in the year has signaled a change of paradigm among the US majors, some of which are refocusing on at the time more profitable U.S. shale plays and LNG projects. ConocoPhillips, ExxonMobil and Chevron have deployed a strategy of exiting the maturing North Sea and instead focusing on the shale plays in the US. On the other hand, North Sea based independent producers have been active in buying the assets which are being offloaded by these American majors. In September 2019, private equity backed Chrysaor completed the acquisition of ConocoPhillips’ British North Sea oil and gas business to cement its position as the basin’s top producer.

Starting in Q1 2020, the global markets have been severely impacted by COVID-19 pandemic. The country-wide lockdowns coupled with travel bans implemented by state authorities sent the oil & gas sector into turmoil. The global demand for crude reduced by as much as a third in April 2020 from pre-COVID levels. Russia and Saudi Arabia entered into a price war in March after delegates representing their nations’ in the OPEC+ talks failed to reach an agreement on extending the production cuts. The price war between the two of the largest and most influential producers lasted 31 days. These 31 days had convinced oil majors and independent producers to cut their spending and delay projects across basins.

As at June end Brent Crude (“Brent”) and West Texas Intermediate (“WTI”) oil were trading at USD 41.3/bbl. and USD 39.3/bbl. respectively.[2]

[2] S&P Capital IQ



Source: S&P Capital IQ

Towards first week of April, the two OPEC+ giants decided to end their price-war and made efforts to stabilize the oil markets. Russia and Saudi Arabia together with other members of the OPEC+ decided to reduce output in a combined effort to lift the markets from a pandemic driven collapse. The demand drop coincided with US production levels remaining robust despite oil storage tanks touching full capacity. The plunge in WTI price to below USD 0 on 20th April (first time in history) was in part result of the traders seeking to offload their obligations to take on physical product ahead of May contract's expiry.

OGUK, a trade body for the North Sea expects operators to reduce capital investment by up to 30 percent in 2020 to £4 - £4.5 billion as the revenues have slipped substantially. Drilling, which is amongst the first activities to be postponed, is set to decrease by more than a third to record lows. More mature basins could be decommissioned early and final investment decision ("FID") could be delayed by the respective operators. Even before Covid-19, questions were being asked about whether the continued existence of the North Sea oil and gas industry was compatible with the UK's target to reduce greenhouse gas emissions to net zero by 2050 and whether investors and other financial sponsors, which have been adopting to stringent environmental policies, would continue to render their support to the operators in the maturing basin.

A study in May 2020 co-authored by Prof. Alex Kemp of the University of Aberdeen, a respected petroleum economist, warned that c. 36 per cent of all estimated available hydrocarbons in the North Sea were likely to remain undeveloped between now and 2050 at oil prices of USD 35/bbl. The plunge in oil prices this year, caused by a slump in demand during the coronavirus pandemic, has put the North Sea into a fresh crisis that has raised further questions over the long-term future of the basin. Professor Kemp said 8.3 billion barrels of hydrocarbons could be produced economically at prices of USD 35 a barrel, rising with inflation, between now and 2050 but that would still leave approximately 4.6 billion barrels likely to be left in the ground. “That means that there is a very large number of undeveloped fields because they don’t pass the hurdle at that price,” Prof Kemp said, adding that the North Sea was entering “long-term decline”. Production at several mature North Sea fields has already been abandoned as operators cut expenditure, while projects that were expected to be developed this year have been postponed. Even at prices of USD 45/bbl., c. 28 per cent of all available hydrocarbons fail to pass the economic hurdle, according to the study, which also warns that older fields are likely to be decommissioned earlier as it becomes less attractive to recover remaining barrels.

Subsequently, EU oil majors – BP, Shell and Equinor have reportedly taken impairment charges on their financial books for Q1 2020. Additionally, BP released a statement in mid-June stating that it has lowered its price forecast by c. 30 percent to a Brent crude average price (in real terms) of USD 55/bbl. until 2050. As a result, BP has decided to revise the value of its assets by between USD 13.0 – USD 17.5 billion. The more gas focused Royal Dutch Shell released a statement in April mentioning its push-ahead with a planned USD 6.4 billion gas project in Australia despite the fall in market prices for hydrocarbons.

Chevron agreed to buy Noble Energy for c. USD 13 billion in June. This acquisition expands Chevron’s position in the eastern Mediterranean, where several countries are looking to develop region’s gas reserves. More importantly, this provides Israel’s energy sector an IOC investor. The deal also expands Chevron’s position in the Permian basin. This was the first mega-deal in the oi & gas sector since the geopolitical tensions and the pandemic sparked crude price collapse. This acquisition is expected to be followed by other deals which could be led by cash-rich US majors. Vitol, the commodities trader, also stated its intensions of establishing a US focused oil production business with the aim of acquiring matured and producing hydrocarbon assets.

In the US, independent shale producers are struggling with a slump in WTI oil prices. Extraction Oil & Gas and Whiting Petroleum have filed for bankruptcy under Chapter 11. Chesapeake Energy and Denbury Resources, two pioneers of the unconventional shale oil revolution have also filed for bankruptcy in Q2 2020. The market predicts other heavily indebted shale players could be filing for bankruptcy or financial restructuring as the availability of finance has dries up and their debt comes close to maturity. Market analysts comment that the US shale sector was already under financial distress prior to COVID-19 and oil price meltdown.

Latest data shows US oil companies have increased production by c. 1 million bpd as shut-in wells gradually come on-stream. US production is expected to stabilize around 11 million bpd through the end of 2020. This is well below the 13 million bpd mark which US reached before the Russia-Saudi led price war and COVID-19 plummeted oil demand. That said, 2020 still remains a challenging year for the energy sector. With a risk of a second wave of COVID-19 infections, governments are following a cautionary approach towards easing of restrictions. Business activity and travel remain well below pre-COVID levels. It is still uncertain as to how (and when) business and other commercial activities will reach pre-COVID-19 levels. This coupled with an increasing pressure from investors and environmental lobbyists to reduce carbon emissions, the energy companies face challenging times in the next few years.

Definition of Recoverable Amount

IAS 36 defines the Recoverable Amount of an asset as the higher of its Fair Value less costs to sell ("Fair Value Less Cost to Sell" or "FVLCTS") or its value in use ("Value in Use" or "VIU"), where FVLCTS is defined as *"the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal"* and VIU is defined as *"the present value of the future cash flows expected to be derived from an asset or cash generating unit"*. We note that IAS 36 does not require an analysis of both the FVLCTS and VIU as the Recoverable Amount is determined by the higher of both.

Under IAS 36, goodwill impairment is then tested by checking if the Recoverable Amount is greater than the Carrying Value.

Section 02

Sources of Information and Procedures

Sources of Information

In the course of our valuation analysis, we relied upon financial and other information, including prospective financial information obtained from Management and from various public, financial, and industry sources. Our conclusion is dependent on such information being complete and accurate in all material respects. However, as is customary in the business valuation profession, the scope of our work will not enable us to accept responsibility for the accuracy and completeness of such provided information.

The principal sources of information used in performing our valuation include:

- Ithaca's Cashflow Valuation Model, including production and financial projections for the lifetime of each of Ithaca and CNSL's oil and gas fields;
- Production profile provided by Management. These forecasts are based on the draft reserve report prepared by Netherland, Sewell & Associates Inc. ("NSAI"). These remain unchanged from Q1 2020;
- The oil and gas price forecasts used by Management as well as those obtained from various industry sources including analyst reports with long-term estimates;
- Carrying values of the investment in Ithaca as provided by Delek;
- Publicly available financial statements and other information for comparable companies; and
- Other available information relevant to the valuation of the Subject Assets.

We also used selected third-party databases for financial information, including:

- Standard and Poor's Capital IQ database;
- Duff & Phelps 2020 Valuation Handbook: Guide to Cost of Capital;
- Bloomberg LP; and
- International Monetary Fund ("IMF") inflation forecast.

In addition, we held meetings, in person or via telephone conference, with the following people:

- Barak Mashraki, CFO, Delek Group
- Gilad Myerson, CEO, DKL Investments
- Tamar Rosenberg, Financial Controller, Delek Group; and
- Ithaca Management

Procedures

In general, our procedures have included, but were not limited to the following:

- Analysis of general market data, including economic, governmental, and environmental forces which could affect the Recoverable Amount of the investment or CGU;
- Analysis of comparable companies for estimating an appropriate WACC for Ithaca;
- Discussions with Management concerning the history and future operations of Ithaca, the market environment, and the projections prepared for the business;
- Analysis of historical and projected operating and financial results including revenues, operating margins and capital expenditures;
- Estimation of the Recoverable Amount of Ithaca through the application of the Income Approach; and
- Comparison of the Recoverable Amounts of Ithaca to the respective Carrying Value in order to test for impairment as of June 30, 2020.

Section 03

Ithaca Impairment Test – IAS 36

Valuation Approach

In performing the goodwill impairment test under IAS 36, we first estimated the Recoverable Amount of the Investment in Ithaca, as described below. Having determined the Recoverable Amount, we compared it to the Carrying Value. As described under Financial Reporting Requirements, impairment is indicated if the Carrying Value exceeds the Recoverable Amount.

In estimating the Recoverable Amount, we relied primarily on a discounted cash flow ("Discounted Cash Flow" or "DCF") valuation under the Income Approach as an indication of Ithaca's FVLCTS. The Income Approach is a valuation technique that provides an estimation of the value of a business based on the cash flows that the business can be expected to generate in the future. The Income Approach is generally an important indicator of value to the owner and to a prospective purchaser of a business because it permits a comparison to be made with alternative investment opportunities. It is not unusual for a prospective purchaser to evaluate the reasonableness of the purchase price of a business by estimating the present value of the projected net cash flows in the future. Ithaca management provided us with a financial model containing production and cash flow projections for the Company and this formed the basis of our analysis under the Income Approach. We compared the FVLCTS indicated by the Income Approach to the Carrying Value of the investment in Ithaca to determine whether an impairment was indicated at the Valuation Date.

Ithaca Operations

In estimating the Recoverable Amount of the investment in Ithaca, we first considered the Company's financial forecasts. These include forecasts from Ithaca's fields and the 10 CNSL fields acquired as part of the transaction. We have detailed the fields and summarised expected financials in the tables below:

Ithaca		CNSL	
Field	**Working Interest**	**Field**	**Working Interest**
Stella	100.0%	Captain	85.0%
Hurricane	100.0%	Alba	23.4%
Harrier	100.0%	Erskine	50.0%
Don SW	40.0%	Britannia	32.4%
Ythan	40.0%	Brodgar	12.5%
W Don	21.4%	Enochdhu	50.0%
Cook	61.3%	Callanish	16.5%
Athena	40.0%	Alder	73.7%
Causeway	64.5%	Elgin-Franklin	3.9%
Fionn	100.0%	Jade	19.9%
Jacky	100.0%		
Courageous	55.0%		
Topaz	35.0%		
Anglia	30.0%		
Broom	8.0%		
Vorlich	34.0%		
Austen	100.0%		
Pierce	7.5%		

Source: Management provided financial model

Financial Forecasts (USD 000s)	2020	2021	2022
Total Net Production (Mboe)	12,385	23,783	24,341
Total Net Revenue	328,026	855,777	1,078,312
Total Operating Costs	(196,405)	(366,959)	(390,920)
Other Income (Hedging)	172,421	5,401	(44,907)
Ooperating Income (Incl Hedging)	304,041	494,220	642,485

Source: Management provided financial model; 2020 numbers exclude Q1 & Q2 numbers

Financial Projections

Management provided us with detailed forecasts for the lifetime of each of Ithaca's and CNSL's fields'. As at the Valuation Date, Ithaca had eight producing fields and four fields in the development stage. We further note that two of the fields which are in the development stage will commence producing hydrocarbons by 2021 whilst the other two fields are in early stages of development. The 10 fields acquired as part of the CNSL transaction are producing fields. Four fields (Captain, Alba, Erskine and Alder) are operated while the remaining six come under non-operated category.

These projections included production forecasts as well as estimates of operating and central costs ("Opex"), capital expenditures ("Capex"), and key assumptions around pricing and inflation. As part of streamlining and cost optimization process, Management revised their production profile based on technical reports and appraisals conducted for the reserves by Ithaca's consultant, NSAI as at March 2020, as well as the opinion and expertise of the Company's technical staff and Management. Furthermore, we note that these projections include certain assumptions for key inputs such as inflation and commodity prices. We further note that the 2P reserves are un-risked whilst a success rate of 35.0 percent is applied to the 2C reserve category. Additionally, the overall 2C value for the fields in the Greater Stella Area utilizes a success rate of 70.0 percent. Please refer to Exhibit 2.0 for detailed financial projections.

The financial projections, which we relied upon for the purposes of our analysis were based on the following assumptions:

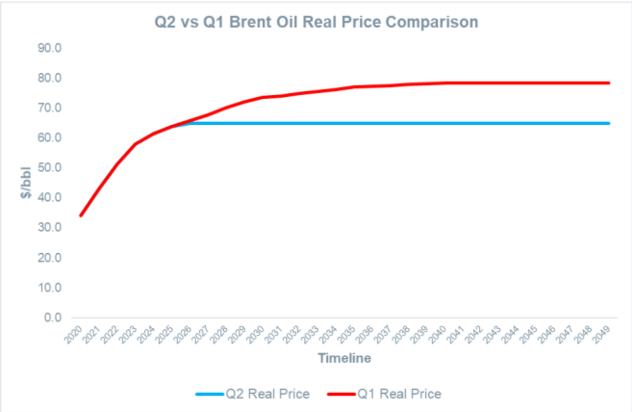
Revenues

Revenue for Ithaca (including CNSL) is derived through the extraction and sale of the oil, gas and natural gas liquids ("NGL") reserves associated with each of the field assets. Revenue is estimated for each field based on the respective field's production profile and price forecasts for the hydrocarbon over the life of the field.

Price Forecasts

Management have provided us with their price forecasts for Brent oil until the projected life of the fields. These forecasts run from Q2 2020 until 2050. Management forecast a real price for Brent for the aforementioned period and utilize an annual inflation factor of 2.0 percent to convert this to nominal terms. For Gas, a real price is forecasted and converted to nominal terms utilizing an inflation factor of 2.0 percent.

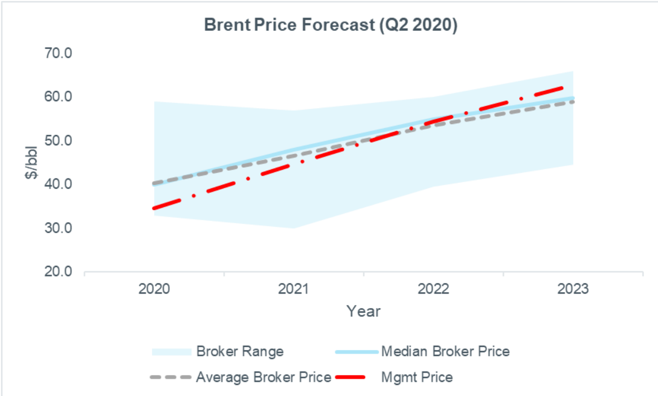
We further note that Management have revised downwards their long-term Brent oil price forecast (in real terms). Real price for Brent oil has been kept flat to USD 65/bbl year 2026 onwards. In the graph below, we illustrate the change in real price for Brent Oil as compared to Q1 2020 price forecast.



Source: Management Brent Oil Price (Real)

Additionally, we note that there is a price-differential applied to each field. The commodity price differential is applied to compensate for the “quality of the hydrocarbon being produced” or the “distance from mouth”, which reflects the logistics of bring the hydrocarbon to the market. We have compared Management’s concluded nominal Brent oil price forecast against the price decks provided by the third parties and conclude that Management’s pricing assumptions are within a reasonable range.

Furthermore, we have relied upon Management’s price forecast for our analysis. Please see below for an illustration of Management’s nominal Brent oil price forecast as compared to consultants’ estimates and refer to Exhibit 4.0 for further details:

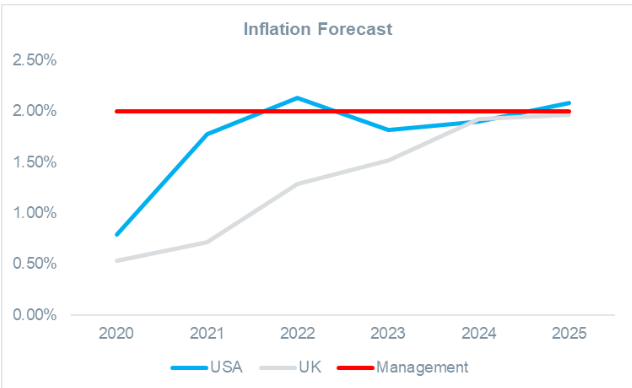


Source: Bloomberg, D&P Analysis

Inflation

Management relied upon an inflation assumption of 2.0 percent annually in their projections. To validate this assumption, we compared it to the inflation forecast from IHS Markit's latest data as of June 2020 for long-term inflation expectations. We note that while revenues for Ithaca are forecast in USD, most of the Company's costs are incurred in GBP, and we therefore considered inflation expectations for both the United States and United Kingdom.

We also note that due to COVID-19, developed and developing economies are undergoing economic slowdown. State governments and global organisations such as the IMF have provided financial benefits/bailout packages to revive the economic activity. However, there remains immense uncertainty around speed and magnitude of the economic recovery. Certain sectors such as aviation, commercial real estate, apparel retail and hospitality & tourism have been adversely impacted more than other sectors. Given the uncertainty around inflation forecast, assumption of long-term inflation factor of 2.0 percent seems appropriate given the current economic environment. The comparison for inflation forecast is illustrated in the following graph:



Source: IHS Markit Inflation Forecast, June 2020

Operating Expenses and Central Costs

Management has provided us with estimates of the cash operating costs required for the day-to-day operation of the extraction activities. In addition, Ithaca will incur some central costs, such as administrative expenses and hedging costs. NSAI has estimated these costs over the life of the assets. Additionally, we note that these costs remain unchanged from our Q1 2020 analysis.

Capital Expenditures

The Capex reflected in Management's forecasts include investments in wells and the costs incurred to bring these wells to a producing stage. We note that under UK regulations capital expenditures in the oil and gas industry are immediately depreciable and are thus treated as expenses in our projections. Additionally, we note that these costs remain unchanged from our Q1 2020 analysis.

Decommissioning Costs

At the end of the life of each oil and gas field, Ithaca will incur certain abandonment costs for the operating basins/fields. These costs are associated with decommissioning the equipment and facilities and are mandated for an exploration company to meet its requirements for and environmental clean-up required once production at the respective field has ceased. Management has provided us with an estimation of future decommissioning costs expectations.

Taxes

We note that in the course of acquiring and developing its assets, Ithaca has accrued significant net operating losses ("NOLs"), which reduce the future taxes payable for the Company. Going forward, profits from CNSL assets can be offset by Ithaca's existing NOLs along with the tax relief which Ithaca will receive as part of the decommissioning costs. As a result, Ithaca is expected to offset all taxable profits and will begin paying taxes in 2025.

Discount Rate Determination

When applying the Income approach, the cash flows expected to be generated by a business or asset are discounted to their present value equivalent using a rate of return that reflects the relative risk of the investment, as well as the time value of money. In determining the appropriate discount rate to be applied to the forecasted cash flows, we considered the weighted average cost of capital ("WACC").

Weighted Average Cost of Capital

The WACC is calculated by weighting the required returns on interest-bearing debt and common equity capital in proportion to their estimated percentages in an expected industry capital structure.

The general formula for calculating the WACC is:

$$WACC = \frac{E}{E+D}k_e + \frac{D}{E+D}k_d(1-t)$$

Where:

k_d	=	Pre-tax rate of return on debt capital;
k_e	=	Rate of return on equity capital; and
D	=	Debt capital;
E	=	Equity capital;
t	=	Applicable tax rate.

Required Return on Equity

We used the Capital Asset Pricing Model ("CAPM") to estimate the required return on equity. The CAPM is described in the following sections.

Capital Asset Pricing Model

CAPM has been empirically tested and is widely accepted for the purpose of estimating a company's required return on equity capital. In applying the CAPM, the rate of return on equity is estimated as the sum of the current risk-free rate of return, plus a Market Equity Risk Premium expected over the risk-free rate of return, multiplied by the "beta" for the stock, plus a size premium (where applicable). Beta is defined as a risk measure that reflects the sensitivity of a company's stock price to the movements of the stock market as a whole.

The CAPM rate of return on equity capital is calculated using the following formula:

$$k_e = R_f + \beta(R_M - R_f) + SSP$$

Where:

k_e	=	Rate of return on equity capital;
R_f	=	Risk free rate of return;
β	=	Beta or systematic risk for this type of equity investment;
R_M - R_f	=	Market Equity Risk Premium (the expected return on a broad portfolio of stocks in the market (R_M) less the risk-free rate (R_f)); and
SSP	=	Small Stock Premium.

Risk-free Rate of Return

For the risk-free rate of return, we used a yield on 20-year US government bonds as of the Valuation Date. Research indicates that the low yields observed currently represent an aberration, overly influenced by a "flight to quality." Indications are that these low yields may not be sustainable. As a result, we applied a longer-term normalised yield of 2.5 percent instead of the spot yield. These yields are "risk-free" only in nominal terms (i.e., if they are held to maturity, default risk is assumed to be negligible).

Beta

Beta (β) is a statistical measure of the volatility of the price of a specific stock relative to the movement of a general group. Generally, beta is considered to be indicative of the market's perception of the relative risk of the specific stock. For unlisted firms, practical application of the CAPM is dependent upon the ability to identify publicly traded companies that have similar risk characteristics as the subject company/assets in order to derive meaningful measures of beta.

Market Equity Risk Premium

Due to the increased risk of holding equity securities as compared to holding debt securities, investors demand a risk premium as part of their return on equity capital. This risk premium is defined as the difference between the market return on equity and the risk-free rate of return. Since the expectations of the average investor are not directly observable, the Market Equity Risk Premium must be inferred. Based on a review of historical and forward-looking market risk premium data, we applied a 6.0 percent premium.

Small Stock Premium

The CAPM rate of return is adjusted by a premium that reflects the extra risk of an investment in a small company. This premium is derived from differences in historical returns between small and large company stocks. Using the Duff & Phelps 2020 Valuation Handbook as reference, we consider that the appropriate small stock premium for a company of Ithaca's size is 1.42 percent.

Cost of Debt Capital

The rate of return on debt capital is the rate a prudent debt investor would require on interest-bearing debt. We have utilised a corporate US BB rated bond index rate to determine the pre-tax cost of debt as of the Valuation Date. This rate was then adjusted to account for the normalised risk-free rate, resulting in a yield of 5.4 percent. This yield is an indication of the pre-tax cost of U.S. based debt capital.

$$k_d = (k)(1 - t)$$

Where:

k_d	=	After-tax rate of return on debt capital;
k	=	Pre-tax rate of return on debt capital; and
t	=	Applicable tax rate (30.0 percent).

Tax Rate

We note that a tax rate of 30.0 percent is applied in our WACC calculations. Whilst the marginal tax rate for UK North Sea operators is 40.0 percent, 10.0 percent of this total which reflects supplementary charges is not deductible for finance costs, hence, does not provide a tax-shield for the cash flows.

Weighted Average Cost of Capital Conclusion

The resulting post-tax WACC was calculated as 10.0 percent. See Exhibit 3.0 for details on the WACC calculations.

Recoverable Amount

Present Value of Projected Cash Flows

Based on the assumptions described above, we estimated the total present value of future cash flows on an Enterprise Value basis to be USD 2.53 billion.

Recoverable Amount

We have estimated the Adjusted Enterprise Value of the Company to be approximately USD 2.57 billion. This includes a net working capital surplus of c. USD 36 million as at the Valuation Date. We have made further adjustments for Gross Debt of USD 1.64 billion which also includes an amount of c. USD 51 million payable to Petrofac in relation to the acquisition of their interest in the GSA in 2018. We further note that Delek’s Shareholder Loan to Ithaca of USD 267.5 million is a part of the Gross Debt. We have therefore added this back in our calculations to arrive at the Net Equity Value including Shareholder Loans. The table below illustrates our calculations to derive the Equity Value.

Calculation of Carrying Value

Equity Value (USD 000s)	
Adjusted Enterprise Value	2,567,104
Less: Gross Debt	(1,639,069)
Add: Cash	9,500
Add: Shareholder Loan	267,469
Equity Value	**1,205,004**
Equity Value (Rounded)	**1,200,000**

Management has provided us with the Carrying Value of the investment in Ithaca as per Delek's records. In estimating the Carrying Value we understand that financial assets (cash) and financial liabilities (long-term and short-term debt, provisions for liabilities and obligations under finance leases) were excluded. We note however that Delek has extended a shareholder loan to Ithaca which has been included in the Carrying Value. As of the Valuation Date the balance of the loan including accrued interest was USD 267.5 million. As stated above, we have included this in our calculations.

As provided to us by Management, the estimated Carrying Value of the investment in Ithaca amounts to USD 1.08 billion.

Conclusion – Ithaca Impairment Testing

As illustrated in the table below, the Recoverable Amount as of the Valuation Date is above the Carrying Value of the investment in Ithaca, thus, indicating no Goodwill Impairment as of the Valuation Date.

IAS 36 Impairment Conclusion (USD 000s)	
Estimated Recoverable Amount	1,200,000
Carrying Value at Valuation Date	1,082,000
Indicated Excess / (Impairment)	**118,000**

Section 04

Limiting Conditions

Limiting Conditions

This document has been prepared solely for the Management and directors of Delek for the purposes stated herein and should not be relied upon for any other purpose. Unless required by law, this report shall not be provided to any third party (with the exception of the appropriate tax and regulatory authorities and Delek's auditors and legal and tax advisors) without our prior written consent. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to which the report is disclosed or otherwise made available.

Our procedures did not include investigation of, and we assume no responsibility for, the titles to, or any liens against, the assets of Delek or Ithaca. Furthermore, we assume there are no hidden, unapparent, or unexpected conditions that could affect the value of the business and accept no responsibility for discovering such conditions.

While our work has involved an analysis of financial information and accounting records, our engagement does not include an audit in accordance with generally accepted auditing standards of Delek's existing business records. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided by and on behalf of Delek or Ithaca.

Budgets, projections, and forecasts relate to future events and are based on assumptions that may not remain valid for the whole of the relevant period. Consequently, this information cannot be relied upon to the same extent as that derived from audited accounts for completed accounting periods. We express no opinion as to how closely the actual results will correspond to those projected or forecast by Delek or Ithaca.

We determined Recoverable Amount assuming the ongoing use of the assets in the existing business. Accordingly, the conclusions reached in this valuation are meaningful only for the specific purpose of this engagement as stated above.

In the course of our valuation, we used financial and other information, including prospective financial information, provided to us by Delek or Ithaca management or obtained from public sources we believe to be reliable; the more significant sources of this information are identified in this report. Our conclusions are dependent on such information being complete and accurate in all material respects; however, we have not examined such information and, accordingly, do not express an opinion or any other form of assurance thereon.

In accordance with our agreement, this report is limited to estimating the Recoverable Amount of the investment in Ithaca and the GSA CGU for impairment testing purposes. Additional issues may exist that could affect the local jurisdiction tax treatment of the Company with respect to which we have prepared this report. This report does not consider or provide a conclusion with respect to any of those issues. With respect to any significant local jurisdiction tax issue outside the scope of this report, this report was not written, and cannot be used, by anyone for the purpose of avoiding local jurisdiction tax penalties.

Section 06

Exhibits

Delek Group Ltd. **Exhibit 2.0**
Ithaca Energy Ltd. Impairment Testing Page 1/2
Valuation Date: June 30, 2020
Ithaca Discounted Cash Flow Analysis
Currency in USD Thousands (Unless otherwise noted)

	30/06/2020	01/01/2021	01/01/2022	01/01/2023	01/01/2024	01/01/2025	01/01/2026	01/01/2027	01/01/2028	01/01/2029	01/01/2030	01/01/2031
	30/09/2020	02/07/2021	02/07/2022	02/07/2023	01/07/2024	02/07/2025	02/07/2026	02/07/2027	01/07/2028	02/07/2029	02/07/2030	02/07/2031
	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/12/2024	31/12/2025	31/12/2026	31/12/2027	31/12/2028	31/12/2029	31/12/2030	31/12/2031
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Brent Oil price (Nominal)	34.5	44.8	54.5	62.8	67.9	71.9	74.7	76.2	77.7	79.2	80.8	82.4
Net Production (1)												
Ithaca	3,126	6,759	7,990	8,986	10,851	12,701	9,193	5,402	3,318	2,215	1,426	1,539
CNSL	9,259	17,024	16,351	15,726	15,582	16,103	16,730	13,724	9,887	6,248	4,440	3,094
Total Net Production (Mboe)	**12,385**	**23,783**	**24,341**	**24,712**	**26,433**	**28,805**	**25,923**	**19,126**	**13,205**	**8,463**	**5,866**	**4,633**
Net Revenue												
Ithaca	73,240	226,841	329,233	422,384	542,581	672,682	466,790	263,888	160,995	108,325	79,874	102,919
CNSL	254,786	628,937	749,079	836,935	912,861	1,022,470	1,137,453	955,594	696,841	468,638	336,770	242,887
Total Net Revenue	**328,026**	**855,777**	**1,078,312**	**1,259,319**	**1,455,441**	**1,695,152**	**1,604,244**	**1,219,482**	**857,835**	**576,963**	**416,644**	**345,806**
% growth		*160.9%*	*26.0%*	*16.8%*	*15.6%*	*16.5%*	*(5.4%)*	*(24.0%)*	*(29.7%)*	*(32.7%)*	*(27.8%)*	*(17.0%)*
Operating Costs												
Ithaca	(42,905)	(65,416)	(84,626)	(92,988)	(123,591)	(152,196)	(135,289)	(106,982)	(90,108)	(74,978)	(59,756)	(55,244)
CNSL	(153,500)	(301,543)	(306,294)	(313,900)	(338,530)	(373,448)	(354,502)	(321,619)	(295,397)	(229,099)	(180,499)	(127,378)
Total Operating Costs	**(196,405)**	**(366,959)**	**(390,920)**	**(406,887)**	**(462,121)**	**(525,644)**	**(489,792)**	**(428,601)**	**(385,505)**	**(304,077)**	**(240,254)**	**(182,622)**
EBITDA	**131,620**	**488,819**	**687,392**	**852,432**	**993,320**	**1,169,508**	**1,114,452**	**790,880**	**472,330**	**272,886**	**176,390**	**163,184**
			40.6%	*24.0%*	*16.5%*	*17.7%*	*(4.7%)*	*(29.0%)*	*(40.3%)*	*(42.2%)*	*(35.4%)*	*(7.5%)*
Other Income (Costs) - G&A and Hedging												
Ithaca	172,421	5,401	(44,907)	(16,237)	(16,563)	(16,894)	(17,232)	(14,647)	(9,562)	(9,754)	(9,949)	(10,148)
CNSL	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Income (Costs) - G&A and Hedging	172,421	5,401	(44,907)	(16,237)	(16,563)	(16,894)	(17,232)	(14,647)	(9,562)	(9,754)	(9,949)	(10,148)
Net Capex												
Ithaca	(30,827)	(42,915)	(116,509)	(210,294)	(100,297)	-	-	-	-	-	(15,871)	-
CNSL	(50,658)	(132,725)	(195,262)	(114,482)	(215,484)	(118,865)	(79,021)	(74,995)	(42,420)	(7,991)	-	-
Total Net Capex	**(81,485)**	**(175,639)**	**(311,772)**	**(324,776)**	**(315,781)**	**(118,865)**	**(79,021)**	**(74,995)**	**(42,420)**	**(7,991)**	**(15,871)**	**-**
DSA Postings												
Ithaca	(470)	(1,300)	(1,200)	(1,664)	(1,731)	(970)	(1,040)	(1,363)	(1,386)	(1,741)	(1,824)	(236)
CNSL	(2,097)	(4,362)	(5,205)	(5,946)	(6,502)	(7,054)	(7,534)	(7,092)	(7,432)	(7,289)	(8,293)	(8,132)
Total DSA Postings	(2,567)	(5,662)	(6,405)	(7,610)	(8,233)	(8,024)	(8,574)	(8,455)	(8,818)	(9,030)	(10,117)	(8,368)
Decommissioning Costs												
Ithaca	(19,599)	(8,454)	(63,777)	(58,582)	(16,492)	(4,766)	-	-	-	(21,165)	(27,450)	-
CNSL	-	-	-	-	-	-	-	(45,090)	-	(185,885)	(52,111)	(122,363)
Total Decommissioning Costs (2)	(19,599)	(8,454)	(63,777)	(58,582)	(16,492)	(4,766)	-	(45,090)	-	(207,050)	(79,561)	(122,363)
Pre-Tax Income	**200,390**	**304,465**	**260,530**	**445,227**	**636,252**	**1,020,958**	**1,009,625**	**647,693**	**411,530**	**39,061**	**60,892**	**22,306**
Margin	*61.1%*	*35.6%*	*24.2%*	*35.4%*	*43.7%*	*60.2%*	*62.9%*	*53.1%*	*48.0%*	*6.8%*	*14.6%*	*6.5%*
Total Tax Payable	**-**	**-**	**-**	**-**	**-**	**(240,605)**	**(367,778)**	**(254,390)**	**(161,961)**	**(15,125)**	**(23,365)**	**(8,923)**
Free Cash Flow	**200,390**	**304,465**	**260,530**	**445,227**	**636,252**	**780,353**	**641,847**	**393,303**	**249,569**	**23,936**	**37,527**	**13,384**
Partial Period	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Mid-Year Adjustment	0.25	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00	11.00
PV Factor @ 10.0%	0.9765	0.9091	0.8264	0.7513	0.6830	0.6209	0.5645	0.5132	0.4665	0.4241	0.3855	0.3505
PV of Free Cash Flow to Firm	**195,671**	**276,786**	**215,314**	**334,506**	**434,569**	**484,538**	**362,306**	**201,827**	**116,426**	**10,151**	**14,468**	**4,691**

Preliminary Enterprise Value	2,530,904
Add: Working Capital Surplus (3)	36,200
Adjusted Enterprise Value	**2,567,104**
Less: Gross Debt (4)	(1,639,069)
Add: Cash (5)	9,500
Add: Shareholder Loan (6)	267,469
Equity Value	**1,205,004**
Equity Value (Rounded)	**1,200,000**

WACC Sensitivity

9.5%	**10.0%**	10.5%
1,245,597	**1,205,004**	1,165,146

Notes:
(1) Production forecasts have been provided by Management.
(2) Decommissioning cost estimates have been provided by Management.
(3) Working Capital surplus as at Valuation Date, provided by Management.
(4) Gross Debt includes the RBL facility, Bonds, GSA Acquisition Payment and the SH Loan.
(5) Provided by Management.
(6) Includes principal loan amount of USD 250 mn and accrued interest of USD 17.5 mn

Currency in USD Thousands (Unless otherwise noted)

	01/01/2032	01/01/2033	01/01/2034	01/01/2035	01/01/2036	01/01/2037	01/01/2038	01/01/2039	01/01/2040	01/01/2041	01/01/2042	01/01/2043
	01/07/2032	02/07/2033	02/07/2034	02/07/2035	01/07/2036	02/07/2037	02/07/2038	02/07/2039	01/07/2040	02/07/2041	02/07/2042	02/07/2043
	31/12/2032	31/12/2033	31/12/2034	31/12/2035	31/12/2036	31/12/2037	31/12/2038	31/12/2039	31/12/2040	31/12/2041	31/12/2042	31/12/2043
	2032	**2033**	**2034**	**2035**	**2036**	**2037**	**2038**	**2039**	**2040**	**2041**	**2042**	**2043**
Brent Oil price (Nominal)	84.1	85.8	87.5	89.3	91.0	92.9	94.7	96.6	98.6	100.5	102.5	104.6
Net Production (1)												
Ithaca	391	-	-	-	-	-	-	-	-	-	-	-
CNSL	2,597	2,238	930	153	143	134	-	-	-	-	-	-
Total Net Production (Mboe)	**2,988**	**2,238**	**930**	**153**	**143**	**134**	**-**	**-**	**-**	**-**	**-**	**-**
Net Revenue												
Ithaca	27,653	-	-	-	-	-	-	-	-	-	-	-
CNSL	207,761	182,611	74,296	8,258	7,893	7,551	-	-	-	-	-	-
Total Net Revenue	**235,413**	**182,611**	**74,296**	**8,258**	**7,893**	**7,551**	**-**	**-**	**-**	**-**	**-**	**-**
% growth	*(31.9%)*	*(22.4%)*	*(59.3%)*	*(88.9%)*	*(4.4%)*	*(4.3%)*						
Operating Costs												
Ithaca	(18,734)	-	-	-	-	-	-	-	-	-	-	-
CNSL	(126,455)	(127,259)	(57,518)	(7,117)	(7,223)	(7,334)	-	-	-	-	-	-
Total Operating Costs	**(145,189)**	**(127,259)**	**(57,518)**	**(7,117)**	**(7,223)**	**(7,334)**	**-**	**-**	**-**	**-**	**-**	**-**
EBITDA	**90,224**	**55,352**	**16,778**	**1,141**	**670**	**217**	**-**	**-**	**-**	**-**	**-**	**-**
	(44.7%)	*(38.7%)*	*(69.7%)*	*(93.2%)*	*(41.3%)*	*(67.7%)*						
Other Income (Costs) - G&A and Hedging												
Ithaca	(10,351)	(10,558)	(5,385)	(5,492)	(5,602)	(5,715)	-	-	-	-	-	-
CNSL	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Income (Costs) - G&A and Hedging	(10,351)	(10,558)	(5,385)	(5,492)	(5,602)	(5,715)	-	-	-	-	-	-
Net Capex												
Ithaca	-	-	-	-	-	-	-	-	-	-	-	-
CNSL	-	-	-	-	-	-	-	-	-	-	-	-
Total Net Capex	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
DSA Postings												
Ithaca	-	-	-	-	-	-	-	-	-	-	-	-
CNSL	(5,952)	(6,323)	(5,354)	(4,327)	(3,081)	(1,925)	(542)	(365)	(185)	-	-	-
Total DSA Postings	(5,952)	(6,323)	(5,354)	(4,327)	(3,081)	(1,925)	(542)	(365)	(185)	-	-	-
Decommissioning Costs												
Ithaca	(15,323)	(141,035)	-	-	-	-	-	-	-	-	-	-
CNSL	(85,742)	(32,153)	(32,796)	(142,090)	(165,607)	(147,838)	(166,880)	(16,281)	(16,607)	(16,940)	-	-
Total Decommissioning Costs (2)	(101,065)	(173,188)	(32,796)	(142,090)	(165,607)	(147,838)	(166,880)	(16,281)	(16,607)	(16,940)	-	-
Pre-Tax Income	**(27,144)**	**(134,717)**	**(26,757)**	**(150,768)**	**(173,620)**	**(155,261)**	**(167,422)**	**(16,646)**	**(16,792)**	**(16,940)**	**-**	**-**
Margin	*(11.5%)*	*(73.8%)*	*(36.0%)*	*(1,825.8%)*	*(2,199.6%)*	*(2,056.2%)*	-	-	-	-	-	-
Total Tax Payable	**10,858**	**53,887**	**10,703**	**56,836**	**66,243**	**59,135**	**66,752**	**6,512**	**6,643**	**6,776**	**-**	**-**
Free Cash Flow	**(16,286)**	**(80,830)**	**(16,054)**	**(93,932)**	**(107,377)**	**(96,125)**	**(100,670)**	**(10,133)**	**(10,149)**	**(10,164)**	**-**	**-**
Partial Period	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Mid-Year Adjustment	12.00	13.00	14.00	15.00	16.00	17.00	18.00	19.00	20.00	21.00	22.00	23.00
PV Factor @ 10.0%	0.3186	0.2897	0.2633	0.2394	0.2176	0.1978	0.1799	0.1635	0.1486	0.1351	0.1228	0.1117
PV of Free Cash Flow to Firm	**(5,189)**	**(23,414)**	**(4,228)**	**(22,487)**	**(23,368)**	**(19,018)**	**(18,106)**	**(1,657)**	**(1,509)**	**(1,373)**	**-**	**-**

Preliminary Enterprise Value	2,530,904
Add: Working Capital Surplus (3)	36,200
Adjusted Enterprise Value	**2,567,104**
Less: Gross Debt (4)	(1,639,069)
Add: Cash (5)	9,500
Add: Shareholder Loan (6)	267,469
Equity Value	**1,205,004**
Equity Value (Rounded)	**1,200,000**

Notes:
(1) Production forecasts have been provided by Management.
(2) Decommissioning cost estimates have been provided by Management.
(3) Working Capital surplus as at Valuation Date, provided by Management.
(4) Gross Debt includes the RBL facility, Bonds, GSA Acquisition Payment and the SH Loan.
(5) Provided by Management.
(6) Includes principal loan amount of USD 250 mn and accrued interest of USD 17.5 mn

Delek Group Ltd.

Exhibit 3.0

Ithaca Energy Ltd. Impairment Testing

Valuation Date: June 30, 2020

Weighted Average Cost of Capital

Currency in Local Thousands (Unless otherwise noted)

Assumptions and Sources		
Valuation Date	30-Jun-20	
Risk-Free Rate (Rf)	2.5%	D&P Normalised Risk Free Rate
Pretax Required Rate on Debt Capital (i)	7.8%	Normalised USD BB rated bond
Equity Risk Premium (Rp)	6.0%	D&P Normalised EMRP
Small Stock Premium (Ssp)	1.42%	Duff & Phelps 2020 Handbook, Micro Cap
Effective Tax Rate - Target (tt)	30.0%	Target Tax Rate
Beta (Relevered) (β)	1.54	Industry Median
Debt / Capital (D) (6)	40.0%	Industry Characteristics and Expected Leverage
Equity / Capital (E)	60.0%	Industry Characteristics and Expected Leverage
Alpha (α)	0.0%	Company Characteristics

Formulas	
Unlevered Beta =	Beta (Observed) / [1 + D/E (1 - ti)]
Relevered Beta =	Unlevered Beta * [1 + D/E (1 - tt)]
Industry Average D/E =	(Debt/Capital) / (Equity/Capital)

Relevered Beta Analysis	
Beta (Unlevered)	1.05
Industry D/E	66.7%
Effective Tax Rate - Target (tt)	30.0%
Beta (Relevered)	1.54

Comparable Company Analysis

Company	Ticker	S&P Credit Rating	Beta (Predicted) (1)	Book Value of Debt (2)	Share Price	Number of Common Shares Outstanding	Market Value of Equity	Minority Interest (Equity)	Total Capital	Debt/Equity	Debt/Capital	Individual Country Tax Rate (3)	Beta (Unlevered) (5)
Cairn Energy PLC	LSE:CNE	NR	2.01	283	1.18	583	686	-	969	41.2%	29.2%	40.0%	1.61
Premier Oil plc	LSE:PMO	NR	2.25	2,902	0.52	837	431	-	3,334	672.8%	87.1%	40.0%	0.45
Aker BP ASA	OB:AKERBP	BBB-	2.19	3,944	175.30	360	63,040	-	66,985	6.3%	5.9%	41.4%	2.11
Lundin Energy AB (publ)	OM:LUNE	NR	1.82	3,704	224.60	284	63,798	-	67,502	5.8%	5.5%	41.4%	1.76
Equinor ASA	OB:EQNR	AA-	1.48	28,520	136.60	3,297	450,393	19	478,932	6.3%	6.0%	41.4%	1.42
	Selected										**40.0%**		**1.05**

Weighted Average Rate of Return - Capital Asset Pricing Model

	Required Return		Weighting	WACC
Debt	5.4%	x	40.0%	2.2%
Equity	13.2%	x	60.0%	7.9%
Weighted Average Cost of Capital				10.1%
Weighted Average Cost of Capital (rounded)				**10.0%**

WACC Sensitivity Table

Beta (Relevered)	1.14	1.34	**1.54**	1.74	1.94
WACC	9.0%	9.0%	**10.0%**	11.0%	12.0%

Notes:

(1) BARRA Betas as at June 2020.
(2) Debt includes short term and long term interest-bearing debt plus capital leases and preferred stock.
(3) Estimated effective tax rate for exploration and production companies.
(4) Small Stock Premium per D&P Valuation Handbook 2020
(5) Premier Oil, Aker BP ASA and Lundin Petroleum have been given less weighting in our determination of the unlevered beta.

Delek Group Ltd.

Exhibit 4.0

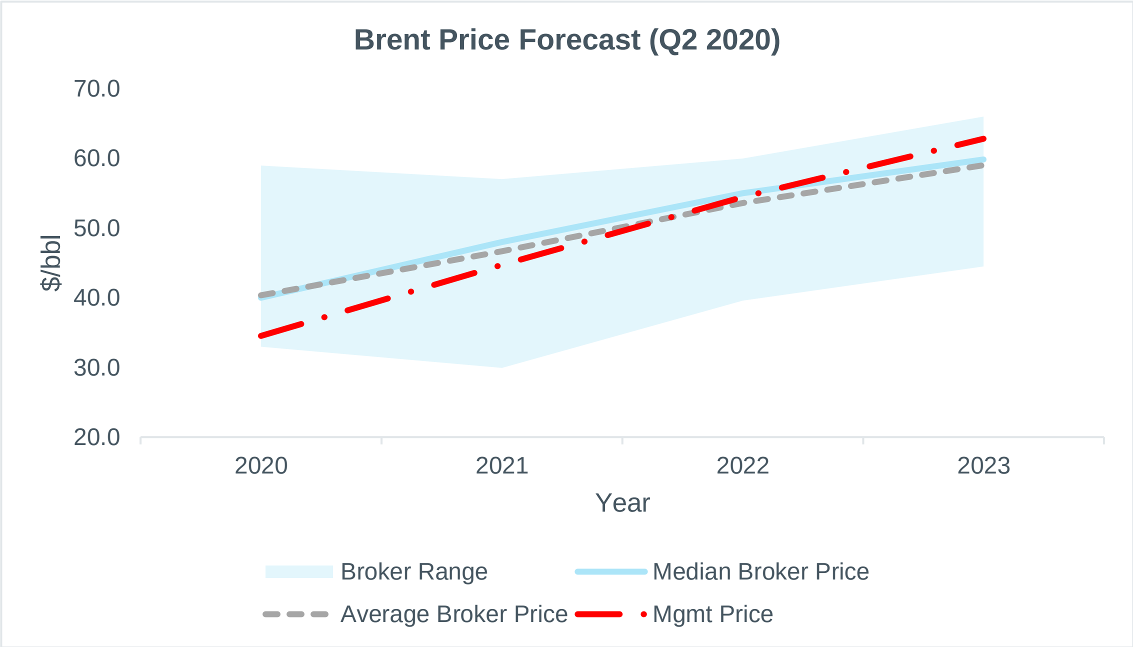
Ithaca Energy Ltd. Impairment Testing

Valuation Date: June 30, 2020

Brent Oil Price Forecast Benchmarking

Currency in USD per bbl

Firm (1)	As of	2020	2021	2022	2023
EIA	07-Jul-20	40.5	49.7	n/a	n/a
GLJ Consultants	01-Jul-20	43.5	48.0	51.5	56.5
McDaniel & Associates	01-Jul-20	43.0	49.0	55.1	58.9
Sproule	30-Jun-20	43.0	48.0	55.0	59.0
Citigroup Inc	30-Jun-20	42.0	57.0	n/a	n/a
Intesa Sanpaolo SpA	29-Jun-20	41.1	50.0	55.0	58.5
Fitch Solutions	25-Jun-20	40.0	49.0	55.0	60.0
BBVA Research SA	25-Jun-20	41.0	49.8	60.0	59.7
Westpac Banking Corp	19-Jun-20	36.3	29.9	39.6	44.5
Commerzbank AG	19-Jun-20	40.0	45.0	n/a	n/a
Landesbank Baden-Wuerttemberg	18-Jun-20	40.0	45.0	50.0	n/a
Emirates NBD PJSC	17-Jun-20	35.5	40.6	n/a	n/a
Societe Generale SA	09-Jun-20	59.0	46.3	50.0	65.0
HSBC Holdings PLC	08-Jun-20	39.0	50.0	60.0	61.2
Capital Economics Ltd	02-Jun-20	41.0	50.0	58.0	n/a
Deutsche Bank AG	29-May-20	39.2	45.0	55.0	60.0
MPS Capital Services Banca per le Imprese SpA	26-May-20	38.0	n/a	n/a	n/a
Natixis SA	22-May-20	39.1	43.0	n/a	n/a
IHS Markit	18-May-20	37.0	43.0	49.0	55.0
BNP Paribas SA	12-May-20	40.0	54.0	n/a	n/a
Market Risk Advisory Co Ltd	12-May-20	39.0	41.0	49.0	62.0
Rabobank International	28-Apr-20	38.0	51.0	60.0	66.0
Bank of Nova Scotia	07-Apr-20	33.0	42.0	55.0	60.0
Max		59.0	57.0	60.0	66.0
Median		40.0	48.0	55.0	59.9
Average		40.4	46.6	53.6	59.0
Min		33.0	29.9	39.6	44.5
Brent Futures (2)		41.4	43.1	45.1	46.8
Management Price Curve (3)		34.5	44.8	54.5	62.8



Notes:

(1) Source: Bloomberg, Brent Forecasts from 07/04/2020 to 30/06/2020, other Third-Party forecasts

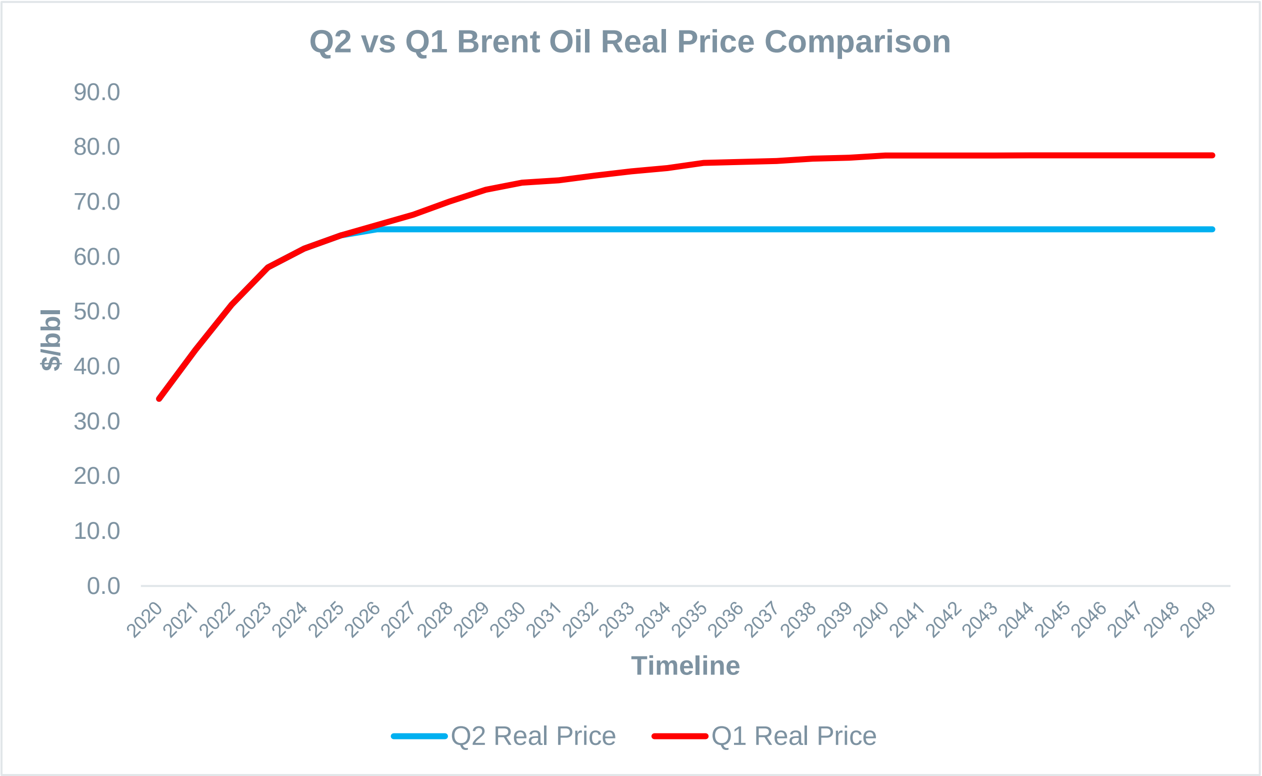
(2) Source: S&P Capital IQ, Brent Futures as at 30/06/2020

(3) Management Price provided by Management as at Q1 2020

Brent Oil Price Forecast Comparison (1)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Q2 Real Price	34	43	51	58	61	64	65	65	65	65	65	65	65	65	65
Q1 Real Price	34.1	43.0	51.3	58.0	61.5	63.9	65.8	67.7	70.1	72.2	73.5	73.9	74.8	75.6	76.2

	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049
Q2 Real Price	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0
Q1 Real Price	77.1	77.3	77.4	77.9	78.1	78.5	78.5	78.5	78.5	78.4	78.4	78.4	78.4	78.4	78.4



Source:
(1) Management's price forecast for Brent Oil ($/bbl)

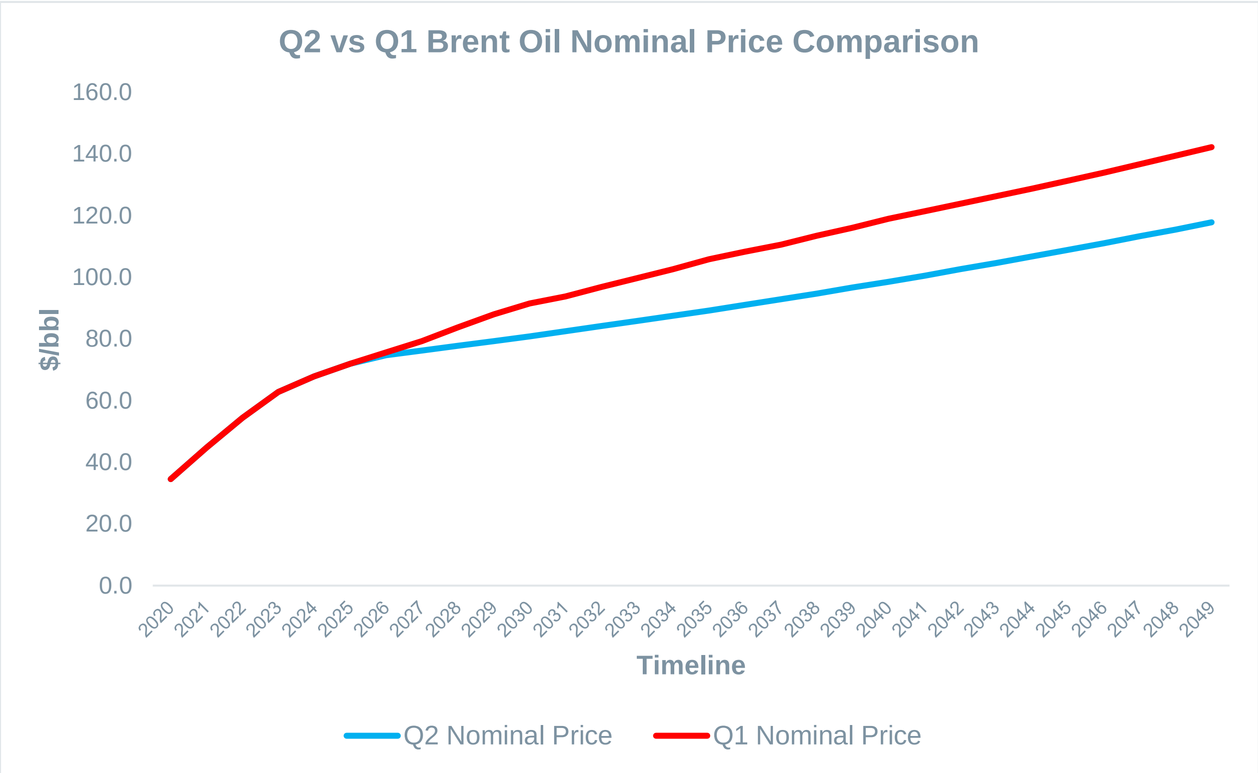
Delek Group Ltd. **Exhibit 6.0**
Ithaca Energy Ltd. Impairment Testing
Valuation Date: June 30, 2020

Brent Oil Price (Nominal) Forecast Comparison
Currency in Local Thousands (Unless otherwise noted)

Brent Oil Price Forecast Comparison (1)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Q2 Nominal Price	34.5	44.8	54.5	62.8	67.9	71.9	74.7	76.2	77.7	79.2	80.8	82.4	84.1	85.8	87.5
Q1 Nominal Price	34.5	44.8	54.5	62.8	67.9	71.9	75.6	79.3	83.8	88.0	91.4	93.8	96.8	99.7	102.6

	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049
Q2 Nominal Price	89.3	91.0	92.9	94.7	96.6	98.6	100.5	102.5	104.6	106.7	108.8	111.0	113.2	115.5	117.8
Q1 Nominal Price	105.9	108.3	110.6	113.5	116.0	118.9	121.3	123.8	126.2	128.8	131.3	134.0	136.6	139.4	142.2



Source:
(1) Management's price forecast for Brent Oil ($/bbl)

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Chapter

C

Financial Statements

Delek Group Ltd.

Consolidated Interim Financial Statements as at June 30, 2020

Unaudited

Contents

Consolidated Balance Sheets

	June 30 2020	June 30 2019	December 31 2019
	Unaudited	Unaudited	Audited
	NIS million		
Current assets			
Cash and cash equivalents	540	1,255	1,517
Short-term investments	1,036	484	786
Trade receivables	1,614	1,573	1,894
Other receivables	389	922	514
Current tax assets	37	80	83
Financial derivatives	596	214	213
Inventory	428	224	477
	4,640	4,752	5,484
Assets held for sale	1,966	101,068	-
	6,606	105,820	5,484
Non-current assets			
Long-term loans, deposits, and receivables	2,683	2,873	3,667
Other financial assets	145	364	675
Investments in associates	394	623	492
Investment property	365	390	432
Right-of-use assets	874	1,025	910
Financial derivatives	181	123	182
Investments in exploration and production of oil and gas assets, net	24,027	20,952	27,687
Fixed assets, net	831	2,119	2,129
Goodwill	3,149	1,421	4,174
Other intangible assets, net	7	4	7
Deferred taxes	1,671	2,289	1,124
	34,327	32,183	41,479
	40,933	138,003	46,963

The accompanying notes are an integral part of the consolidated interim financial statements.

Consolidated Balance Sheets

	June 30 2020	June 30 2019	December 31 2019
	Unaudited	Unaudited	Audited
	NIS million		
Current liabilities			
Borrowings and current maturities from banks and others	16,110	2,814	5,006
Trade payables	1,073	863	1,246
Other payables	1,254	1,437	1,439
Current maturities of lease liabilities	152	130	147
Current tax liabilities	246	27	497
Financial derivatives	119	39	202
	18,954	5,310	8,537
Liabilities attributable to assets held for sale	542	95,769	-
	19,496	101,079	8,537
Non-current liabilities			
Loans from banks and others	3,129	9,291	12,091
Debentures	5,265	9,959	9,821
Convertible debentures and liabilities	171	691	865
Liabilities for employee benefits	9	12	11
Lease liability	733	901	771
Financial derivatives	74	-	35
Provisions and other liabilities	5,209	1,945	5,333
Deferred taxes	1,685	1,950	1,922
	16,275	24,749	30,849
Capital			
Share capital	14	13	13
Share premium	2,041	1,910	1,919
Proceeds for conversion options	18	27	18
Options	12	-	-
Retained earnings	314	3,628	3,382
Foreign currency translation differences for foreign operations	(506)	(388)	(653)
Capital reserve from transactions with non-controlling interests	(672)	(336)	(289)
Other reserves	521	148	(3)
Treasury shares	(314)	(150)	(254)
Total equity attributable to shareholders of the Company	1,428	4,852	4,133
Non-controlling interests	3,734	7,323	3,444
Total capital	5,162	12,175	7,577
	40,933	138,003	46,963

August 30, 2020			
Approval date of the financial statements	Gabriel Last Chairman of the Board of Directors	Idan Wallace CEO	Barak Mashraki Executive VP and CFO

The accompanying notes are an integral part of the consolidated interim financial statements.

Consolidated Statements of Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019 *)	2020	2019 *)	2019
	Unaudited				Audited
	NIS million (Other net earnings (loss) per share)				
Revenue	4,761	3,799	1,935	1,956	8,202
Cost of revenues	3,020	2,829	1,126	1,550	6,062
Gross profit	1,741	970	809	406	2,140
Selling, marketing and gas station operating expenses	231	239	110	120	487
General and administrative expenses	167	103	92	58	184
Group share in profits (losses) of operational associates, net	2	2	1	1	(39)
Other revenues (expenses), net	(3,762)	5	(271)	(21)	(879)
Operating profit (loss)	(2,417)	635	337	208	551
Financing income	101	339	35	86	572
Financing expenses	(1,308)	(539)	(535)	(285)	(1,288)
	(3,624)	435	(163)	9	(165)
Group share in profits of associates, net	3	13	1	3	14
Profit (loss) before taxes on income	(3,621)	448	(162)	12	(151)
Taxes on income (tax benefit)	(981)	81	16	(20)	(405)
Profit (loss) from continuing operations	(2,640)	367	(178)	32	254
Profit (loss) from discontinued operations, net	(348)	476	(100)	334	532
Net profit (loss)	(2,988)	843	(278)	366	786
Attributable to:					
Shareholders of the Company	(3,092)	480	(326)	190	234
Non-controlling interests	104	363	48	176	552
	(2,988)	843	(278)	366	786
Net earnings (loss) per share attributable to shareholders of the Company (NIS)					
Basic earnings (loss) from continuing operations	(234.5)	23.8	(18.9)	(0.6)	(0.3)
Basic earnings (loss) from discontinued operations	(29.7)	17.3	(8.3)	16.9	20.4
Basic earnings (loss)	(264.2)	41.1	(27.2)	16.3	20.1
Diluted earnings (loss) from continuing operations	(234.5)	23.4	(18.9)	(0.6)	(0.3)
Diluted earnings (loss) from discontinued operations	(29.7)	16.0	(8.3)	16.9	20.4
Diluted earnings (loss)	(264.2)	39.4	(27.2)	16.3	20.1

*) Restated, see Note 2D

The accompanying notes are an integral part of the consolidated interim financial statements.

Consolidated Statements of Comprehensive Income

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019 *)	2020	2019 *)	2019 *)
	Unaudited				Audited
	NIS millions				
Net profit (loss)	(2,988)	843	(278)	366	786
Other comprehensive income (loss) (net of tax effect):					
Amounts not reclassified to profit or loss:					
Profit (loss) from an investment in equity instruments measured at fair value through other comprehensive income	(139)	(100)	10	(89)	(167)
Total	(139)	(100)	10	(89)	(167)
Amounts classified or reclassified to profit or loss under specific conditions:					
Profit for financial assets at fair value through other comprehensive income	1	-	1	-	-
Profit (loss) for cash flow hedges	985	88	(201)	81	92
Transfer to profit or loss for cash flow hedges	(379)	(52)	(248)	(27)	(100)
Foreign currency translation differences for foreign operations	169	(591)	(241)	(212)	(969)
Transfer to profit or loss for foreign currency translation differences for foreign operations	28	14	13	-	14
Other comprehensive income (loss) attributable to associates, net	(2)	-	-	1	(4)
Total	802	(541)	(676)	(157)	(967)
Total other comprehensive income (loss) from continuing operations	663	(641)	(666)	(246)	(1,134)
Total other comprehensive income from discontinued operations, net	-	139	-	6	148
Total other comprehensive income (loss)	663	(502)	(666)	(240)	(986)
Total comprehensive income (loss)	(2,325)	341	(944)	126	(200)
Attributable to:					
Shareholders of the Company	(2,442)	161	(963)	57	(501)
Non-controlling interests	117	180	19	69	301
	(2,325)	341	(944)	126	(200)

*) Restated, see Note 2D

The accompanying notes are an integral part of the consolidated interim financial statements.

Consolidated Statements of Changes in Equity

	Attributable to shareholders of the Company											
	Share capital	**Share premium**	**Proceeds for conversion options**	**Options**	**Retained earnings**	**Foreign currency translation differences for foreign operations**	**Reserve for transactions with non-controlling interests**	**Other reserves *)**	**Treasury shares**	**Total**	**Non-controlling interests**	**Total capital**
	Unaudited											
	NIS millions											
Balance as at January 1, 2020 (audited)	13	1,919	18	-	3,382	(653)	(289)	(3)	(254)	4,133	3,444	7,577
Net profit (loss)	-	-	-	-	(3,092)	-	-	-	-	(3,092)	104	(2,988)
Other comprehensive income	-	-	-	-	-	117	-	533	-	650	13	663
Total comprehensive income (loss)	-	-	-	-	(3,092)	117	-	533	-	(2,442)	117**)	(2,325)
Issue of shares and options	1	122	-	12	-	-	-	-	-	135	-	135
Acquisition of treasury shares	-	-	-	-	-	-	-	-	(60)	(60)	-	(60)
Disposal of revaluation fund due to disposal of an asset	-	-	-	-	24	-	-	(24)	-	-	-	-
Acquisition of shares from non-controlling interests	-	-	-	-	-	-	(2)	-	-	(2)	(5)	(7)
Deconsolidation	-	-	-	-	-	-	-	-	-	-	(221)	(221)
Sale of shares to non-controlling interests	-	-	-	-	-	30	(381)	15	-	(336)	407	71
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(8)	(8)
Balance as at June 30, 2020	14	2,041	18	12	314	(506)	(672)	521	(314)	1,428	3,734	5,162

*) As at June 2020, mainly capital reserve for cash flow hedges

**) Composition of comprehensive income of non-controlling interests:

Net profit attributable to non-controlling interests	104
Loss for financial assets measured at fair value through other comprehensive income, net	(51)
Loss from cash flow hedges	(5)
Foreign currency translation differences for foreign operations	69
Total comprehensive income attributable to non-controlling interests	117

The accompanying notes are an integral part of the consolidated interim financial statements.

Consolidated Statements of Changes in Equity

	Attributable to shareholders of the Company										
	Share capital	Share premium	Proceeds for conversion options	Retained earnings	Foreign currency translation differences for foreign operations	Reserve for transactions with non-controlling interests	Other reserves *)	Treasury shares	Total	Non-controlling interests	Total capital
	Unaudited										
	NIS millions										
Balance as at January 1, 2019 (audited)	13	1,910	27	3,403	(20)	(324)	99	(143)	4,965	7,305	12,270
Cumulative effect of initial adoption of IFRS 16 as at January 1, 2019	-	-	-	(1)	-	-	-	-	(1)	-	(1)
Balance as at January 1, 2019	13	1,910	27	3,402	(20)	(324)	99	(143)	4,964	7,305	12,269
Net profit	-	-	-	480	-	-	-	-	480	363	843
Other comprehensive income (loss)	-	-	-	-	(368)	-	49	-	(319)	(183)	(502)
Total comprehensive income (loss)	-	-	-	480	(368)	-	49	-	161	180**)	341
Acquisition of treasury shares	-	-	-	-	-	-	-	(7)	(7)	-	(7)
Deconsolidation	-	-	-	-	-	-	-	-	-	(1)	(1)
Transactions with non-controlling interests	-	-	-	-	-	(12)	-	-	(12)	4	(8)
Dividends	-	-	-	(254)	-	-	-	-	(254)	-	(254)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(165)	(165)
Balance as at June 30, 2019	13	1,910	27	3,628	(388)	(336)	148	(150)	4,852	7,323	12,175

*) As at June 30, 2019, including a credit balance of NIS 50 million for investments held for sale.

**) Composition of comprehensive income of non-controlling interests:

Net profit attributable to non-controlling interests	363
Profit for financial assets at fair value through other comprehensive income, net	39
Loss from cash flow hedges	(10)
Foreign currency translation differences for foreign operations	(212)
Total comprehensive income attributable to non-controlling interests	180

The accompanying notes are an integral part of the consolidated interim financial statements.

Consolidated Statements of Changes in Equity

	Attributable to shareholders of the Company											
	Share capital	Share premium	Proceeds for conversion options	Options	Retained earnings	Foreign currency translation differences for foreign operations	Reserve for transactions with non-controlling interests	Other reserves *)	Treasury shares	Total	Non-controlling interests	Total capital
	Unaudited											
	NIS millions											
Balance as at April 1, 2020	13	1,919	18	-	640	(311)	(665)	963	(314)	2,263	3,934	6,197
Net profit (loss)	-	-	-	-	(326)	-	-	-	-	(326)	48	(278)
Other comprehensive loss	-	-	-	-	-	(195)	-	(442)	-	(637)	(29)	(666)
Total comprehensive income (loss)	-	-	-	-	(326)	(195)	-	(442)	-	(963)	19**)	(944)
Issue of shares and options	1	122	-	12	-	-	-	-	-	135	-	135
Deconsolidation	-	-	-	-	-	-	-	-	-	-	(221)	(221)
Sale of shares to non-controlling interests	-	-	-	-	-	-	(7)	-	-	(7)	2	(5)
Balance as at June 30, 2020	14	2,041	18	12	314	(506)	(672)	521	(314)	1,428	3,734	5,162

*) Mainly capital reserve for cash flow hedges

**) Composition of comprehensive income of non-controlling interests:

Net profit attributable to non-controlling interests	48
Profit for cash flow hedges	4
Foreign currency translation differences for foreign operations	(33)
Total comprehensive income attributable to non-controlling interests	19

The accompanying notes are an integral part of the consolidated interim financial statements.

Consolidated Statements of Changes in Equity

	Attributable to shareholders of the Company										
	Share capital	Share premium	Proceeds for conversion options	Retained earnings	Foreign currency translation differences for foreign operations	Reserve for transactions with non-controlling interests	Other reserves *)	Treasury shares	Total	Non-controlling interests	Total capital
	Unaudited										
	NIS millions										
Balance as at April 1, 2019	13	1,910	27	3,555	(244)	(324)	137	(150)	4,924	7,252	12,176
Net profit	-	-	-	190	-	-	-	-	190	176	366
Other comprehensive income (loss)	-	-	-	-	(144)	-	11	-	(133)	(107)	(240)
Total comprehensive income (loss)	-	-	-	190	(144)	-	11	-	57	69**)	126
Transactions with non-controlling interests	-	-	-	-	-	(12)	-	-	(12)	4	(8)
Dividends	-	-	-	(117)	-	-	-	-	(117)	-	(117)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(2)	(2)
Balance as at June 30, 2019	13	1,910	27	3,628	(388)	(336)	148	(150)	4,852	7,323	12,175

*) As at June 30, 2019, including a credit balance of NIS 50 million for investments held for sale.

**) Composition of comprehensive income of non-controlling interests:

Net profit attributable to non-controlling interests	176
Loss for financial assets measured at fair value through other comprehensive income, net	(33)
Loss from cash flow hedges	(7)
Foreign currency translation differences for foreign operations	(67)
Total comprehensive income attributable to non-controlling interests	69

The accompanying notes are an integral part of the consolidated interim financial statements.

Consolidated Statements of Changes in Equity

	Attributable to shareholders of the Company										
	Share capital	Share premium	Proceeds for conversion options	Retained earnings	Foreign currency translation differences for foreign operations	Reserve for transactions with non-controlling interests	Other reserves *)	Treasury shares	Total	Non-controlling interests	Total capital
	Audited										
	NIS millions										
Balance as at January 1, 2019	13	1,910	27	3,403	(20)	(324)	99	(143)	4,965	7,305	12,270
Cumulative effect of initial adoption of IFRS 16 as at January 1, 2019	-	-	-	(1)	-	-	-	-	(1)	-	(1)
Balance as at January 1, 2019	13	1,910	27	3,402	(20)	(324)	99	(143)	4,964	7,305	12,269
Net profit	-	-	-	234	-	-	-	-	234	552	786
Other comprehensive loss	-	-	-	-	(633)	-	(102)	-	(735)	(251)	(986)
Total comprehensive income (loss)	-	-	-	234	(633)	-	(102)	-	(501)	301 **)	(200)
Acquisition of treasury shares	-	-	-	-	-	-	-	(111)	(111)	-	(111)
Deconsolidation	-	-	-	-	-	-	-	-	-	(3,539)	(3,539)
Expiry of conversion option	-	9	(9)	-	-	-	-	-	-	-	-
Transactions with non-controlling interests	-	-	-	-	-	35	-	-	35	-	35
Dividends	-	-	-	(254)	-	-	-	-	(254)	-	(254)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(623)	(623)
Balance as at December 31, 2019	13	1,919	18	3,382	(653)	(289)	(3)	(254)	4,133	3,444	7,577

*) As at December 31, 2019, includes mainly capital reserve (negative) for financial assets at fair value through other comprehensive income in the amount of NIS 106 million and credit balance for cash flow hedging transactions in the amount of NIS 92 million

**) Composition of comprehensive income of non-controlling interests:

Net profit attributable to non-controlling interests	552
Profit for financial assets at fair value through other comprehensive income, net	71
Loss from cash flow hedges	(8)
Foreign currency translation differences for foreign operations	(314)
Total comprehensive income attributable to non-controlling interests	301

The accompanying notes are an integral part of the consolidated interim financial statements.

Consolidated Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS million				
<u>Cash flows from operating activities</u>					
Net profit (loss)	(2,988)	843	(278)	366	786
Adjustments to reconcile cash flows from operating activities (a)	4,957	2,678	1,405	77	4,037
Net cash from operating activities	1,969	3,521	1,127	443	4,823
<u>Cash flows from investing activities</u>					
Purchase of fixed assets, investment property and intangible assets	(37)	(187)	(20)	(77)	(330)
Proceeds from sale of fixed assets and investment property	35	83	4	18	93
Proceeds from sale of oil and gas assets	-	-	-	-	160
Proceeds from sale of financial assets, net	69	31	83	8	113
Repayment (provision) of loans to associates, net	(1)	1	-	-	-
Short-term investments, net	(235)	311	112	474	237
Change in long-term bank deposits, net	27	(97)	135	43	(188)
Investments in oil and gas exploration and assets	(737)	(1,786)	(319)	(1,058)	(3,621)
Cash received from disposal of investments in previously reported consolidated subsidiaries (B)	191	-	191	-	1,320
Advance payment received on account of the disposal of an investment in a subsidiary	100	-	100	-	-
Cash flows used for acquisition of control in companies and operations (C)	(7)	(22)	-	-	(6,086)
Advance payment on account of acquisition of a subsidiary	-	(722)	-	(722)	-
Proceeds from sale of an investment in associates, net of transaction costs	169	354	-	(2)	750
Tax paid for the sale of and investment in corporate company	-	(21)	-	-	(21)
Investments in associates	-	(123)	-	(20)	(427)
Repayment of loans to others, net	72	136	4	100	321
Net cash from (used for) investing activities	(354)	(2,042)	290	(1,236)	(7,679)

The accompanying notes are an integral part of the consolidated interim financial statements.

Consolidated Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS million				
Cash flow from financing activities					
Short-term loans from banks and others, net	(248)	(149)	(477)	179	(9)
Transactions with non-controlling interests	(137)	-	-	-	-
Receipt of long-term loans	100	1,503	100	1,029	6,848
Repayment of long-term loans	(1,644)	(518)	(835)	(145)	(1,966)
Dividend paid	-	(254)	-	(254)	(254)
Dividend paid to non-controlling interests	(55)	(229)	(8)	(151)	(498)
Acquisition of treasury shares by a subsidiary partnership	(60)	(7)	-	-	(111)
Repayment of lease liabilities	(87)	(72)	(53)	(36)	(174)
Payment for contingent/deferred consideration	(200)	-	(200)	-	(35)
Issue of shares and options by the Company	135	-	135	-	-
Issue of debentures and convertible debentures into shares (less issuance expenses)	-	396	-	396	2,561
Repayment of debentures	(374)	(187)	(75)	(76)	(1,131)
Net cash from (used for) financing activities	(2,570)	483	(1,413)	942	5,231
Exchange differences on cash balances of foreign operations	(1)	(28)	(10)	(11)	(32)
Change in cash and cash equivalents attributable to operations held for sale	(21)	(2,165)	(21)	(237)	(2,312)
Increase (decrease) in cash and cash equivalents	(977)	(231)	(27)	(99)	31
Cash and cash equivalents at the beginning of the period:	1,517	1,486	567	1,354	1,486
Cash and cash equivalents at the end of the period	540	1,255	540	1,255	1,517

The accompanying notes are an integral part of the consolidated interim financial statements.

Consolidated Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	**2019**	**2020**	**2019**	**2019**
	Unaudited				**Audited**
	NIS million				
(A) <u>Adjustments to reconcile cash flows from operating activities:</u>					
Adjustments to profit or loss					
Depreciation, depletion, amortization, and impairment of assets	5,033	693	484	307	2,386
Deferred taxes, net	(1,074)	213	16	73	(442)
Increase (decrease) in employee benefit liabilities, net	(2)	17	(1)	8	3
Decrease of loans granted, net	49	13	56	10	33
Profit (loss) from the sale of fixed assets, real estate and investments, net	245	(198)	265	(28)	(262)
Group's share of results of associates, net (1)	(5)	31	(2)	(48)	28
Loss from the sale of oil and gas assets	-	-	-	-	3
Change in fair value of financial assets and financial derivatives, net	276	(235)	36	(3)	(411)
Increase (decrease) in long-term liabilities, net	40	27	20	2	(8)
Decrease (increase) in deferred acquisition costs	-	(51)	-	9	(52)
Cost of share-based payment	(5)	3	-	(1)	2
Change in financial investments of insurance companies, net	-	(4,619)	-	(1,654)	(5,803)
Investments net of proceeds from the sale of financial assets at fair value through other comprehensive income in insurance companies, net	-	(3,215)	-	(1,209)	(4,376)
Increase in reserves and other provisions in insurance companies	-	10,002	-	2,614	12,601
Acquisition of investment property for performance-based contracts and other investment property in insurance companies	-	(117)	-	(19)	(199)
Increase in reinsurance assets	-	(185)	-	(75)	(218)
Change in value of investment property, net	4	(14)	-	(15)	(47)
Proceeds received for hedging transactions swap	547	-	407	-	-
Changes in operating assets and liabilities:					
Decrease (increase) in trade receivables	216	254	281	(6)	211
Decrease (increase) in other receivables	69	184	(12)	49	169
Decrease (increase) in inventory	43	71	(8)	68	15
Decrease (increase) in other assets, net	(6)	7	(3)	(82)	15
Increase (decrease) in trade payables	(91)	(278)	(16)	5	164
Increase (decrease) in other accounts payable	(382)	75	(118)	72	225
	4,957	2,678	1,405	77	4,037
(1) Net of dividends and earnings received	-	144	-	7	181

The accompanying notes are an integral part of the consolidated interim financial statements.

Consolidated Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS million				
(B) Cash added (deducted) from disposal of investments in previously consolidated companies					
Working capital, net	(9)	-	(9)	-	-
Investments in oil and gas exploration and production assets	634	-	634	-	-
Other long-term assets	261	-	261	-	-
Deferred taxes	(193)	-	(193)	-	-
Loan to the buyers for the acquisition	-	-	-	-	(152)
Assets held for sale	-	-	-	-	103,607
Liabilities attributable to assets held for sale	-	-	-	-	(97,967)
Movement in capital reserves, net	18	-	18	-	(30)
Profit on disposal of an investment	(235)	-	(235)	-	66
Non-controlling interests	(285)	-	(285)	-	(3,539)
Investment in a financial asset at fair value through profit or loss	-	-	-	-	(665)
	191	-	191	-	1,320
(C) Investment derecognized for acquisition of control in companies and operations					
Working capital (excluding cash and cash equivalents), net	2	-	-	-	(2)
Investments in exploration and production of oil and gas assets	-	-	-	-	(7,554)
Fixed assets, net	(9)	-	-	-	(39)
Other long-term assets	-	-	-	-	(705)
Deferred tax reserve (deferred tax asset)	-	-	-	-	1,731
Intangible assets and goodwill arising on acquisition	-	-	-	-	-
Goodwill	-	-	-	-	(2,837)
Non-current liabilities	-	-	-	-	3,358
Derecognition of investment in an associate	-	-	-	-	-
Contingent consideration	-	-	-	-	-
Assets held for sale, net	-	(22)	-	-	(38)
	(7)	(22)	-	-	(6,086)

The accompanying notes are an integral part of the consolidated interim financial statements.

Consolidated Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS million				
(D) Significant non-cash activities					
Purchase of fixed assets, investment property and intangible assets	6	7	6	7	9
Investment in oil and gas assets against liability	201	459	201	459	567
Dividend payable to shareholders of the Company	-	31	-	31	-
Dividend to non-controlling interests	-	-	-	-	47
Exercise of rights for royalties against receivables	-	-	-	-	27
Distribution of shares of an associate as a dividend in kind for non-controlling interests	-	-	-	-	147
Sale of investment property against loan provided	-	39	-	-	39
Repayment of a liability to a bank against the sale of participating units in a subsidiary partnership	207	-	-	-	-
Repayment of a liability to a bank against the sale of shares in swap transactions	415	-	415	-	132
(E) Additional information on cash flows					
Cash paid during the period for:					
Interest	729	535	357	315	1,381
Taxes	233	162	228	83	263
Cash received during the period for:					
Interest	11	340	4	134	547
Dividends	-	27	-	17	113
Taxes	1	453	-	-	509

(F) See Note 3A and 3E for information about cash flows from discontinued operations.

The accompanying notes are an integral part of the consolidated interim financial statements.

NOTE 1: GENERAL

These financial statements have been prepared in condensed format as at June 30, 2020 and for the six and three months then ended (“the Consolidated Interim Financial Statements”). The financial statements should be read in the context of the Company’s annual financial statements as at December 31, 2019 for the year then ended, and their accompanying notes (“the Annual Financial Statements”).

A. The Covid-19 crisis and the decline in oil and gas prices

In December 2019, the Covid-19 pandemic broke out in China. In the reporting period, the virus spread to many countries around the world and in March 2020, it was declared a pandemic by the World Health Organization (“the Covid-19 Crisis”). The spread of Covid-19 has caused widespread morbidity and mortality in many countries. Due to the Covid-19 Crisis, many countries have imposed and are continuing to impose significant restrictions that included and/or include, among other things, self-isolation, restrictions on traffic and transportation (including flights), and closure and reduction of business activity. The crisis and the associated restrictions have caused a significant slowdown in global economic activity and sharp declines and fluctuations in capital markets around the world. Following the decline in business activity, there has been a slump in demand for oil products. Moreover, in March 2020, the Russia-Saudi Arabia oil price war was reflected in an increase in oil production compared to the decline in demand. These events resulted in plummeting oil and natural gas prices in some countries. However, agreements have recently been reached between countries to reduce the volume of daily oil production in the coming months. In addition, in recent weeks, many countries have started to adopt an exit strategy and controlled and gradual return to routine. In this context, it should be noted that in 2020 and shortly before the approval date of the financial statements, oil prices were highly volatile, and, at its lowest point, the Brent oil price was USD 16 per barrel and shortly before the approval date of the financial statements the Brent oil price is USD 45 per barrel (as at December 31, 2019 the price was USD 65 per barrel).

As at the approval date of the financial statements, there is significant uncertainty regarding when the pandemic will be contained and/or will break out again and the continuation and/or deepening of the global economic crisis, and future oil and natural gas prices. Since the Group’s main activity is in the energy sector, if oil and natural gas prices remain at a low level over a prolonged period, this could have a material adverse effect on the Group's operating results, on the value of its assets (marketable and non-marketable), capital, cash flows from its operating activity, as well as on its ability to dispose of assets and on the expected considerations from the disposals, and on its ability to raise additional sources of financing and/or financing costs. It is further noted that continuation of the crisis may result in a decline in local and global demand for the Group’s products, and impairment of the economic robustness of the Group’s customers, partners, and suppliers.
For information about asset impairment and amortization assessments in the reporting period, see Notes 3 and 5 below. In this context, it should be noted that the estimates used by the Group for the assessments may be volatile, among other things, due to the aforesaid uncertainty. The Group will continue to review its estimates and update them according to developments in connection with the crisis, its effect on the economy in Israel and globally, and its effect on prices of oil and natural gas.

In addition, it should be noted that in view of the economic crisis in global markets and the sharp decline in oil and gas prices in the first half of 2020, there was a very significant decline in the trading value of the shares of the Company and its investees (including the participating units of Delek Drilling - Limited Partnership (“Delek Drilling”), which resulted in significant impairment of the Group's financial position and its liquid resources, mainly due to the fact that some of these shares serve as collateral for the credit facilities provided to the Group. For information about the Group's financial position, see section B below.

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group

1. General

- As at June 30, 2020, the Company (separate) has a working capital deficit of NIS 6.2 billion, and the Group (consolidated) has a working capital deficit of NIS 12.9 billion. Of this amount, NIS 5.1 billion is attributed to the reclassification of short-term debentures in view of the fact that the foreign bank has not yet agreed to waive its right for immediate repayment due to non-compliance with financial covenants and due to the debenture holders' cross default clause and in view of the fact that the waiver items included in the amendment to the deed of trust for the debenture series (see Note 10) are for a period less than twelve months from the date of the financial statements. Subsequent to the balance sheet date, the Group signed a waiver with the foreign bank for all of the breaches that occurred in view of the agreement with the foreign bank and an update to the agreement was signed with the foreign bank (see section B2(3) below.

  It should be noted that, in addition to the aforesaid regarding the liabilities of the Company (separate), the Company provided certain guarantees to banks and other institutions for loans and credit taken out by certain subsidiaries ("the Staff Companies").

  Based on the current repayment schedules (taking into consideration the agreements with banks, debenture holders and others), in the period between July 2020 and June 2021, the Company and the Staff Companies have repayments (of principal and interest) amounting to NIS 2.6 billion and in the period between July 2021 and June 2022, NIS 2.4 billion.

- As at June 30, 2020, liabilities (short- and long-term) to financing entities (mainly to debenture holders and banks and other institutions) of the Company and the Staff Companies amount to NIS 7.6 billion, against the financial assets (short- and long-term, mainly cash, deposits and marketable securities measured at fair value) of the Company and the Staff Companies as at that date in the amount of NIS 174 million.

- Shortly before the approval date of the financial statements, the liabilities amount to NIS 7.1 billion, against financial assets amounting to NIS 261 million. For information about the updated collateral for these liabilities (taking into consideration agreements with banks, debenture holders and others as described above), see Note 10 below.

2. Decrease in oil and gas prices and implications on financial covenants

- As set out in section A above, in the reporting period, the Covid-19 Crisis broke out (and it is still ongoing), which resulted in a significant slowdown in the local land global economy and a significant drop in oil and gas prices (having an adverse effect on the Group's main activity).

  It should be noted that, as a result of the above, from the beginning of 2020 until the approval date of the financial statements, the following main events occurred:

  - There was a significant decrease in the TASE value of the shares of the Company and its investees (mainly Delek Drilling).
  - There was an increase in returns from the Company's debentures (traded close to the date of approval of the financial statements at substantial double-digit returns), which could make it difficult in practice to refinance/raise additional debt and debentures.
  - There was a significant decrease in capital attributable to the Company's shareholders, which amounted to NIS 1.4 billion as at June 30, 2020 (as at December 31, 2019, NIS 4.1 billion). As set out in Note 10, in accordance with the provisions of the revised deed of trust, the capital attributed to the Company's shareholders as at June 30, 2021, should amount to a minimum amount of NIS 1.6 billion. It should be noted that the continuation of the Covid-19 pandemic and further declines in oil prices and/or the USD exchange rate may adversely affect the balance of capital attributed to the Company's shareholders. On the other hand, the capital raising that was completed subsequent to the balance sheet date and future capital raisings will increase the capital attributed to the Company's shareholders and an increase in oil prices and continued improvement in the results of the investees will lead to an increase in capital attributed to the Company's shareholders.

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group (contd.)

2. Decrease in oil and gas prices and implications on financial covenants (contd.)

- Following the spread of Covid-19, which led to sharp volatility in the capital markets in Israel and the world and plummeting gas and oil prices, there was an impairment in market value of the collateral (mainly Delek Drilling participating units) provided by the Company and its subsidiary Delek Energy Systems Ltd. ("Delek Energy") in favor of the credit providers. Under the provisions of the financing agreements, the impairment in the collateral against the balance of the debt to the credit providers fell below the rates set out in the various loan agreements, and as a result, at certain points in the first trimester of 2020, the Company and Delek Energy were required to provide (pledge) additional collateral and/or to deposit cash (under the provisions of any agreement) in favor of the credit providers to meet the requirements of the agreements and/or to attempt to avoid a call for immediate repayment of the debt. In this context, it is noted that:

1) For a specific loan provided to Delek Energy by a foreign bank in 2013, with a balance of USD 57 million in March 2020, secured at that time by a lien on participating units representing 15% of the capital of Delek Drilling in favor of the foreign bank, in March 2020, the foreign bank claimed that in view of the exceptional decline in the price of Delek Drilling units, it (allegedly) has grounds to call for immediate repayment of the debt. Accordingly, on March 15, 2020, the foreign bank entered into an agreement with a third party for the sale of 12% of Delek Drilling's capital. Under the settlement arrangement between Delek Energy, the foreign bank, and a third party, which was completed on March 26, 2020, Delek Energy acquired 7% of the unit capital of Delek Drilling (out of the 12%) for a consideration of USD 35.8 million. The remaining 3% of Delek Drilling's capital was released back to Delek Energy.

   After the completion of the aforesaid, the Group holds 55% of the capital of Delek Drilling. Following the aforesaid (net disposal of 5% of the capital of Delek Drilling), the capital attributable to the Company's shareholders decreased by NIS 329 million. For further information, see Note 3C to the financial statements.

2) For the loan of NIS 100 million backed by Delek Drilling's participating units, provided by an Israeli bank ("the Bank") to Delek Energy and guaranteed by the Company, on March 31, 2020, the Bank informed Delek Energy and the Company that the participating units that had been pledged in its favor had fallen below the value set in the agreement and since additional participating units had not been pledged to it in accordance with the terms of the loan, it seeks to call for immediate repayment of the loan and to immediately exercise the collateral provided in its favor.
   In discussions between the Company and Delek Energy with the Bank, the Bank sent an update letter stating the terms and requirements for postponing the exercise of the collateral. To avoid a situation in which the Bank exercises the participating units that were pledged to it, Delek Energy pledged additional participating units in favor of the Bank (at a lower rate than that stipulated in the loan terms), even though Company and Delek Energy believe that under the special circumstances, partially due to the Covid-19 Crisis, the Bank does not have the right to demand additional collateral and/or immediate repayment of the loan. Following the addition, the participating units pledged in favor of the Bank represent 5.7% of the capital of Delek Drilling (compared with 4.4% of the capital of Delek Drilling prior to the increment).

   The Bank gave Delek Energy until April 30, 2020 to fulfill the requirements in the letter of suspension of exercise, and on this date, if the requirements have been fulfilled, the financing facility will be provided again. As at April 30, 2020, the Company was unable to reach agreements with the Bank, on that date, that would ensure the non-exercise of the pledged participating units. Accordingly, on April 30, 2020, Delek Energy filed a motion for a temporary injunction ordering the Bank to refrain in any way from exercising the participation units pledged in its favor (among other things, in view of the Company's position that it has no grounds to call for immediate repayment). Following the court hearings, in May 2020, Delek Energy repaid its debt to the bank.

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group (contd.)

2. Decrease in oil and gas prices and implications on financial covenants (contd.)

3) For the loan of USD 200 million taken by a wholly-owned foreign subsidiary (DKL Energy), as set out in Note 10F(3) to the Annual Financial Statements, and in view of the fact that the loan is not backed by marketable assets (other than 51% of the share capital of Delek North Sea Limited (“DNSL”) and the entire share capital of Ithaca, which are not a traded company), the loan agreement sets out margin call events that include a decrease of 20% in the index of benchmark companies (as defined in the loan agreement) or in the FTSE-100 Index, where in such event, the borrower will be required to deposit cash in the amount of the decrease in value as defined in the agreement. Grounds for early repayment under the loan agreement include a 50% decrease in the index of benchmark companies, a decrease of 50% in the FTSE-100 Index, and a decrease of 50% in Company’s shares, and a downgrade in Maalot’s rating of the Company to BBB (plus) or below, represents grounds for repayment of half of the loan amount. The loan was provided under limited recourse terms and the Company provided the lender a guarantee for the borrower’s obligation to unpaid accrued interest, the first margin call, and exceptional violation events.
In 2020, DKL Energy failed to comply with specific financial covenants in connection with the loan, conferring on the bank the right to call for immediate repayment of part/or of its debt. On April 7, 2020, the Bank signed an amendment to an agreement according to which the cash deposit amounting to USD 43.3 million will be used for partial repayment of the loan and extension of the cure period for the grounds to call for immediate repayment, in May 2020, another amount of USD 20 million was repaid due the dividend received from Ithaca (the balance of the loan amounts to USD 137 million as at the approval date of the financial statements).

Subsequent to the balance sheet date, on August 27, 2020, wholly-owned foreign subsidiaries of the Group, DKL Energy and Delek North Sea Limited (“DNSL” and jointly “the Foreign Subsidiaries”) signed an amendment and addition to the agreement with a foreign bank in connection with the loan (“the Amended Agreements”, which will come into effect after completing registration of the collateral. Under the Amended Agreements, a waiver was received from the foreign bank for existing breaches. There was no change in the original repayment dates of the principle. There will be a 2% increase in the interest rate on the loan up to November 2020, followed by an additional 2% increase. The existing collateral remained, and collateral of the balance of DNSL shares was added, such that 100% of the shares of DNSL, the parent company (100%), of Ithaca will be pledged and a loan and capital note between DKL Energy and DNSL will be pledged. Under the Amended Agreements, there was no change in events underlying the Company’s guarantee.
The Company and the foreign subsidiaries undertook to make every effort to ensure the distribution of dividends from Ithaca, subject to the required approvals, including the approval of the banks providing the RBL to Ithaca. Any dividend paid in Ithaca Group companies will be used first to repay the loan, and the shareholder loans provided by the Company and the Foreign Subsidiaries or capital notes issued by the Foreign Subsidiaries will be subordinated. The Company and the Foreign Subsidiaries also undertook to make every effort to advance a transaction with a potential buyer for Ithaca shares or for shares of the companies holding Ithaca, directly or indirectly, with the approval of the lender, and to complete such transaction by December 31, 2020, using the consideration to repay the loan.
In addition, a negative pledge was provided on 6% of the total participating units of Delek Drilling, in the same amount of units as a negative lien was provided to another foreign bank.

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group (contd.)

2. Decrease in oil and gas prices and implications on financial covenants (contd.)

3) (contd.)

Liabilities, financial covenants, and grounds for immediate repayment

The amended agreements eliminated the margin call events that were set out in the original agreement and removed covenants relating to ratings and the Company's share price and various indexes described above.

Under the amended agreements, the undertaking to comply with financial covenants remained unchanged, according to which the ratio of total net debt to net profit before taxes and financing, net of depreciation and amortization and net of appraisal and exploration expenses (EBITDAX) does not exceed 2.5. A review of this ratio is required at each calculation date (March 31, June 30, September 30, and December 31 of each year).

Under the amended agreements, the lender has the right to call for immediate repayment of the loan (after the cure period), among other things, in the event of failure to pay on time, non-compliance with the dividend obligations set out above, non-compliance with the financial covenants set out above, changes in inter-company loans in the foreign subsidiaries, non-compliance with undertakings according to the agreement, events of change in control of assets, events of insolvency and liquidation in Delek Group companies, and impairment in the closing value of the S&P Global Oil Index below the level set in the agreement. The right to call for immediate repayment was also determined in the event of cross default in the borrower group (DKL Energy and subsidiaries and its investees) and in the event of the materialization of this right.

- On March 23, 2020, Midroog Ltd. ("Midroog") downgraded the rating of the Company's debentures from A2.il to Ca.il (down 14 ratings), due to Midroog's assessment of a high probability of default. The Company disputed the rating report of Midroog and its result. On April 1, 2020, Maalot downgraded the Company's debentures from ilA to ilBBB (a downgrade of four ratings), keeping it on CreditWatch with negative outlook, due to weak liquidity reflected in a material gap between short-term sources and uses. Following the downgrade, the annual interest rate of some of the debenture series increased by 1%. It is further noted that on May 5, 2020, Maalot downgraded the Company's debenture rating to ilCCC with negative outlook due to the increased risk of default.

  In addition, further to Note 19 to the Annual Financial Statements, a downgrade in the rating to below BBB- of Maalot or an equivalent rating for more than 21 business days represents grounds to call for immediate repayment of the debentures. In this context, it should be noted that on April 13, 2020, the Company announced the termination of its relations with Midroog and that Midroog will cease to serve as the Company's rating company from that date. The Company's series of debentures will continue to be rated by Maalot.

- The Company's financing agreements stipulate that if an event of change of control occurs in the Company (as this term is defined in the various agreements), the lenders (including the debenture holders) will have the right to call for immediate payment of the debt. In addition, the financing agreements of the investee companies stipulate that if the Company ceases to hold control in the investee companies and/or its holdings fall below a certain rate, the credit providers of the investee companies will have the right to call for immediate repayment of the debt.

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group (contd.)

2. Decrease in oil and gas prices and implications on financial covenants (contd.)

- Further to the above, regarding the impairment of the various collaterals, the rating downgrade, the deterioration in the ratios of Company's debt to asset value, and the going concern remark in the Annual Financial Statements, in the reporting period, there were events that are considered or that may be considered to be events of default for some of the liabilities of the Company and the Staff Companies towards the financial institutions and the debenture holders. For information about the agreements and the amendment to the deeds of trust that were approved on June 17, 2020 with the Company's debenture holders, and the standstill agreement with some of the banks, under which the grounds for calling for immediate payment were revised and/or frozen, see section 4 below.

- As at June 30, 2020, the consent of one of the banks has not yet been obtained. In addition, it should be noted that some of the waiver items included in the amendment to the deed of trust are for a period of less than twelve months from the date of the financial statements. In view of the above (including for the cross compliance clauses), as at June 30, 2020, all the liabilities of the Company and the Staff Companies towards financial institutions and debentures holders were classified as current liabilities (including those with a repayment date in the period exceeding twelve months as at the date of the financial statements). As aforesaid, on August 27, 2020, the Company and the wholly-owned foreign subsidiaries signed a waiver and amendment to the agreement with a foreign bank, eliminating margin call events that were set out in the original agreement and removing covenants relating to ratings and the Company's share price and various indexes. For further information, see section B2(3) above.

3. Disposal of assets and investments and raising capital

- In view of the sharp decline in the Company's cash balance and in order to meet current debt repayments, in March 2020, the Company disposed of the balance of its holdings (20%) in the shares of IDE Holdings Ltd. ("IDE") for NIS 169 million (see Note 3B) and an investment property in Haifa for NIS 33 million. In addition, in April 2020, the Company disposed on the balance of its holdings in the shares of Cohen Development for NIS 207 million (see Note 3D). Subsequent to the balance sheet date, in July 2020, the transaction was completed for the sale of the rights of the Company and Delek Energy to overriding royalties in the Karish and Tanin reservoirs for a consideration of NIS 318 million. For further information, see Note 5J.

- In April and May 2020, the Company informed the banks of early termination of all the swap transactions in connection with The Phoenix shares. The swap shares (25,000,000 shares) were sold by the banks in off-floor transactions for an amount of NIS 413 million. On completion of the transactions, a cash amount of NIS 143 million, which was pledged to the banks to secure the transactions, as is standard in this type of transaction, was released in favor of the Company. For further information, see Note 3A(3).

- Subsequent to the balance sheet date, in July 2020, Delek Israel completed the transaction for the sale of its holdings in the Pi Glilot terminals for a consideration of NIS 720 million (see Note 3E1) and a binding detailed agreement was signed for the disposal of Delek Israel's holdings in IPP Delek Ashkelon Ltd. and IPP Delek Sorek Ltd., which hold power plants (for further information, see Note 3E).

- Subsequent to the balance sheet date in July 2020, Delek Israel distributed a dividend to the Group in the amount of NIS 150 million.

- In May and August 2020, the Group completed raising of capital (shares and options) in the amount of NIS 137 million and NIS 176 million, respectively. For further information, see Note 7. Furthermore, the Company is required to raise additional capital in accordance with the revised deed of trust for the debenture series, for further information, see Note 10.

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group (contd.)

3. Disposal of assets and investments and raising capital (contd.)

- Subsequent to balance sheet date, on August 19, 2020, the Company and a wholly owned subsidiary, Delek Petroleum Ltd., signed a memorandum of understanding with a third party ("the Investor"), according to which the Investor will make a capital investment of NIS 450 million in preferred shares of Delek Israel and/or in another structure to be agreed on between the parties under the detailed investment agreement (for further information, see Note 3E3 below). The foregoing investment, if completed (together with a dividend of NIS 150 million to be received from Delek Israel, will enable the Company to meet its obligations as set out in the revised deed of trust signed between the Company and the debenture holders for receipt of consideration in the amount of NIS 600 million from Delek Israel (see also Note 10 below)) and to use the funds that will be received to repay in full the balance of the debt to relevant banks as set out in the revised deed, to release all Delek Drilling participating units from the lien to the relevant banks, and to complete the lien of 40% of Delek Drilling participating units in favor of the debenture holders.

- In addition, the Company is assessing the disposal of additional assets and obtaining a loan against a specific lien of the overriding royalties from the Leviathan reservoir, among other things, as part of the agreements signed with the debenture holders and the banks, as set out in section 4 below.

4. Discussions and agreements with representatives of the debentures and with banks on the outline for reinforcing capital and collateral

- In March 2020, the general meeting of the Company's debenture holders approved the establishment of a joint representation on their behalf and joint legal and economic advisors for all debenture series, with the aim of assisting the debenture holders and trustees and to act as their representative in the assessment of the Company's financial position, the alternatives, and the actions available to the debenture holders to protect their rights and in negotiations and proceedings with the Company and/or its controlling shareholder. The Company and the representation held discussions, with the aim of regulating the terms of the debentures and the Company's obligations to them. In addition, in April-June 2020, the Company and certain banks held negotiations, due to the breach of the covenants, with the aim of arranging the terms of the loans that were provided and the Company's obligations to them. In June 2020, agreements and understandings with the debenture holders and the banks were approved. Under the agreements, the Company undertook to raise capital, dispose of assets, pledge assets and investments in favor of the debenture holders and the banks, and comply with various financial covenants, some of which were revised in the agreements. The agreements set out events and covenants, which, if breached, will allow the debenture holders and the banks to call for immediate repayment of the Company's liabilities to them. For further information, see Note 10.

5. Repayments to debenture holders and banks and pledge of assets

- In 2020 and shortly before the approval date of the financial statements, the Company repaid the full amount of its liabilities to the debenture holders and the banks under the agreements with them, including in connection with the agreements set out in section 4 above. In this context, it should be noted that in July and August 2020, the Company repaid an amount of NIS 504 million to the banks in an arrangement, such that the balance of the debt to these banks amounts to NIS 340 million shortly before the approval date of the financial statements. For further information, see Note 10.

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group (contd.)

6. Conclusion

Under the agreements with the debenture holders and the banks, and for the Company and the staff companies to meet repayment of their liabilities, the Company is required to raise a substantial amount of capital, dispose of assets and investments on a substantial scale (some of which have been completed and/or agreements or memorandums of understanding have been signed for their disposal), raise debt based on assets, and receive dividends from investees. The amounts of these sources are required for the repayment of the Company's liabilities, which reach substantial amounts (by the end of 2020, the Company is required to repay liabilities to the debenture holders and banks amounting to NIS 1.2 NIS billion; in 2021, NIS 1.5 billion; in the first half of 2022, NIS 1.5 billion).

As aforesaid, repayment of the liabilities of the Company and the staff companies at their due date is subject to their ability to dispose of assets and investments on a significant scale; raise debt and capital on a significant scale, some of which is required in the near future and is greatly affected by oil and natural gas prices; and receive dividends from investees in substantial amounts. The Company is also required to comply with the terms of the agreements and covenants with the debenture holders and the banks, so that they will not call for immediate repayment of the liabilities of the Company and the staff companies.

It should be noted that the Company's ability to receive a substantial amount of dividend from investees refers mainly to the receipt of dividends from Delek Drilling and Ithaca, as well as from Delek Israel, if the Company's holdings in it are not disposed of. The ability of these companies to distribute dividends is subject, among other things, on their ability to refinance existing debts and/or meet financial covenants, and to obtain financing from financing entities and/or their ability to generate a significant available cash flows, which is also dependent on the demand for oil and natural gas followed by an increase in the price of oil and natural gas. Also see section C below with regard to completing the refinancing by Delek Drilling with respect to the Leviathan reservoir in August 2020 in the amount of USD 2.25 billion.

The Company acted and is working to realize its plans, including the raising of capital, disposal of substantial assets and investments, raising of debt based on assets and receipt of dividends from investees, in order to meet its various obligations. The Company believes that it is highly likely that its plans will be realized, and in this context, it should be noted as set out above that the significant and important actions that the Group was able to complete in a short period in accordance with the outline enabled it to make early repayments to the banks in substantial amounts and to the debenture holders on time and as required. Nonetheless, since completion of the Company's plans is not under its sole control and depends, as described above, on the materialization of several incremental events, some of which must occur within relatively short periods and/or in a significant scope, there is uncertainty as to the actual fulfillment of the plans. These factors, together with the other factors described above, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include adjustments for the values of assets and liabilities and their classification, which might be required if the Company is unable to continue as a going concern.

NOTE 1 – GENERAL (CONTD.)

C. Financial positions of subsidiaries

1. Delek Drilling

- As at June 30, 2020, Delek Drilling has a working capital deficit of USD 1.9 billion (NIS 6.5 billion) arising mainly from current maturities of liabilities to banks and Tamar Bond debentures amounting to USD 2.3 billion (NIS 7.9 billion). In July 2020, Delek Drilling repaid some of the above debentures ahead of their repayment date, in an amount of USD 240 million. In August 2020, Delek Drilling (through a special purpose company) issued debentures in an amount of USD 2.25 billion ("Leviathan Bond", for further information see Note 5K) which were used primarily to repay short-term loans of USD 2 billion and consequently the Group's working capital deficit is expected to decrease significantly. It should be clarified that the terms of the Leviathan Bond did not define any terms regarding the rate of the holdings of the Group in Delek Drilling.

- With respect to the Covid-19 Crisis, it should be noted that there has been a decrease in demand and accordingly in sales of the natural gas produced from the Leviathan and Tamar reservoirs ("the Reservoirs"), compared with the Partnership's previous forecasts that were revised in July 2020. As at date of approval of the financial statements, it is not possible to estimate the extent and duration of the Covid-19 Crisis and therefore it is difficult to estimate, at this stage, the impact it will have on demand and sales from the Reservoirs in the coming years.

  Nonetheless, it should be noted that, notwithstanding the foregoing, the rate of sales from the Reservoirs in July and August 2020 increased compared with the previous months.

  If the Covid-19 Crisis continues, it is liable to adversely affect the Partnership and adversely affect various aspects of its operations, among others, a decline in demand for energy products and drop in oil and natural gas prices in international and domestic markets, decreased demand for natural gas in markets relevant to the Partnership and to adversely impact the Partnership's revenues from the Reservoirs and impair the financial robustness of the Partnership's customers and partners.

2. Ithaca

The Covid-19 Crisis and the decline in oil and gas prices could have a material effect on the results of Ithaca's operations and the value of its assets and its liquidity (including its ability to distribute a dividend to its shareholders). The management of Ithaca is closely following the crisis and the market developments and is taking steps and formulating plans to minimize the implications.

In this context, measures were taken to isolate and separate work teams to the minimum required level, reduce capital investment in 2020, and reduce operating and production costs in substantial amounts. It is further noted that Ithaca has hedge transactions on oil and gas prices for 2020-2022 in a material scope (see Note 8). The management of Ithaca believes that Ithaca will be able to continue its planned activities and repay its obligations on time. For further information about Ithaca, see Notes 3, 5, and 8.

In May 2020, Ithaca distributed a dividend in the amount of USD 20 million.

NOTE 1 – GENERAL (CONTD.)

C. Financial positions of subsidiaries (contd.)

3. Delek Israel

As at June 30, 2020, Delek Israel has positive working capital of NIS 120 million, among other things, due to the fact that some of its net assets are held for sale. With regard to the transaction for the sale of the Pi Glilot operations that was completed in July 2020 and the transaction for the sale of the power plants (which have not yet been closed), see Note 3E.

The management of Delek Israel believes, based, among other things, on the cash flow from operating activities, available credit facilities, and non-pledged assets in a material amount, it is able to convert short-term loans into long-term loans or to continue to receive short-term loans and/or dispose of its assets to further finance its investments and repay its obligations.

The Covid-19 Crisis, as set out in section 1A above, could have a material adverse effect on the results of Delek Israel's future operations, depending on the duration of the crisis and its implications (it should be noted that in the early months of the crisis, there was a material decrease in the operations of Delek Israel, however there has recently been an increase in the scope of operations parallel to the partial lifting of the restrictions in the country).

In addition, it should be noted that in the reporting period, Delek Israel has undertaken towards the banks, among other things, that for any distribution to its shareholders (including distribution of a dividend), the consent of the banks is required in advance. In July 2020, Delek Israel distributed a dividend to the Group in the amount of NIS 150 million.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

A. Preparation format of the Consolidated Interim Financial Statements

The Consolidated Interim Financial Statements have been prepared in accordance with generally accepted accounting principles for the preparation of interim financial statements as prescribed in IAS 34, Interim Financial Reporting and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.
The main accounting policy and calculation methods applied in the preparation of these Consolidated Interim Financial Statements are consistent with those applied in the preparation of the Annual Financial Statements, except for the following:

B. Initial application of amendments to existing accounting standards

1. Amendments to IFRS 7, IFRS 9, and IAS 39

In September 2019, the IASB issued amendments to IFRS 9, Financial Instruments; IFRS 7, Financial Instruments: Disclosures; and Amendment to IAS 39 – Financial Instruments: Recognition and Measurement ("the Amendment").

The Amendment provides temporary reliefs for companies implementing hedge accounting based on the IBOR interest rate and affected by the uncertainty arising from the expected reform in the interest rate benchmark. The interest reform results in uncertainty regarding the dates and amounts relevant to future cash flows related to both hedging instruments and to hedged items.

The Amendment had no effect on the Group’s financial statements, since the timing of the reform did not affect the hedge transactions of the Group companies.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

B. Initial application of amendments to existing accounting standards (contd.)

2. Amendment to IFRS 3, Business Combinations

In October 2018, the IASB issued an amendment to the definition of a business in IFRS 3, Business Combinations ("the Amendment").

The Amendment clarifies that to be considered a business, an acquired set of activities and assets will include at least material input and processes that together have a significant contribution to the ability to produce outputs. The Amendment further clarifies that a business can also exist without all the inputs and the processes required to create outputs. The Amendment introduces an optional test to determine whether it is not acquisition of a business, without further testing.

The Amendment will be applied initially for business combinations and asset acquisitions for which the acquisition date is from or after January 1, 2020. At this stage, the Amendment has not had any effect on the financial statements.

3. Amendment to IFRS 16, Leases

In view of the Covid-19 Crisis, in May 2020, the IASB issued an amendment to IFRS 16: Leases ("the Amendment") The purpose of the amendment is to enable lessees to apply practical relief according to which changes in leasing fees resulting from the Covid-19 crisis will not be treated as lease amendments but as variable leasing fees. The amendment will apply only to the lessee.

- The amendment will only apply to changes in leasing fees that meet the following three criteria cumulatively:
- The updated future leasing fees are materially similar or lower that the fees that the lessee would have been required to pay shortly prior to such update;
- The reduction in leasing fees is for fees relating to the period up to June 30, 2021; and,
- There has been no material change made to the other terms of the lease.

The Standard will be applied for annual periods as from June 1, 2020 and will apply retroactively, with option for early application.
The Group chose early application of the amendment and to apply it for all changes in leasing fees resulting from the Covid-19 crisis. Adopting the amendment is not expected to have a material effect on the financial statements.

C. <u>Standards in the period prior to their application</u>

Amendment to IAS 37, Provisions, Contingent Liabilities and Contingent assets

In May 2020, the IASB issued an amendment to IAS 37 (in this section: "the Standard") to clarify what costs an entity considers in assessing whether a contract is onerous (in this section: "the Amendment"). According to the Amendment, this assessment should include both incremental costs (such as raw materials and direct working hours) and the allocation of other costs that relate directly to fulfilling the contract (such as depreciation of fixed assets and equipment used in fulfilling the contract). The amendment will be applied for annual reporting periods beginning on January 1, 2022 or after. Early application is permitted.
In the opinion of the Group, at this stage, the above is not expected to have a material effect on the financial statements.

D. <u>Restatement of comparative figures</u>

As set out in Note 10G to the Annual Financial Statements, in 2019 the Group sold its investment in Delek Automotive. Accordingly, the contribution of Delek Israel to the Group's results in the comparison periods was reclassified to profit (loss) from discontinued operations, net. In addition, as set out in Note 3E, Delek Israel sold the fuel distribution and storage operation and signed a binding agreement for the sale of the power plant operation for power generation. In view of the aforesaid, the results of these operations were presented in all reporting periods under profit (loss) from discontinued operations, net when comparative figures were reclassified.

NOTE 3 – INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS

A. The Phoenix Holdings Ltd. ("The Phoenix")

1. As set out in Note 10E(4) to the Annual Financial Statements, on November 3, 2019, the transaction was completed and the Company sold 32.5% of the share capital of The Phoenix to a company controlled by international private equity funds ("the Buyer") for a consideration of USD 1.57 billion at the time of the transaction. Of this amount, NIS 1.335 billion was received in cash by the Company at the closing date and the balance was provided to the Buyer as a loan (as described below).

   Part of the consideration paid by the Buyer was financed by a senior loan of NIS 548 million received by the Buyer from financial institutions ("the Senior Loan"). The loan is for a period of five years, with two options for extension of one year each, subject to the fulfillment of certain conditions.
   The interest will be paid every six months under the terms set out in the agreement below. The interest and principal of the loan will be repaid from the dividends to be received by the Buyer from The Phoenix in the loan period and from the consideration claimed from it from the sale of The Phoenix shares. The Company signed a credit support document ("the Credit Support Document") with the financial institutions to back up the loan in certain events stipulated in the agreement, including backing for interest payments by the Buyer, payment of certain fees for the loan, including early repayment fees, to guarantee some of the Buyer's liabilities and in this respect, to deposit certain marketable securities amounting to NIS 100 million, and under the terms set out in the letter of liability, to deposit additional marketable securities and to pledge financial deposits to secure the liability, in an initial amount of NIS 70 million.

   The amounts that the Company is required deposit in the pledged deposits and the dates on which it is required to deposit them are defined in the agreement, and the amounts may exceed a maximum amount of up to 50% of the amount of the Senior Loan (plus the amount deposited in a reserve to guarantee interest on the Senior Loan), if the events defined in the agreement occur, including: 1. non-compliance with certain financial conditions with respect to The Phoenix and/or the Senior Loan defined in the liability agreement; 2. a downgrade in the credit rating of The Phoenix (below a rating of BBB+); 3. a material debt of the Company (as this term is defined in the agreement) was called for immediate repayment due to an event of default; 4. the Company breached a commitment to pay a debt of least NIS 25 million for a material debt; 5. a downgrade in the credit rating of the Company which constitutes an event of default in respect of the material debt. If the Company breaches its obligation to deposit the required amounts and in the event of a breach of representation for the financial statements of The Phoenix, the maximum amount it may be required to deposit may exceed 100% of the amount of the Senior Loan, and then the Company has the right to call for the endorsement of the Senior Debt. Further to Note 1B above, regarding the calling for immediate payment of certain debts of subsidiaries and/or events of default or events that may be considered as events of default for the loans and liabilities of the Company and the Staff Companies.

   In June 2020, the Company reached agreements with the financial institutions, according to which, among other things, the Company will pledge additional collateral in favor of the financial institutions (securities and cash amounting to NIS 100 million), and that as long as the debt towards the debenture holders is not called for immediate repayment, or the condition for repayment in the amendment to the deed of trust does not materialize (as defined in Note 10 below), the financial institutions will not demand completion of additional collateral, unless one or more of the terms set out in the support documents referring to The Phoenix applies, which requires the Company to complete collateral (provide additional deposits) in an amount not exceeding NIS 40 million.

NOTE 3 – INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

A. The Phoenix Holdings Ltd. (“The Phoenix”) (contd.)

2. The agreement for the sale of The Phoenix shares set out above stipulated adjustments to the sales price, which may result in an increase in the total consideration to be received by the Company, beyond the amount of NIS 1.57 billion, in an amount of up to NIS 866 million, subject to certain adjustments, or to a reduction in the total consideration of up to NIS 196 million. The adjustments include amounts arising from an increase or decrease in the value of The Phoenix shares, including for a notional option granted to the Buyer for 7.5% of The Phoenix shares (“the Option”) and the rate of return of the Buyer in the investment period in The Phoenix.

   In addition, as part of the agreement for the sale of The Phoenix shares, the Company provided a subordinated loan to the Buyer in the amount of NIS 250 million as at June 30, 2020 (“the Seller’s Loan”). For further information, see Note 10E(4) to the Annual Financial Statements.

   The Seller's Loan, components of contingent consideration, and future adjustments (including for the Option) are measured in the financial statements at fair value through profit or loss. As at June 30, 2020, the net fair value of these instruments amounts to NIS 69 million (as at December 31, 2019, NIS 140 million). In view of the above, in the reporting period, the Company recognized a loss in the amount of NIS 90 million, which is presented under the profit (loss) item from discontinued operations, net. The fair value was assessed by the valuator using the Monte Carlo model, on the assumption of risk neutrality. In view of the above, the annual return on The Phoenix shares as well as the capital price were estimated at 0.28%. In addition, the annual standard deviation was estimated at 25.34% and the rate of the annual dividend to be distributed was estimated at 1.1% of the share value at the end of each quarter, as from the first quarter of 2022. It should also be noted that shortly before the approval date of the financial statements, the Phoenix share price increased compared with its price on June 30, 2020, and therefore, at this stage, it is expected that the net fair value of the this loan will also increase, so that part of the decrease recognized by June 30, 2020 will be recorded as profit in the next reporting period.

3. Further to Note 10E(2) to the Annual Financial Statements, the Company held 25,000,000 shares of The Phoenix (representing 9.8% of the share capital of The Phoenix) in the four swap transactions with banks (“the Swap Shares). The investment in the Swap Shares is accounted for as a financial asset at fair value through profit or loss. In April and May 2020, the Company informed the banks of early termination of all the swap transactions. The Swap Shares (25,000,000 shares) were sold by the banks in off-floor transactions for an amount of NIS 413 million. On completion of the transactions, a cash amount of NIS 143 million, which was pledged to the banks to secure the transactions, as is standard in this type of transaction, was released in favor of the Company.
   In 2020 and up to the exercise date of the swap transactions, the Company recognized a loss of NIS 110 million for the Swap Shares.

NOTE 3 – INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

A. The Phoenix Holdings Ltd. ("The Phoenix") (contd.)

4. Further to Notes 10E(6) and 10E(9) of the Annual Financial Statements, results of The Phoenix's operations are recognized under profit (loss) from discontinued operations. Below is financial information for The Phoenix:

(A) Group of assets and liabilities relating to the operations of The Phoenix classified as held for sale:

	June 30 2019 Unaudited NIS millions
Current assets	
Cash and cash equivalents	1,855
Performance-based cash and cash equivalents	7,264
Assets for holders of liability notes, ETNs and other instruments	510
Short-term investments	1,207
Short-term investments in insurance companies	5,930
Insurance premium receivable	820
Other receivables	335
Current tax assets	72
Reinsurance assets	607
Deferred acquisition costs	580
Asset held for distribution to owners	230
	19,410
Non-current assets	
Financial investments of insurance companies	72,301
Long-term loans, deposits, and receivables	94
Investments in associates	640
Investment property	3,852
Reinsurance assets	1,615
Fixed assets, net	536
Deferred acquisition costs	1,161
Structured bonds	280
Goodwill	990
Deferred taxes	31
	81,500
Total assets	100,910

NOTE 3 – INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

A. The Phoenix Holdings Ltd. ("The Phoenix") (contd.)

4. (contd.)

(A) Group of assets and liabilities relating to the operations of The Phoenix classified as held for sale: (contd.)

	June 30
	2019
	Unaudited
	NIS millions
Current liabilities	
Interest bearing loans and borrowings	1,194
Trade payables	122
Other payables	2,610
Liabilities for debentures, ETNs, and other instruments	49
Current tax liabilities	3
Liabilities for insurance contracts	5,021
	8,999
Non-current liabilities	
Debentures	3,427
Structured bonds	257
Bank loans	358
Liabilities for employee benefits	65
Liabilities for insurance contracts	81,884
Provisions and other liabilities	104
Deferred taxes	652
	86,747
Total liabilities	95,746

NOTE 3 – INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

A. The Phoenix Holdings Ltd. ("The Phoenix") (contd.)

4. (contd.)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS millions				
Revenue	-	10,868	-	4,839	15,081
Cost of revenues	-	8,557	-	3,604	12,002
Gross profit	-	2,311	-	1,235	3,079
Selling expenses	-	911	-	471	1,416
General and administrative expenses		657		313	998
Other expenses, net	-	(8)	-	(17)	(2)
Operating profit	-	735	-	434	663
Financing expenses	-	92	-	65	116
Share in profits (losses) of associates	-	33	-	(14)	47
Profit before tax	-	676	-	355	594
Taxes on income	-	247	-	150	185
Appreciation (impairment) of the investment	-	(62)	-	40	69
Change in the value of the seller's loan and contingent consideration	**(88)**	**-**	**(71)**	**-**	**(12)**
Profit (loss) from discontinued operations of The Phoenix	**(88)**	**367**	**(71)**	**245**	**466**
Attributable to:					
Shareholders of the Company	**(88)**	**124**	**(71)**	**129**	**230**
Non-controlling interests	**-**	**243**	**-**	**116**	**236**
	(88)	**367**	**(71)**	**245**	**466**

NOTE 3 – INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

A. The Phoenix Holdings Ltd. ("The Phoenix") (contd.)

4. (contd.)

C) Composition of net cash flows attributable to the discontinued operations of The Phoenix:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS millions				
Net cash from operating activities	-	2,460	-	220	2,404
Net cash used for investing activities	-	(219)	-	(74)	(386)
Net cash from (used for) financing activities	-	(76)	-	91	294
	-	2,165	-	237	2,312
Cash received from the disposal of the investment in The Phoenix	-			-	1,320
	-	2,165	-	237	3,632

B. As set out in Note 10I to the Annual Financial Statements, in March 2020, the Group sold the balance of its investment (20%) in IDE Holdings Ltd. for NIS 169 million. The net profit (after the effect of tax) arising for the Company's shareholders due to the sale amounted to NIS 20 million, included in the Group's share in earnings of associates, net.

C. As set out in Note 10J to the Annual Financial Statements, on March 14, 2020, in view of the sharp decline in the value of the participating units of Delek Drilling (see Note 1B), a foreign bank contacted Delek Energy, claiming that for a loan secured by a lien in its favor on participating units representing 15% of the capital of Delek Drilling, and in view of the impairment of this collateral, it has grounds to call for immediate repayment of the debt and it demands its immediate repayment. Delek Energy informed the bank that it disputed its claim regarding the call for repayment of the debt, and that its position under the special circumstances in global markets, due, among other things, to the Covid-19 pandemic, did not constitute grounds to call for immediate repayment of the debt and it will invest all efforts at its disposal to uphold this right.

On March 15, 2020, the foreign bank announced that it had entered into an agreement for the sale of 142,341,547 participating units (12% of the capital of Delek Drilling) in an amount equal to the balance of the loan at that date of USD 57 million, representing a significantly lower price than the market price fixed on the last trading day preceding the transaction.

On March 25, 2020, Delek Energy entered into an agreement with a third party that claimed it had entered into an agreement for the purchase of the participating units from the foreign bank ("the Bidder") and that it had reached agreements according to which the agreement between the bank and the Bidder will be completed and shortly thereafter, most of the participating units (7% out of 12%) for which the agreement between the Bidder and the bank was signed will be repurchased by Delek Energy.

NOTE 3 – INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

C. (contd.)

Under the agreement with the Bidder, Delek Energy purchased from the Bidder 83,768,194 participating units, representing 7% of capital of Delek Drilling, for a consideration of USD 35.8 million (the unit price is the same as the price at which the Bidder purchased the participating units from the bank, plus USD 2.5 million).
The agreement stipulates that if the Bidder wishes to sell the remaining units that it holds (5%), in whole or in part, Delek Energy will have the right of first refusal to announce, within predetermined times, that it wishes to purchase the units offered for sale at a price that will not exceed the closing price of the units on the TASE on the day preceding the date of the Bidder's notice of the sale. Transactions between parties related to the Bidder are excluded from the above, as well as transactions lower than the level specified, starting from a given date.
Delek Energy has reached an agreement with the foreign bank whereby subject to waiving the mutual claims and completion of the transaction with the Bidder, the balance of units held by the foreign bank (3% of the capital of Delek Drilling) were released and transferred to Delek Energy.

In view of the above, on June 30, 2020, the Group directly and indirectly holds 55% of the capital of Delek Drilling. As a result of the above (net disposal of 5% of the capital of Delek Drilling), the capital attributable to the Company’s shareholders decreased by NIS 313 million (mainly due to recognition in capital reserve from transactions with non-controlling interests).

D. On April 19, 2020, an agreement was signed and a transaction completed for the sale of the Company’s entire share capital in Cohen Development Gas and Oil Ltd. (“Cohen Development”), amounting to 51.76% of the issued and paid-up share capital of Cohen Development (“the Sold Shares”) for a cash consideration of NIS 207 million. In addition to the cash consideration, the Company received a dividend from Cohen Development in the amount of NIS 9 million, which was declared prior to completion of the transaction.
The Sold Shares were sold to three different buyers in unequal parts, each purchased separately. As a result of the transaction, in the second quarter of 2020, the Company recognized a loss attributable to equity holders of the Company in the amount of NIS 235 million, (after tax effect) (including for recognition in the statement of income of the foreign operation translation reserve and for to the theoretical disposal of some of the gas and oil assets, as well as the realization of the royalties to which Cohen is entitled).

E. Delek Israel

Subsequent to the balance sheet date, on July 7, 2020, a transaction was completed for the sale of all the rights of Delek Israel in Pi Glilot, Limited Partnership (“Pi Glilot”) to a third party and in the land on which the fuel terminals are operated by Pi Glilot in Haifa, Ashdod, Beersheba, and Jerusalem (jointly below: “the Terminals”) for a consideration of NIS 720 million (before deduction of specific costs borne by Delek Israel), which was paid to Delek Israel on the completion date of the transaction, as set out in the agreement. The rights sold include, among other things, the rights of Delek Israel in Pi Glilot, ownership or leasehold rights in the land on which the Terminals are operated, the operations of the Terminals, goodwill, knowhow, and rights in the existing equipment, facilities, and tanks at the Terminals, under the agreement. Pi Glilot will continue to supply Delek Israel with the services it provides at the Terminals for a period that will be set out in the agreement.
In the reporting period, based also on the transaction price and the estimated capitalization fees to the Israel Lands Authority, which Delek Israel is obligated to bear under the agreement, Delek Israel recognized a provision for goodwill impairment attributable to Pi Glilot in the amount of NIS 100 million, (prior to tax effect).

NOTE 3 – INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

E. Delek Israel (contd.)

2. Subsequent to the balance sheet date, on July 23, 2020, Delek Israel signed a detailed agreement for the sale of 100% of the shares of IPP Ashkelon Ltd. and IPP Sorek Ltd. (which operate the Ashkelon and Sorek power plants) for a total consideration of NIS 367 million (following the memorandum of understanding signed in June 2020 for the sale of these shares). Under the agreement, the consideration will be paid in two installments, with the first amount of NIS 307 million to be paid on the completion date and the balance of NIS 60 million to be paid at one year after the completion date (“the Deferred Consideration”). The Deferred Consideration will bear annual interest at a rate of 2% and will be linked to the CPI. Payment of the Deferred Consideration is secured by a guarantee of the buyer. Delek Israel undertook to indemnify the buyer for tax liabilities that preceded completion of the transaction, and for a possible liability for lease fees to be imposed by the Israel Lands Authority in respect of the Sorek power station. Completion of the transaction is subject to preconditions, including regulatory approvals (including from the Electricity Authority, the Water Desalination Administration (WDA), and the Competition Authority), the consent of the financing entities of the company holding the Sorek power plant, and the consent of other third parties, including the fact that the Buyer will take the place of Delek Israel or the Company in respect of the guarantees provided by them. In view of the Covid-19 Crisis and the increased risk in the economy and the concern of a decrease in production prices of the electricity sold by the power plants, and in view of the aforesaid memorandum of understanding, Delek Israel assessed the fair value of the power plants based on an independent external valuation. The valuation results are an approximation of the price derived from the power plants as set out in the memorandum of understanding and the agreement. Consequently, in the reporting period, Delek Israel recognized a provision of NIS 184 million for impairment of the power plants.

3. Subsequent to the balance sheet date, on August 19, 2020, the Company and Delek Petroleum Ltd. (a wholly owned subsidiary of the Company) (Delek Petroleum) signed a memorandum of understanding with a third party (“the Investor”), under which the Investor will make a capital investment of NIS 450 million in preferred shares of Delek Israel and/or in a different structure as will be agreed between the parties under a detailed investment agreement.
   The Company and the Investor will act during the investment period to improve Delek Israel and to issue its shares and list them for trading on the stock exchange. Pursuant to the Memorandum of Understanding, the management rights in Delek Israel will be transferred to the Investor during the investment period through the appointment of a majority of the members of the Board of Directors of Delek Israel. Under the Memorandum of Understanding, the investment will bear an annual return of 10% for a period of 5 years (investment period) to be paid on an ongoing basis from Delek Israel's operations by way of distributing a dividend to the Investor from Delek Israel sources only (without the Company and Delek Petroleum having right of recourse, other than for Delek Israel shares). The detailed agreement will establish mechanisms for securing the such return. At the end of the investment period, Delek Petroleum will be entitled to redeem the investment and the Investor will hold 20% of Delek Israel's share capital and the remaining shares will be held by Delek Petroleum (80%) if the share value remaining in the hands of the Investor in Delek Israel will reflect an amount that is less than the yield of an additional 5% annually on the investment, additional Delek Israel shares will be transferred to the Investor free of consideration or at a cash payment (at the sole discretion of Delek Petroleum) until an annual return of 15% is reached during the investment period. In addition, during the investment period, the Investor will have an option to purchase 5% of Delek Israel shares, all in accordance with a mechanism to be fixed under the detailed investment agreement to be signed between the parties. The Memorandum of Understanding and the execution of the transaction thereunder are subject, among other things, to the approval of the boards of directors of the Company and of Delek Petroleum, as well as completion of the Investor's due diligence and a decision by its competent organs.

NOTE 3 – INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

E. Delek Israel (contd.)

4. In view of the agreements for the sale of Delek Israel's investment in Pi Glilot and the power plants, as set out in sections 1 and 2 above, the assets and liabilities of Pi Glilot and the power plants as at June 30, 2020 are attributed to assets and liabilities held for sale, respectively. The operating results of Pi Glilot and the power plants were presented in the reporting period under profit (loss) from discontinued operations, net, with comparative figures reclassified to this item accordingly.

   A) Breakdown of the assets attributed to the operations of Pi Glilot and the power plants that are classified as held for sale and the liabilities attributed to the assets:

	June 30
	2020
	Unaudited
	NIS millions
Current assets	
Cash and cash equivalents	22
Short-term investments	33
Trade receivables	72
Other receivables	27
Inventory	1
	155
Non-current assets	
Long-term loans and deposits	83
Fixed assets, net	1,080
Goodwill	277
	1,440
Total assets	1,595
Current liabilities	
Credit from the parent company	1
Trade payables	61
Other payables	5
	67
Non-current liabilities	
Long-term liabilities to banks	451
Provisions and other liabilities	26
	477
Total liabilities	544

NOTE 3 – INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

E. Delek Israel (contd.)

4. (contd.)

B) Operating results of Pi Glilot and the power plants classified as profit (loss) from discontinued operations, net:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS millions				
Revenue	285	310	142	158	637
Cost of revenues	251	246	115	121	490
Gross profit	34	64	27	37	147
General and administrative expenses	3	5	1	2	9
Other revenues (expenses), net	(292)	7	(48)	3	54
Operating profit (loss)	(261)	66	(22)	38	192
Financing expenses, net	(24)	(15)	(9)	(10)	(30)
Pre-tax income (loss)	(285)	51	(31)	28	162
Taxes on income (tax benefit)	(26)	7	(3)	4	14
Profit (loss) from discontinued operations	(259)	44	(28)	24	148

C) Composition of net cash flows attributable to the discontinued operations of Pi Glilot and the power plants:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS millions				
Net cash from operating activities	40	24	24	27	77
Net cash from (used for) investing activities	(8)	(17)	(12)	(11)	4
Net cash used for financing activities	-	-	(1)	(10)	(41)
	32	7	11	6	40

NOTE 3 – INVESTMENTS IN INVESTEE COMPANIES AND PARTNERSHIPS AND DISCONTINUED OPERATIONS (CONTD.)

E. Delek Israel (contd.)

5. In the reporting period, due to the outbreak of the Covid-19 Crisis, Delek Israel reassessed the recoverable amount of the gas stations, which have a carrying amount of NIS 898 million (taking into account the working capital attributable to the gas stations). The recoverable amount is determined by an independent external valuator using a discount rate (before tax) of 12.1% and an average growth rate in gross profit from fuel sales in 2022-2026 at a rate of 1.4% annually (in 2021, return to the pre-Covid-19 level of operations), and then as from 2027, an average decrease in gross profit from fuel sales of 3.8% annually. In accordance with the assessment, the recoverable amount exceeded the carrying amount, therefore a provision for impairment was not required.

F. For information about the impairment assessment of oil and gas assets and goodwill attributable to the sector of oil and gas assets in the North Sea and the sector of oil and gas assets in Israel and its surroundings, see Note 5 below.

NOTE 4 – INVESTMENT PROPERTY

As set out in Note 11C to the Annual Financial Statements, in March 2020, an agreement was signed between the Company and a third party whereby all of the Company's ownership rights to land in Haifa Bay, on which the third party’s plant is located and which was leased to the third party for 20 years, were sold for an amount of NIS 33 million, which is close to the carrying amount of the land shortly before the date of the sale.

NOTE 5 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION

The Group operates mainly through Delek Drilling - Limited Partnership (“Delek Drilling” or “the Partnership”) in a number of joint ventures for the exploration, development, and production of oil, natural gas, and condensate in the exclusive economic zone of Israel and Cyprus, and sells natural gas and condensate to a variety of customers. The Group also operates through Ithaca in oil and gas exploration and production in the North Sea. As from the beginning of 2018, the Group began to operate through a foreign subsidiary, Delek GOM Investments LLC (“Delek GOM”) for exploration, development, and production of oil and gas in the Gulf of Mexico in the United States.

The main changes in the reporting period in these activities appear below:

A. Further to the foregoing Notes 1A and 1B regarding the spread of Covid-19 and its possible effect on the Group's business, the Group assessed the recoverable amount of its oil and gas assets in Israel and the surroundings (separately or as a group of assets constituting a single cash-generating unit, as the case may be) as at March 31, 2020. The assessment of the recoverable amount was based on an estimated present value and sensitivity analyses of the expected cash flows from the Group's oil and gas assets (“the Assessment”). The Assessment was performed by an outside independent valuator who estimated the recoverable amount as at March 31, 2020 through the discounted cash flow, based on the projected cash flow from 2P reserves (proved reserves + probable reserves) from the Tamar reservoir as at December 31, 2019 and based on the projected cash flow from 2P + 2C reserves (best estimate contingent resources including 2P reserves) from the Leviathan reservoir as at December 31, 2019, published by the Company on January 10, 2020 and January 13, 2020, respectively (“the Cash Flow Forecasts”), with application of the adjustments to the data and assumptions used in the cash flow forecasts.

NOTE 5 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

A. (contd.)

The main adjustments included, among other things:

1. An updated forecast of the price of oil and gas, partially due to: (i) An update to the Brent oil price forecast based on the average of the Brent oil price forecasts of third parties, including the World Bank, the US Department of Energy, and the consulting company IHS Global Insight, which was published shortly before the Assessment date, for 2020-2030, and there increase at a rate of 2% per year as from 2030; (ii) the updated forecast for the energy production price, based, among other things, on the NIS-USD exchange rate and on the fuel price forecast based on the gas price for the IEC; (iii) the updated forecast for natural gas demand in the local market, based on the forecast for the demand of a third party for natural gas in the local market.

2. Reduction of annual sales quantities as described below, based on:
   - The updated demand forecast in the local market shortly before the assessment date
   - Reduction of sales quantities in the Dolphinus agreements (see Note 12K(1)(d) and Note12K(2)(e) to the Annual Financial Statements) to 50% of the annual contractual quantities in years in which the average daily Brent price is less than USD 50 per barrel

3. Adjustment of depreciation expenses for tax purposes to be used by a potential buyer

4. Use of the weighted average cost of capital (WACC) (after tax) of 10.2% in the Tamar reservoir and 8.45% in the royalties attributable to Cohen Development.

5. Use of the weighted average cost of capital (WACC) (after tax) of 11.2% in the Leviathan reservoir and 9.45% in the royalties attributable to the Company, Delek Energy, and Cohen Development.

The aggregate fair value of oil and gas assets in the Tamar project (22%), including the value of the royalties attributable to Cohen Development, less realization costs, was estimated at USD 1,342 million (NIS 4,784 million) as at March 31, 2020, and was lower than the carrying amount of the assets as at March 31 2020, which amounted to USD 1,358 million (NIS 4,841 million)) (investments in oil and gas assets less liabilities for disposal and other long-term assets related to the project). Accordingly, in the first quarter of 2020, there was impairment amounting to USD 16 million (NIS 57 million) in the assets, fully attributable to non-controlling interests.

The aggregate value in use of a unit that includes oil and gas assets in the Leviathan project (45.34%) and Cyprus, including the value in use of overriding royalties attributable to the Company, Delek Energy, and Cohen Development, amounted to USD 4,254 million (NIS 15,165 million) as at March 31, 2020, and is higher than the carrying amount of the assets at that date, which amounted to USD 3,787 million (NIS 13,501 million) - investments in oil and gas assets less liabilities for disposal and other long-term assets related to the project), therefore, there was no impairment of assets.

B. As at March 31, 2020, goodwill attributable to oil and gas exploration and production in Israel and the surrounding area amounted to NIS 468 million. Goodwill arose on acquisition of the shares of Cohen Development in December 2011 and gain of control in Avner Oil Exploration - Limited Partnership. In accordance with the valuation as set out in section A above, the value in use of the operating segment significantly exceeds the carrying amount, therefore no provision was required for goodwill impairment.

As at June 30, 2020, there were no indications of the need to reassess the recoverable amount of oil and gas assets in Israel and the surrounding area, also in view of the resources report as at June 30, 2020 for the Tamar and Leviathan reservoirs, as set out in this Note below.

NOTE 5 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

C. Leviathan project

1. Further to Note 12D (3) to the Annual Financial Statements regarding the gradual increase in production capacity from the Leviathan project up to 1,200 MMCF/d by operating the turbo expanders, as at the approval date of the financial statements, the total production capacity of the Leviathan project is 940 MMCF/d, and Noble, the operator in the Leviathan project, estimates that the running in and operation of the turbo expanders should be completed in the fourth quarter of 2020, subject to regulatory approvals from the Ministry of Energy.

2. Construction of the condensate storage system at the Hagit site has been completed and once of all the permits required for its operation have been obtained, the storage system will be operated.

3. In August 2020, Noble announced that maintenance is expected to be performed at the Leviathan rig in November 2020, which will continue for five days, during which gas flow from the rig will be suspended.

4. Following assessments regarding the effect of the Covid-19 Crisis on the Partnership's business and its forecasts, subsequent to the balance sheet date, in July 2020, Netherland Sewell & Associates Inc. (“NSAI”) submitted a report on the estimated reserves and contingent and prospective resources in the leases, based on the guidelines of SPE-PRMS, updated as at June 30, 2020. According to the report, the total quantity of resources is estimated at 646.1 BCM and 40.9 million barrels, divided into categories of resources classified as reserves and resources classified as contingent.

   The quantity of proved developed producing reserves is 322.2 BCM and the quantity of reserves classified as proved + probable reserves is 376.1 BCM.

   In addition, the quantity of proved developed producing condensate reserves is 20.4 million barrels and the quantity of reserves classified as proved + probable reserves is 23.9 million barrels.

   The contingent resources report divides the contingent resources into two categories, referring to each of the reservoir development stages, as follows:

   Phase 1A (Phase I - First Stage): contingent resources classified as development pending are contingent on decisions regarding additional drilling, construction of related infrastructure, and additional agreements for the sale of natural gas.

   Future developments are resources contingent on the FID, according to Phase 1B of the development plan and an additional phase (if the development plan is revised), and additional agreements for the sale of natural gas between 379.6 BCM (high estimate) and 155.6 (low estimate) and contingent condensate reserves are between 24.1 million barrels (high estimate) and 9.9 million barrels (low estimate). For information about the uncertainty of the estimated reserves, see section U below.

NOTE 5 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

D. Tamar project

Following assessments regarding the effect of the Covid-19 Crisis on the Partnership's business and its forecasts, subsequent to the balance sheet date, in July 2020, Netherland Sewell & Associates Inc. submitted a submitted a report on the estimated reserves and contingent and prospective resources in the leases, based on the guidelines of SPE-PRMS, updated as at June 30, 2020.
According to this reserves report, the natural gas reserves in the Tamar project (which includes the Tamar reservoir and the Tamar SW reservoir), which are classified as on production reserves, as at June 30, 2020, and classified as proved reserves, are 223.6 BCM (of which, 10% is attributable to Tamar SW) and the quantity of reserves classified as proved + probable reserves is 301.7 BCM (of which, 9% is attributable to Tamar SW).
In accordance with this report, the condensate reserves in the Tamar and Tamar SW reservoirs, classified as approved for production, as at June 30, 2020, which are classified as proved reserves, amount to 10.2 million barrels (of which, 9.8% is attributable to Tamar SW) and the reserves classified as million proved + probable reserves amount to 13.8 million barrels (of which, 8.7% is attributable to Tamar SW). The above reserves do not include the reserves migrating to the Eran license. For information about the uncertainty of the estimated reserves, see section U below.

E. The operator in the Tamar and Leviathan projects informed the Partnership that installation of the compressor at the EAPC site in Ashkelon had been completed, a permit had been obtained for the flow of natural gas, and the running-in of the compressors had commenced. On completion of the running in of the compressors in July 2020, gas started to flow from the Tamar reservoir to Egypt and the flow capacity in the EMG pipeline increased, through the existing INGL transmission infrastructure.

F. Further to Note 12M(3) to the Annual Financial Statements, regarding financing of projects for export through the Israeli transmission system and distribution of construction costs of the combined Ashdod-Ashkelon segment, it should be noted that on June 23, 2020, the Director General of the Natural Gas Authority announced that he had set the estimated cost of the segment at a total of NIS 738 million (of which the Partnership's share is estimated at NIS 159 million). In addition, the exporter will pay the holder of the transmission license an amount of NIS 27 million, against its share in the cost arising from bringing forward the doubling of certain transmission sections, estimated at NIS 48 million. Such costs will be adjusted in accordance with the mechanism for updating and accounting between the parties, which will be incorporated in the transmission agreement and will be submitted for approval. Accordingly, the Partnership is required to provide a guarantee of USD 46 million.
As at the approval date of the financial statements, the Tamar partners and the Leviathan partners are negotiating with INGL for a transmission agreement for the full amounts of natural gas under the agreements for export to Egypt. It should be clarified that there is no certainty that such negotiations will be consolidated into a binding transmission agreement and that as at the approval date of the financial statements, in view of the prolonged negotiations, the Tamar and Leviathan partners are considering various alternatives that will allow supply to Egypt of the full quantities of natural gas that are required under the export agreements, and mainly direct connection from the production facilities to the EMG system.

G. On July 20, 2020, Noble Energy Inc. ("Noble Inc."), the parent company of Noble, announced that it had signed a merger agreement with Chevron Corporation ("Chevron"), according to which, subject to certain conditions, a wholly owned subsidiary of Chevron will merge with and into Noble Inc., such that Noble Inc. will become a wholly owned company of Chevron. It should be noted that Chevron, an American company, is one of the largest oil and gas exploration and production companies in the world.

NOTE 5 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

H. Further to Note 12K(1)(c)(2) to the Annual Financial Statements regarding the amendments that were proposed by the Partnership and some of the Tamar partners to Israel Electric Corporation Ltd. (“the IEC”) in 2019, on April 13, 2020, representatives of the Ministry of Energy, the Economic Department of Legislation Advice at the Ministry of Justice, the Ministry of Finance, and the Competition Authority (“the Regulators”) announced, among other things, that the Tamar partners were given a short period to amend the arrangements between them so as to ensure that the Partnership, Noble, and Isramco Negev 2 Limited Partnership do not hold a right to veto decisions on the marketing of natural gas from the Tamar reservoir.

On May 27, 2020, the partners in the Tamar project submitted an agreed outline of principles for joint marketing from the Tamar reservoir (“the Outline of Principles”), according to which the partners in the Tamar reservoir will continue the joint marketing of natural gas from the Tamar reservoir. The Outline of Principles includes various arrangements and mechanisms to ensure the rights of the parties and to improve the competitive position of the Tamar reservoir in the marketing of natural gas to customers in the local market. These arrangements and mechanisms establish, among other things, the method and parameters for negotiating with customers in the local market for certain commercial matters relating to price, price linkage, and take or pay levels that are standard in the local market, without the participation of the partners in the reservoir that hold other oil-producing assets, as well as the parameters and conditions for agreements with customers in the local market in agreements for the sale of natural gas.

It should be noted that Tamar's partners are holding discussions, among themselves and with the regulators, regarding the update of the Outline of Principles. As at the approval date of the financial statements, the parties have not yet reached final understandings and the discussions with the IEC have not yet ended, therefore, there is no certainty that the Outline of Principles will be accepted by the regulators and that the Outline of Principles will be consolidated into a binding agreement..

I. As set out in Note 12L(6) to the Annual Financial Statements, on February 9, 2020, the Ministry of Energy released, for public comment, draft directives on the manner of calculation for the value of the royalty at the wellhead in relation to offshore oil rights, under section 32 of the Petroleum Law. In May 2020, representatives of the Ministry of Energy, the Leviathan partners, and the Tamar partners discussed the comments on the draft directives that were submitted by the partners. In June 2020, the Natural Resources Administration at the Ministry of Energy published the final version of the directives. The directives further state that the Commissioner will determine for each leaseholder, from time to time, individual instructions for each lease, specifying the deductible expenses for calculating the royalty, based on the specific aspects of the lease. As at the approval date of the financial statements, the individual instructions have not yet been submitted.

NOTE 5 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

J. Rights in the I/17 Karish and I/16 Tanin leases

1. Further to Note 12G to the Annual Financial Statements regarding the agreement for the sale of rights in the I/17 Karish and I/16 Tanin leases(jointly: “the Leases”), in April 2020, Energean released an update on the resources attributable to the Karish North reservoir in the area of the 1/17 Karish lease, according to which the Karish North well has best estimate natural gas resources of 33.7 BCM and 39.4 million barrels of hydrocarbons.
   In this context, it should be noted that in April 2020, Energean and the Partnership exchanged letters about the Partnership’s rights to royalties from the Leases. According to Energean, among other things, its obligation to pay royalties does not apply to hydrocarbons from the Karish North reservoir, and, in addition, not all the liquid hydrocarbons that will be produced from the Leviathan lease meet the definition of condensate under the agreement for the sale of the Partnership’s rights in the Leases. The Group's position, based on the opinion of its advisors, is that under the agreement for the sale of the Partnership’s rights in the leases, the royalty documents, and the registration in the Oil Register, Energean's obligation to pay royalties applies to natural gas and condensate produced from the leases, including the Karish North reservoir, and that all the liquid hydrocarbons that will be produced from the leases constitute condensate as defined in the agreement.

   The section on financing income in the reporting period includes an amount of NIS 57 million, arising from revaluation of the royalty from the leases. The revaluation is mainly due to the net effect of changes in the discount rate, update of contingent resources and liquid hydrocarbons and the revised price forecast, and postponement of production from the Karish lease to the first quarter of 2022.

   In the reporting period, the total effect on the profit attributable to the Company’s shareholders after income taxes amounted to a profit (appreciation) of NIS 33 million.

   Below are the main parameters of the valuations used to measure the Royalties and annual payments: The capitalization rate for the annual payments is estimated at 7.5%; the capitalization rate for the royalty component is estimated at 12%; the total contingent resources of natural gas and hydrocarbon liquids used for the valuation to measure the royalties were estimated at 98.5 BCM and 82 MMbbl, respectively, and the production rate forecast.

2. Subsequent to the balance sheet date, on July 8, 2020, the transaction was completed under which the Company and Delek Energy Systems Ltd. (“Delek Energy”) (“the Buyer”) sold all the rights of the Company and Delek Energy to overriding royalties for the Karish and Leviathan Leases to a third party (not including the royalty rights of the Partnership and Cohen Development), for a consideration of NIS 318 million. The consideration is distributed between the Company and Delek Energy in accordance with their holding of the right to overriding royalties (25%, the Company; 75%, Delek Energy). It should be noted that the carrying amount of the sold rights, based on the valuation described in section 1 above, amounted to NIS 371 million as at June 30, 2020. Accordingly, at the completion date of the transaction, the Group is expected to recognize a loss (after the tax effect) of NIS 44 million.

NOTE 5 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

K. Issue of Leviathan Bond debentures

Subsequent to the balance sheet date, on August 18, 2020, the procedure was completed for issuing debentures offered by Delek Leviathan Bond Ltd. ("the Issuer"), a special purpose company ("SPC") held in full by the Partnership, according to which debentures were issued in a total amount of USD 2.25 billion, which were issued in accordance with Rule 144A and Regulation S.

The debentures were issued in four series ("the Series"), as follows:

1) Debentures in a total amount of USD 500 million par value, repayable on June 30, 2023 (in one payment), bearing interest at a fixed annual rate of 5.750%;
2) Debentures in a total amount of USD 600 million par value, repayable on June 30, 2025 (in one payment), bearing interest at a fixed annual rate of 6.125%;
3) Debentures in a total amount of USD 600 million par value, repayable on June 30, 2027 (in one payment), bearing interest at a fixed annual rate of 6.500%;
4) Debentures in a total amount of USD 550 million par value, repayable on June 30, 2030 (in one payment), bearing interest at a fixed annual rate of 6.750%;

The principal and interest of the debentures are in USD. The interest on the debentures of each of the Series will be paid twice a year, on June 30 and December 30.
On August 3, 2020, the Issuer received the approval of the Tel Aviv Stock Exchange Ltd. to list the debentures for on the TACT-Institutional system of the TASE.

The full consideration for the issue was provided by the Issuer as a loan to the Partnership at the same terms as the terms of the debentures (back-to-back), and in accordance with a loan agreement signed between the Issuer and the Partnership ("the Loan"). The Loan funds were used by the Partnership to repay existing loans in the amount of USD 2 billion, deposit a security cushion in the amount of USD 100 million in accordance with the terms of the debentures, payment of issuance expenses estimated at USD 30 million, and the balance will be used for other uses in accordance with the terms of the approval of the Commissioner of Petroleum Affairs as described below ("the Commissioner's Approval").

Under the deed of trust for the debentures and the other documents according to which the debentures were issued (jointly below: "the Financing Documents"), the Partnership undertook to pledge in favor of the debenture trustee ("the Trustee") in a first fixed lien, its rights in the Leviathan project (45.34%), including its rights in the I/14 Leviathan South and I/15 Leviathan North leases ("the Leases"), the operating approvals of the production system, and the export approvals (jointly below: "the Pledge of the Leases"), the Partnership's rights and revenues from agreements for the sale of the gas and condensate from the Leviathan project ("the Gas Agreements"), the Partnership's rights in the joint operating agreement ("the JOA") for the Leases, the Partnership's share in the project assets (including the platform, wells, facilities, production system, and system for transmission to the shore), the Partnership's rights in dedicated bank accounts, certain insurance policies, and various licenses in connection with the Leviathan project. The Partnership will also pledge the shares held by it in the Issuer, in NBL Jordan Marketing Limited, and in Leviathan Transportation System Ltd.

In addition, the Issuer undertook to pledge its rights in all of its existing and future assets, in a first floating lien, in favor of the Trustee, and will pledge its rights in the loan agreement and in its bank accounts in favor of the Trustee (jointly below:
According to the Financing Documents, the Partnership's undertakings to the Trustee and the debenture holders are limited to the Pledged Assets, with no guarantee or additional collateral.

It should be noted that the Pledges that the Partnership will create in favor of the Trustee are subject, among other things, to the State's royalties according to the Petroleum Law and to the rights of the parties entitled to royalties for the Partnership's revenues from the Leviathan project, including the Group companies.

NOTE 5 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

K. Issue of Leviathan Bond debentures (contd.)

As is standard in financing transactions of this type, under the financing documents, the Partnership assumed stipulations, restrictions, covenants, and grounds for calling for immediate repayment of the debentures and exercising the pledges. These include, among other things, the following main commitments:

- The Partnership and the Issuer, as the case may be, undertook, among other things, to fulfill the undertakings and conditions set out in government approvals and licenses, including in relation to the project operator, and including the terms of the Commissioner’s approval; to fulfill the terms of the Leases and the JOA (jointly below: "the Leviathan Agreements"); to protect their rights in the Pledged Assets and ensure the validity of the Pledges and the rights of the Trustee and the debenture holders thereunder; not to change or discontinue the Issuer's activity, and not to change the Issuer's articles of association; not to create additional pledges on the Pledged Assets (other than certain exceptions); to comply with the provisions of the law that apply to their activities; to pay the taxes that apply to them; to give the Trustee and the debenture holders certain notices, information and reports that were specified; to act to maintain the listing of the debentures on the TACT-Institutional system; to act to ensure the continued proper operation of the Leviathan project in accordance with the Leviathan Agreements; to take any action possible under the JOA to ensure that the operator fulfills its undertakings under the JOA; to make all of the payments that apply to them and to bear all of the Trustee’s expenses that apply to them under the Financing Documents; to purchase and maintain certain insurance policies; to refrain from modifying or amending the Leviathan Agreements or material gas agreements, as set out in the Financing Documents (“the Material Gas Agreements”), or the royalty agreements or engage in a new royalty agreement; and to refrain from approval of certain acts under the JOA, etc.
- The Issuer undertook not to assume any additional financial debt, other than the issue of additional debentures or other secured debt of an equal level, subject to the conditions that were set out, including (i) the amount of the secured debt of the Issuer (including the debentures) will not exceed USD 2.5 billion at any time; (ii) certain financial ratios set out in the Financing Documents are maintained. In addition, the Partnership undertook not to assume any additional financial debt secured by the Pledged Assets, other than an additional loan to be received from the Issuer back-to-back to additional debt to be raised by the Issuer subject to the restrictions set out in the Financing Documents.
- The Partnership undertook not to perform a merger transaction or change its operations in a manner that is likely to cause a material adverse effect, or to introduce dissolution proceedings or other defined restructuring, and not to sell, transfer, pledge, or otherwise dispose of any or all of its assets, other than permitted transactions as defined in the Financing Documents, including the sale of rights in the Leviathan project subject to mandatory early redemption or a tender offer to the debenture holders in certain cases, or permitted restructuring, as defined, including a transfer of the Partnership’s rights in the Leviathan project to a new subsidiary and/or other actions, including the outline under consideration for a split of the Partnership’s assets, provided that the rights of the holders are not impaired by such actions and additional terms as defined.

In addition, provisions were set out regarding early redemption of the debentures, including, (1) early redemption initiated by the Issuer, subject to payment of a make whole premium; (2) mandatory early redemption in certain defined cases, including by way of buyback of the debentures and/or a tender offer for all the debenture holders, including upon the sale of all or part of the rights in the Leviathan project.

NOTE 5 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

K. Issue of Leviathan Bond debentures (contd.)

The Issuer and the Partnership undertook that if withholding tax applies to the amounts payable to a foreign resident, in accordance with the debenture terms, then, subject to certain exceptions that were defined, the Issuer and/or the Partnership, as the case may be, will pay additional amounts as required so that the foreign resident will receive the same net amount as the amounts that the foreign resident would have received, had no withholding tax been required. In this context, it should be noted that on July 27, 2020, the Partnership received approval from the Tax Authority that, among other things, the debentures that will be traded on the TACT-Institutional system of the TASE are debentures that are traded on the stock exchange in Israel for the purpose of section 9(15D) of the Income Tax Ordinance (for an exemption from tax on interest paid to a foreign resident on debentures traded on the TASE) and section 97(B2) of the Ordinance (for an exemption from tax for a foreign resident on capital gains in the sale of debentures traded on the TASE), subject to the terms set out in the Tax Authority's approval and the provisions of the Income Tax Ordinance and the related regulations.

The Financing Documents include a waterfall payment mechanism, according to which the entire proceeds of the Partnership from the Leviathan project are transferred to an account pledged in favor of the Trustee("the Revenues Account"), which is used for various payments related to the project and the debentures, including payment of royalties to the State and to the royalty holders; payments to the Trustee; taxes and the levy under the Taxation of Profits from Natural Resources Law, 2011 (in this section: "the Law"); capital investments and operating expenses related to the Leviathan project; principal and interest payments; deposits for safety cushions; and balancing payments related to tax payments under section 19 of the Law. The transfer of the amounts remaining in the Revenues Account after the payments to a non-pledged account of the Partnership is subject to the conditions that were set out, including the fulfillment of an NPV coverage ratio of at least 1.5.

The Financing Documents defined events of default, which if they occur, subject to certain cure periods that were defined, qualifications, and terms, the trustee for the debentures will be entitled (and in the case of a demand of one quarter of the debenture holders, will be obligated) to call for immediate repayment of the unpaid balance of the debentures and may act to exercise the pledges. The main events are as follows: (1) default on payment of principal, interest or other payments required under the Financing Documents; (2) breach of representations; (3) breach of the covenants or negative covenants defined in the Financing Documents; (4) an event or introduction of insolvency proceedings of the Issuer, and an insolvency event as aforesaid or of a party to a Material Gas Agreement (as defined in the Financing Documents), the operator in the Leviathan project or the Partnership, if it is likely to cause a material adverse effect (as defined in the agreement) subject to certain conditions and qualifications; (5) premature termination of any of the Leviathan agreements or a Material Gas Agreement, if it is likely to cause a material adverse effect, subject to certain conditions and qualifications; (6) if a party to a Material Gas Agreement breaches the agreement and it is likely to cause a material adverse effect, subject to certain conditions and qualifications; (7) in the event of abandonment or suspension of operations at the Leviathan project for more than 15 consecutive days, if it is likely to cause a material adverse effect; (8) if damage is caused to the Leviathan project (including physical damage, revocation of a license or transfer of the Partnership’s rights in the project by a government entity), which is likely to cause a material adverse effect, which was not remedied; (9) in the event of denial or revocation of government approval related to the Leviathan project, which is likely to cause a material adverse effect; (10) If any of the Financing Documents to which the Issuer or the Partnership are a party, or pledges provided under the Financing Agreements, with an aggregate value of more than USD 35 million, cease to be in effect; (11) if a non-appealable judgment is handed down against the Issuer for payment of an amount of more than USD 35 million, which was not paid; (12) if there is a breach of an undertaking in an agreement for providing other pari passu secured debt of the Issuer with a value of more than USD 35 million; (13) if an undertaking to perform mandatory early redemption is breached; (14) if the provisions for expenses from the Revenues Account are breached.

The debentures were rated by international rating agencies and an Israeli rating agency.

NOTE 5 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

K. Issue of Leviathan Bond debentures (contd.)

On August 3, 2020, approval from the Commissioner of Petroleum Affairs was received for the pledge of the Leases in favor of the Trustee, for the debenture holders. According to the Commissioner's approval, among other things, the pledge is provided to secure repayment of the Debentures, the proceeds of which are intended for providing credit to the Partnership in the total amount of up to USD 2.5 billion, to repay existing loans amounting to up to USD 2, billion, deposit a safety cushion in the amount of USD 100 million, investments in the Leviathan project alone, and the financing of the construction of a pipeline for the export of gas from the Leviathan and Tamar reservoirs.

L. Subsequent to the balance sheet date, on July 15, 2020, Delek Drilling made partial early repayment of the third series of Tamar Bond debentures, in the total amount of USD 240 million ("the Amount of the Principal"), the original repayment date of which was December 30, 2020. The amount of the early repayment includes the Amount of the Principal, plus accrued interest amounting to USD 0.4 million and plus an early repayment fee, estimated at USD 4.2 million as at the date of the announcement ("the Early Repayment Fee").
It is noted that the amount of the Early Repayment Fee is lower than the interest, which the issuer of the debentures, Delek and Avner (Tamar Bond) Ltd., would have paid if the third series of the Tel Bond debentures had been repaid at its original date.

M. Further to Note 12P(2) to the Annual Financial Statements, subsequent to the balance sheet date, on July 13, 2020, the Partnership announced that the Partnership and the general partner had filed an originating motion at the Tel Aviv District Court, petitioning the court, among other things, to determine the appropriate balancing arrangements between the individuals and corporations holding participation units of the Partnership, in view of tax payments that the Partnership is required to make under section 19 of the Taxation of Profits from Natural Resources Law, 2011, including: (A) tax payments insofar as they arise due to a discrepancy between the Partnership's estimate of the taxable income towards the end of the tax year and the independent assessment filed by the Partnership; and/or tax payments insofar as they arise from a discrepancy between the independent assessment filed by the Partnership and the final tax assessment that will be issued to it ("the Assessment Discrepancies"); (B) tax payments made for the 2015-2016 tax years ("the Past Periods"); this is given that the party holding the participating unit on the record date for a tax year in past periods may no longer hold it until it becomes clear (if at all) that the Partnership is required to pay additional tax for that tax year (or vice versa) and given the difference in tax rates applicable to individuals and corporations.

As part of the originating motion, the court was presented with various possible alternatives to the arrangements in respect of the tax payments for the assessment differences and for the past periods, in order to decide on the appropriate arrangements as aforesaid. The respondents in the originating motion are the holders of the Partnership's participating units at the dates relevant to the originating motion, and the supervisor of the Partnership, who requested to join as a respondent in the originating motion so that he can present an independent position on his behalf. In addition to the originating motion, the Partnership and the general partner filed a motion with the court to permit an alternative serving of papers for holders of the Partnership's participating units by way of a public notice, which, if accepted, it will also allow each holder of the Partnership's participating units at the dates relevant to the originating motion (including all current holders of the Partnership's participating units) to join as a party to the proceeding. On July 14, 2020, the court decided to submit the request to the Partnership's supervisor, the Israel Securities Authority and the Commissioner of the Capital Market for their reference.

N. Subsequent to the balance sheet date, on July 26, 2020, the board of directors of the general partner approved a buy-back plan for Debentures (Series A) and Delek and Avner Tamar Bond debentures amounting to up to USD 50 million. It should be noted that the buy-back plan for the debentures complies with the provisions of the Partnership's deed of trust, and that the approval of the plan does not constitute a breach of the Partnership's obligations to the debenture holders. It should be clarified that the board of directors of the general partner determined that the buy-back plan of the debentures will be implemented subject to completion of the refinancing procedure of loans provided to the Partnership, among other things, to finance the Leviathan project (which was completed on August 18, 2020) and that the decision does not require the Partnership to purchase the debentures, or any part of them, and that the management of the Partnership may decide not to purchase debentures at all and/or to purchase debentures to a lower extent than approved.

NOTE 5 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

O. In view of the disputes between the Partnership and the Tax Authority and the disagreements regarding the taxable amount of the revenue of Delek Drilling for 2017, subsequent to the balance sheet date, on July 23, 2020, a best judgment assessment was received from the Tax Authority under section 145(A)(2)(b) of the Income Tax Ordinance, 1961 ("the Tax Assessment" and "the Ordinance", respectively), according to which, the taxable income of the Partnership for 2017 is USD 369 million (instead of USD 218 million, as included in the tax returns of the Partnerships that were filed with the Tax Authority) and the capital gain of the Partnership and Avner Partnership for 2017 is USD 663 million (instead of USD 544 million, as included in the tax returns of the Partnership that were filed with the Tax Authority).
Most of the disputes refer to the interpretation of the method for recognizing financing expenses and other expenses incurred by the Partnership, including charging financing income arising from exchange rate differences to an asset under construction, the implementation method for section 20(B) of the Natural Resources Profit Taxation Law, 2011 regarding deduction of depreciation expenses, and the calculation method for capital gain from the sale of 9.25% (out of 100%) of the rights in the Tamar and Dalit leases.
According to the tax assessment, and if all the claims of the Tax Authority are accepted, Delek Drilling will be required to pay an additional tax payment (including interest and linkage differences) at the expense of the holders of the participating units in the Partnership, in the amount of USD 86 million each.
It should be noted that, in view of the above, there may be a delay in the issuance of a final tax certificate to the eligible holder for the holding of the participating unit of Delek Drilling for the 2017 tax year, until the completion of the proceedings required to determine the final assessment.
Delek Drilling believes, based on the opinion of its legal counsel, that it is more likely than not that most of the Partnership's claims will be accepted, therefore it intends to file an objection to the tax assessments and to exhaust the administrative and legal procedures available to it.

P. Subsequent to the balance sheet date, on July 30, 2020, Delek Drilling and Avner Oil Exploration Limited Partnership ("the Partnerships") were issued tax assessments under section 152(B) of the Ordinance ("the Orders"). The dispute is mainly about the interpretation of the method for recognizing financing and other expenses that the Partnerships actually covered and the calculation method for the capital gain from the sale of the Karish and Tanin leases. According to the assessments in the order, and if all the claims of the Tax Authority are accepted, the Partnership will be required to pay an additional tax payment (including interest and linkage differences) at the expense of the tax owed by the holders of the participating units in the Partnership, in the amount of USD 42.6. million each. It should be noted that the Partnership intends to file an appeal with the district court against the Orders. Accordingly, there may be a delay in the issuance of a final tax certificate to the eligible holder for the holding of the participating units of the Partnerships for the 2016 tax year, until the completion of the proceedings required to determine the final assessment. Delek Drilling believes, based on the opinion of its legal counsel, that it is more likely than not that the most of Delek Drilling's claims will be accepted.

Q. Further to Notes 12(K)(1)(d) and 12(K)(2)(e) to the Annual Financial Statements, regarding the option granted to Dolphinus Holdings Limited, to reduce the take or pay quantity under the circumstances described in the Notes, on July 27, 2020, the Company and Delek Drilling announced that demands were received from the Israel Securities Authority to present information and documents as part of an administrative inquiry.

R. On March 16, 2020, Total E&P North Sea UK Ltd., the operator in the Isabella oil asset in the area of the continental shelf of the UK in the North Sea region, announced that in the exploratory drilling, indications of petroleum were discovered in the target layers of the well. The operator announced that due to high pressure and temperature, at this stage, production tests could not be performed using the existing equipment. Ithaca was informed that the operator intends to consider various alternatives for production tests at the oil asset at a later date. It should be noted that, under the terms of Ithaca's transaction regarding the oil asset, Ithaca does not bear expenses for its share in the oil asset (10%).

NOTE 5 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

S. Further to Note 1A above regarding the spread of Covid-19 and the possible effect on Ithaca's business, including regarding the decrease in oil prices, the Group assessed the recoverable amount of oil and gas assets in the North Sea area as at March 31, 2020. As a result of the assessment, in the first quarter of 2020, the Group recognized a provision for impairment of oil and gas assets in the North Sea region in the amount of USD 751 million (NIS 2.6 billion) (after the effect of tax, USD 451 million (NIS 1.6 billion)). The recoverable amount was determined as the fair value of each cash-generating unit, net of selling costs.

In addition, the Company, through an independent outside valuator, examined the impairment of goodwill attributable to the item "Oil and gas development and production in the North Sea" in its entirety. The recoverable amount of the unit was calculated as the fair value of the investment in oil and gas production operations in the North Sea, net of selling costs, and it is estimated as at March 31, 2020 in the amount of USD 1,200 million. As a result of the assessment, the Group recognized impairment of goodwill attributable to these operations in the amount of USD 216 million (NIS 770 million).

The valuations were performed by an independent outside valuator using the cash flow discounting method, based on a discount rate after tax of 10.5%, future Brent oil prices of USD 35 per barrel in 2020, USD 45 per barrel in 2021, and reaching USD 68 per barrel in 2024, and future gas prices of 24 penny per thermal unit in 2020, 33 penny per thermal unit in 2021, and reaching 43 penny per thermal unit in 2024.

As at June 30, 2020, the Group, through an independent outside valuator, reexamined the impairment of goodwill attributable to the item "Oil and gas development and production in the North Sea" in its entirety. The recoverable amount of the unit was calculated as the fair value of the investment in oil and gas production operations in the North Sea, net of selling costs, and it is estimated as at June 30, 2020 in the amount of USD 1.2 billion. This value is higher than the carrying amount of the investment as at this date, which amounts to USD 1.1 billion. Accordingly, the Company was not required to include further impairment of the goodwill. The valuation was performed by a valuator using the cash flow discounting method, based on a discount rate after tax of 10%, future Brent oil prices of USD 35 per barrel in 2020, USD 45 per barrel in 2021, and reaching USD 68 per barrel in 2024 (it should be noted that in subsequent years, a decrease in oil prices compared to those included in the valuation of March 31, 2020 was taken into account), and in future gas prices of 24 penny per thermal unit in 2020, 33 penny per thermal unit in 2021, and reaching 43 penny per thermal unit in 2024.

According to a sensitivity analysis that was conducted, a decrease of 10% in the oil and gas prices compared to those brought into account will lead to impairment of the total unit of USD 370 million. It should also be noted that an increase of 1% in the discount rate will lead to impairment of the total unit of USD 80 million.

T. According to the NSAI report dated July 10, 2020, the total quantity of 2P oil and natural gas reserves in all of Ithaca's oil assets, as at June 30, 2020, is 190.8 MMBOE (the Company's share) and the discounted cash flow value for these reserves, at a discount rate of 10%, according to the assumptions underlying the cash flow, is USD 2.4 billion. In addition, the total quantity of contingent resources in the 2C best estimate is 67.5 million MMBOE (the Company's share), and the discounted cash flow value for these contingent resources, at a discount rate of 10%, according to the assumptions underlying the cash flow, is an additional USD 653 million.

For information about the uncertainty of the estimated reserves, see section U below.

NOTE 5 – INVESTMENTS IN OIL AND GAS EXPLORATION AND PRODUCTION (CONTD.)

U. Appraisal of natural gas reserves, condensate, contingent and probable resources

The estimates in these sections above of the natural gas, oil, and condensate reserves, and contingent and probable resources of natural gas, oil, and condensate in the Partnership's rights in the leases, licenses, and concessions for oil and gas exploration are partially based on geological, geophysical, engineering, and other information received from the drillings and from the operators in these rights. These estimates are the professional estimates and assumptions only of NSAI, for which there is no certainty. Actual quantities of oil and natural gas and/or condensate consumed may be different from these estimates and assumptions, partly due to technical and operational conditions and/or regulatory changes and/or the supply and demand conditions in the natural gas and/or condensate market and/or commercial conditions and/or from actual performance of the reservoirs. The estimates and assumptions may be revised if additional information becomes available and/or as the result of a range of factors related to oil and natural gas exploration and production projects.

NOTE 6 – CONTINGENT LIABILITIES

There are contingent claims against the Company and certain investees for significant amounts, including certification for class actions that might reach hundreds or billions of shekels. In some cases, it is not possible to assess their outcome at this stage, and therefore no provision was recorded in the financial statements, as set out below (see Note 24A to the Annual Financial Statements).

A. Several lawsuits have been filed against Delek Israel, its investees and others, including motions for certification of class actions, amounting to significant sums (for further information see also Note 24A(1) to the Annual Financial Statements).

B. Further to Note 24A(2)(5) to the Annual Financial Statements regarding the appeal filed by some of the Tamar Partners ("the Appellants") with the Supreme Court against the Tel Aviv District Court judgment, which dismissed the administrative petition filed against the IEC and the Leviathan partners, regarding the selection of the Leviathan partners as the winner of the competitive process for the supply of natural gas to the IEC ("the Appeal"), it should be noted that on August 24, 2020, the Supreme Court handed a ruling dismissing the appeal and instructing the Appellants to pay the IEC's expenses and lawyers' fees amounting to NIS 50,000.

C. Further to Note 24A2(8) to the Annual Financial Statements, regarding the claim and the motion for certification of a class action against the Partnership and Noble and against the other holders of the Tamar and Leviathan projects (as parties against which remedy is not sought), regarding the competitive process for the supply of natural gas conducted by the IEC and with regard to a possible amendment to the gas supply agreement from the Tamar Project to the IEC, as agreed by the other holders of the Tamar Project, without the involvement of the Partnership and Noble. It should be noted that the Partnership is required to file its response to the motion for certification by October 1, 2020. The pre-trial hearing was scheduled for February 3, 2021.
The Partnership believes, based on the opinion of its legal counsel, that it is more likely than not that the Motion for Certification will be dismissed.

D. Further to Note 24(A)(3)(3) to the annual financial statements, on May 12, 2020, the supervisors filed an urgent motion for temporary relief (and a motion for a second hearing) ("the Second Motion for an Injunction"). In accordance with the Second Motion for an Injunction, the court was petitioned to order the Partnership and the general partner to refrain from transferring to the royalty holders, including the Company, the overriding royalty in the Tamar lease at the increased rate, or alternatively to order them to transfer the overriding royalty at the increased rate to an escrow account owned by the Partnership, at least until the ruling on the main claim. Alternatively, the court was petitioned to hand down a temporary injunction or an additional or different injunction at the court's discretion, to ensure the possibility of collecting the overriding royalties, if a judgment is handed down that they overpaid. According to the supervisors, the motion was filed due to the extreme and dramatic change in circumstances that brought the holder of the royalty to the verge of insolvency (as they allege). The court was further petitioned to schedule an urgent hearing of the motion.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

D. (contd.)
On May 19, 2020, a response (objection) to the Second Motion for an Injunction was filed on behalf of the royalty holders, alleging that the mere filing of the motion is a breach of the supervisors' obligation under the arrangement between the parties, according to which it was agreed that the plaintiffs cannot renew the motion for a temporary injunction or file similar motions. It was further alleged that the motion for a temporary injunction should be dismissed because the entire disputed amount was already paid to the royalty holder more than one year ago. The supervisors' claims regarding Delek Energy's financial situation were also dismissed, and on the other hand, it was claimed that Delek Energy is financially sound and holds assets.

On June 23, 2020, the supervisors submitted a motion and an agreed notice to the Tel Aviv-Jaffa District Court (Economic Department), claiming that following negotiations with the Company, Delek Energy, and Delek Royalties (2012) Ltd., an agreement was reached whereby at this time, there is no need to decide on the matters of dispute between the parties to the motion and the court was petitioned to order the cancellation of the hearing that was scheduled without awarding any expenses to any of the parties.
The court approved the agreed notice, cancelled the scheduled hearing, and ordered the parties to state, within ten days, whether they had reached an agreement and how they seek to proceed with the hearing in the main proceeding.
On July 9, 2020, the parties filed an agreed notice that the preliminary proceedings between the supervisors and the Partnership have ended and that the supervisors and the royalty holders have reached an agreement according to which the preliminary proceedings between them will be completed by July 23, 2020. The parties further agreed that within this period, they will hold discussions in order to reach agreements as to how to advance the proceedings and the filing of evidence in the case. On July 12, 2019, court gave the validity of a ruling to the parties' agreement. According to the court's ruling of August 18, 2020, the plaintiffs evidence, both in the claim of the supervisors and in the claim of the royalty holders, will be submitted by October 4, 2020 and the defendants' evidence, both in claim of the supervisors and in the claim of the royalty holders, will be submitted by November 18, 2020. The pre-trial hearing was scheduled for December 20, 2020.

E. Further to Note 24(A)(2)(11) to the Annual Financial Statement, regarding a claim and motion for its certification as a class action, which was filed with the Economic Department of the Tel Aviv District Court, by a person claiming to hold participating units of the Partnership ("the Applicant"). The claim and the motion for certification were filed against the Partnership, Delek Drilling Management (1993) Ltd. ("the General Partner"), the Company, Yitzhak Sharon (Tshuva), the directors of the General Partner of the Partnership (including the former chairman of the board of directors) and the CEO of the General Partner of the Partnership ("the Respondents").
In the motion for certification, it is alleged that the Respondents failed to disclose, in the Partnership's reports, the existence of a term in the agreements for the sale of natural gas from the Leviathan and Tamar reservoirs to Dolphinus Holdings Limited It should be noted that, in accordance with the court ruling of June 23, 2020, the respondents are required to file a reply to the motion for certification by October 1, 2020, and the Applicant is required to file a response to the reply two months later. The Company believes, based on the opinion of its legal counsel, that it is more likely than not that the motion for certification will be dismissed.

F. Further to Notes 12(K)(1)(d) and 12K(2)(e) to the Annual Financial Statements, regarding the option granted to Dolphinus, to reduce the take or a minimum quantity under the circumstances described in the Notes, on July 27, 2020, the Company announced that it had received a demand from the Israel Securities Authority to present information and documents as part of an administrative inquiry with the Company.

G. Further to Note 24(A)(3)(5) to the Annual Financial Statements, regarding a claim and motion for its certification as a class action against the Company, all members of the Company's board of directors, and the Company's present and former CEO ("the Respondents").
According to the motion, the applicant's main allegation is that the Respondents (allegedly) failed to disclose to the investors material information about the collateral and liens and about the rights that the loan agreements conferred on the lenders, and in particular, regarding their repayment, including the immediate repayment.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

G. (contd.)
According to the applicant, the class that is represented is whoever purchased shares in the Company between November 28, 2019 and March 23, 2020, other than the Respondents and related parties.

According to the applicant, due to the alleged breaches described in the statement of claim, the class that is represented incurred financial losses estimated at many millions of shekels.
The date for filing a response to the motion for certification was set for October 1, 2020. The Company believes, based on the opinion of its legal counsel, that in view of the early stage of the proceeding, as set out above, the chances of the claim cannot be assessed at this stage.

H. Further to Note 24(A)(3)(5) to the Annual Financial Statements, regarding a claim and motion for its certification as a class action against the Company, all members of the Company's board of directors, and the Company’s present and former CEO (“the Respondents”).
According to this motion, the applicant’s allegation is that the Company refrained (allegedly) from reporting material information to the holders of its securities about the changes to the scope and terms of the hedging transactions on the price of oil and natural gas made by the subsidiary Ithaca.

According to the applicant, the class that is represented is whoever purchased the Company's debentures from any of its series between January 1, 2020 and March 22, 2020 and held the debentures at the close of trading on March 22, 2020.
According to the applicant, due to the alleged breaches described in the statement of claim, the class that is represented incurred financial losses estimated at many millions of shekels.

The Company believes, based on the opinion of its legal counsel, that in view of the early stage of the proceeding, as set out above, the chances of the claim cannot be assessed at this stage.

I. Further to Note 24(A)(3)(6) to the Annual Financial Statements, on April 26, 2020, the Company received a motion for certification of a class action that was filed at the Tel Aviv-Jaffa District Court (Economic Department).
The motion is directed at the Company, the Company's auditors, members of the committee for reviewing the Company's financial statements in the relevant period, the Chairman of the Board of Directors, and the former CEO of the Company (“the Respondents").
According to the motion, the main claim of the applicant is that the Respondents were misleading and did not disclose (allegedly) material information about the Company's business regarding a provision in the Company's financial statements for the risk of payment of tax in excess of NIS 160 million (for capital gains tax liabilities of Delek Hungary arising from the disposal of shares of Delek US Holdings Inc. in 2012-2013), and that it was forbidden to cancel the provision in the Company’s financial statements after receiving the District Court ruling, knowing that an appeal would be filed.

According to the applicant, the class that is represented is whoever purchased shares in the Company as from August 30, 2018 and held them at least until January 26, 2020, or anyone who purchased shares as from November 6, 2019 and held them until January 26, 2020 or anyone who purchased shares as from December 1, 2019 and held them until January 26, 2020.

According to applicant, total loss was NIS 36.26 per share and NIS 90 million for the class, and this amount is for the sole purpose of estimating the class action at the time it was filed.
In accordance with the court ruling of August 24, 2020, the respondents are required to file their replies to the motion for certification by October 11, 2020, and the Applicant is required to file a response to the replies by December 14, 2020.
The Company believes, based on the opinion of its legal counsel, that in view of the early stage of the proceeding, as set out above, the chances of the claim cannot be assessed at this stage.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

J. Further to Note 24(A)(4)(4) to the Annual Financial Statements, on April 27, 2020, the Company received a motion for certification of a class action that was filed at the Haifa District Court against a subsidiary of the Company, another company that purchased the land in trust for the subsidiary, and the directors of these companies, two of which are senior officers in the Company (“the Applicants”).

The motion was filed by Zalul Environmental Association and two private applicants. According to the Applicants, the respondents, jointly and severally, are liable for compensation to the general public in Israel (which falls within the definition of "the Class" as defined in the application and described below) for their alleged liability for pollution of groundwater and the marine environment, due to the existence of hazardous and pollutive materials in the area purchased by the subsidiary in 2011 and which is south of Acre, at the site where Electrochemical Industries operated (“the Site”). According to the Applicants, these materials are continuing to pollute the soil at the Site while spilling over into the environment, damaging the groundwater, seawater, and nature.

According to the Applicants, when the subsidiary acquired ownership of the Site, it assumed the liability for damage caused due to materials that remained at the Site since its acquisition, and these materials continued to leak or spill over in the period since control was transferred. The Applicants further claim that when the subsidiary acquired ownership of the Site, it assumed the responsibility for action to prevent the continuation of pollution and to clean the land

The class that is represented is defined in the motion as any residents and citizens of Israel who use the services of Acre's coastal environment, or any other class as the court may determine. At this time, there is no way to estimate the size of the class underlying the level of compensation that the applicants claim is payable by the respondents to each of the class members. The motion stipulates an amount of “at least NIS 2.5 million” as compensation for the alleged damage that the applicants claim was incurred by the class due to the continuation of pollution in the period when the Site was under the control of the subsidiary. In addition, the applicants request that the court order the respondents to pay of all the restoration expenses, which they estimate at hundreds of millions of shekels, as well as the environmental damage that they claim that the respondents must pay to the public for compensation. Some of the compensation components were not included in the motion, therefore the exact amount of the claim is unknown, however, the applicants’ claims indicate that the level of compensation to the public, in addition to the cost of restoration, could also amount to hundreds of millions of shekels.

In addition, the claim includes a motion for an injunction directed to the respondents and requiring them to take steps to prevent the pollution, including preparation of a plan to control pollution. The motion does not specify the actions required under these remedies, and their cost cannot be estimated.

The respondents are required to file their response to the motion by September 7, 2020 and a preliminary hearing was scheduled for September 29, 2020. At this preliminary stage, it is not possible to assess the likelihood that the motion will be accepted against any of the respondents and therefore it is not possible to assess the financial exposure to the respondents in general and the subsidiary in particular, in respect of the motion.

K. On May 18, 2020, the Company received a motion for certification of a class action that was filed at the Tel Aviv-Jaffa District Court (Economic Department). The motion is directed at the Company, the members of the Company’s board of directors, CEO, Deputy CEO, and CFO. As arises from the motion, the applicant's principal allegations refer to misleading information and(alleged) non-disclosure of material details about the Company’s affairs and its financial situation in connection with the cash flow forecast published by the Company on March 8, 2020. The applicant claims that the damage incurred by him and the class he seeks to represent is the difference in the price of securities between their purchase price and their selling price or the price at which they will be sold.

NOTE 6 – CONTINGENT LIABILITIES (CONTD.)

K. (contd.)
The class defined in the motion is anyone who purchased the Company's debentures between March 8, 2020 (the publication date of the cash flow forecast report) and March 12, 2020, provided that their individual selling price is lower than the purchase price, or that the consideration received for the debentures was lower than the purchase price. According to the applicant of the motion, the damage for each class member will be calculated according to the actual figures for which details will be requested as part of the proceedings. The applicant claims that based on his calculation, the damage is NIS 80 million and the applicant reserves the right to amend the amount of the claim, also taking into account the figures that will be received. At this stage, the respondents are required to file a reply to the motion for certification by September 28, 2020 and the applicant is required to file a response to the reply no later than 30 days thereafter. The Company believes, based on the opinion of its legal counsel, that in view of the preliminary stage of the proceeding, as set out above, the chances of the claim cannot be assessed.

L. Further to Note 24(A)(2)(1) to the Annual Financial Statements regarding a class action and motion for its certification as a class action filed in connection with the issue of Tamar Petroleum shares, on July 21, 2020, a pre-trial hearing was held on the motion for certification, in which the respondents petitioned the court to rule on claims threshold that were raised in the responses to the motion for certification. The court ruled that the motions for dismissal in limine would be handed down for a ruling.
On August 3, 2020, the petitioners filed a motion for a 45-day stay to file a motion to amend the motion for certification. On August 17, 2020, the respondents filed their response to the motion for a stay, in which they objected to the motion and insisted that the court rules on the motions for dismissal in limine of the motion for certification.

M. Further to the provisions of Note 24A2(7) to the annual financial statements, about the ruling handed by the District Court dismissing the petition filed by the Zichron Yaacov Local Council, the Zalul Environmental Association, the Jisr az-Zarqa Local Council, the Megiddo Regional Council, the Pardes Hanna-Karkur Local Council and the Emek Hefer Regional Council (below in this section – “the Petition” and “the Judgement”) against the director of the Air Quality Division at the Ministry of Environmental Protection and against Noble in a petition to order the nullification of the emission permit of Leviathan and to rule that no activity involving the emission of gases will take place on the Leviathan platform, it should be noted that on June 22, 2020, an appeal of the Judgment was filed with the Supreme Court (below in this section – “the Appeal”).
The Appeal seeks to amend the emission permit and to order that the pollutants emitted from the rig are not monitored by Noble or an entity with which it has contracted and that monitoring will be by the director of the Air Quality Division at the Ministry of Environmental Protection or someone that he appoints; and to amend the emission permit so that all the provisions relating to maintenance, environmental management, the environment, and the detection and treatment of leaks will be set out in the emission permit itself and not in an external plan. The Appeal is pending before the Supreme Court and in the meanwhile, a hearing has been scheduled for June 30, 2021. In the opinion of the Partnership’s legal counsel, it is more likely than not that the Appeal will be dismissed.

NOTE 7 – CAPITAL

A. On May 17, 2020, the Company completed an issue of capital, under which 1,371,350 ordinary shares of the Company, 329,124 options (Series 7), and 329,124 options (Series 8) were allocated.
Each Option (Series 7) and Option (Series 8) is exercisable for one ordinary share of the Company in consideration for an exercise price of NIS 100 (adjusted to the dividend, benefit, and rights). Each Option (Series 7) was exercisable until July 15, 2020 and each Option (Series 8) is exercisable until December 31, 2020.
The immediate consideration (before offering expenses) received by the Company for the offering amounts to NIS 137 million. In July 2020, 53 Options (Series 7) were exercised for a non-material amount and the balance of the Options (Series 7) expired.

B. Subsequent to the balance sheet date, on August 4, 2020, the Company completed an issue of capital, under which 2,198,200 ordinary shares of the Company, 758,000 Options (Series 9), 379,000 Options (Series 10), 758,000 Options (Series 11), and 379,000 Options (Series 12) were allocated.
Each Option (Series 9) and Option (Series 10) is exercisable for one ordinary share of the Company in consideration for an exercise price of NIS 75 (adjusted to the dividend, benefit, and rights). Each Option (Series 9) is exercisable until December 15, 2020 and each Option (Series 10) is exercisable until April 1, 2021.

Each Option (Series 11) is exercisable for one ordinary share by December 15, 2020, against cash payment of an exercise price (adjusted for a dividend, benefit and rights) in the amount of NIS 77, and from December 16, 2020 through June 30, 2023, against cash payment of an exercise price (adjusted for a dividend, benefit and rights) in the amount of NIS 150.

Each Option (Series 12) is exercisable for one ordinary share by April 1, 2021, against cash payment of an exercise price (adjusted for a dividend, benefit and rights) in the amount of NIS 77, and from April 2, 2021 through May 31, 2023, against cash payment of an exercise price (adjusted for a dividend, benefit and rights) in the amount of NIS 150.

The immediate consideration (before offering expenses) received by the Company for the offering amounts to NIS 176 million.

C. Subsequent to the issue of the foregoing shares the issued and paid up capital of the Company amounts to 15,553,198 shares of NIS 1 par value each.

D. Further to Note 26B to the Annual Financial Statements, in the first quarter of 2020, Delek Financial Investments (2012) – Limited Partnership (“the Subsidiary Partnership”) acquired 135,662 shares of the Company for a consideration of NIS 60 million. Following the sale, the Subsidiary Partnership holds 586,422 shares of the Group.

NOTE 8 – FINANCIAL INSTRUMENTS

Main changes in the Group's financial instruments and its exposure to market risks in the reporting period:

A. On May 13, 2020, the Company sold all its holdings in the shares of Mehadrin Ltd. (“Mehadrin”), representing 18.55% of the share capital of Mehadrin, in an off-floor transaction and for a total consideration of NIS 74 million received by the Company.

B. Fair value

Balance in the financial statements and fair value of the debentures issued by the Group:

	Carrying amount		Fair value	
	June 30	December 31	June 30	December 31
	2020	2019	2020	2019
	Unaudited	Audited	Unaudited	Audited
	NIS millions			
Debentures	12,365	12,758	7,806	12,920

The fair value of most of the debentures is classified to level 1 in the fair value hierarchy.

C. Price risk

(1) Risk associated with commodity prices

Ithaca is exposed to changes in oil and gas prices for its future sales. To hedge the exposure, Ithaca has hedge transactions (mostly put and swap) on gas prices for part of its future production. Information about open transactions as at June 30, 2020:

Transactions on the price of oil

	Period	Quantity (K barrels of oil)	Average exercise price (USD/barrel)
Put	July 2020 to December 2021	5,533	61
Swap	July 2020 to December 2022	9,933	45

Transactions on the price of gas

	Period	Quantity (ktherms)	Average exercise price (penny per thermal unit)
Put	July 2020 to December 2021	160,300	52
Swap	July 2020 to December 2022	248,975	49

The cost of acquiring the hedging transactions (the options) (in non-discounted values) amounts to USD 56 million, to be repaid over the transaction period (deferred premium), as set out below:

Hedging period	USD million
From Q3 until December 2020	33
2021	23
	56

The transactions are accounted for as hedge accounting. As at June 30, 2020, the net fair value of the hedge transactions reflect an asset of USD 194 million (NIS 674 million).

On the background of falling oil prices, in the reporting period, Ithaca exercised some of the hedging transactions, replacing them with hedging transactions that reflect the updated forecast for the price of oil. The total net consideration received by Ithaca from the transactions amounted to USD 156 million.

NOTE 8 – FINANCIAL INSTRUMENTS (CONTD.)

C. Price risks (contd.)

(2) Risk associated with the market price of financial investments

The Group has investments in marketable financial instruments on the TASE, shares and debentures, classified as financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss, and other financial instruments, for which the Group is exposed to changes in fair value based on the market price on the TASE.

The table below presents the impact of possible changes on market prices of securities on pre-tax income and on capital:

	Effect on earnings (loss)		Effect on other comprehensive income	
	June 30, 2020		June 30, 2020	
	Unaudited			
	Price increase of 10%	Price decrease of 10%	Price increase of 10%	Price decrease of 10%
Risk factor	NIS millions			
Price of securities	11.2	(11.2)	3.8	(3.8)

	Effect on earnings (loss)		Effect on other comprehensive income	
	December 31, 2019		December 31, 2019	
	Audited			
	Price increase of 10%	Price decrease of 10%	Price increase of 10%	Price decrease of 10%
Risk factor	NIS millions			
Price of securities	71	(71)	19	(19)

(3) Sensitivity analysis of the value of the contingent consideration

(A) Sensitivity analysis of the value of contingent consideration for the sale of rights in the Karish and Tanin leases by Delek Drilling (as set out in Note 5H above), to changes in the price of natural gas.

	Profit (loss) from change in the gas price			
	NIS millions			
	Increase of USD 1 per MMBTU	Increase of USD 0.5 per MMBTU	Decrease of USD 0.5 per MMBTU	Decrease of USD 1 per MMBTU
	As at June 30, 2020			
	Unaudited			
Amounts receivable for sales of oil and gas assets	68	35	(23)	(66)

NOTE 8 – FINANCIAL INSTRUMENTS (CONTD.)

C. Price risks (contd.)

(3) Sensitivity analysis of the value of the contingent consideration (contd.)

(B) Sensitivity analysis of the value of contingent consideration for the sale of rights in the Karish and Tanin leases by Delek Drilling (as set out in Note 5H above) to changes in the discounting rate

	Profit (loss) from change in discounting interest			
	NIS millions			
	1.5%	0.5%	- 0.5%	- 1.5%
	As at June 30, 2020			
	Unaudited			
Amounts receivable for sales of oil and gas assets	(49)	(17)	18	57

NOTE 9 – OPERATING SEGMENTS

A. General

In accordance with IFRS 8, the Group's operating segments are determined on the basis of management reports, which are mainly based on the investments in each subsidiary.

The operating segments are as follows:

– Oil and gas exploration and production in Israel and its surroundings: The main operation is in the Tamar joint venture, the Ratio Yam joint venture, the Yam Tethys joint venture, and other oil rights, mainly offshore the coast of Israel through Delek Drilling.

– Development and production of oil and gas assets in the North Sea: The activity is carried out by Ithaca, which owns rights in oil and gas assets in the North Sea region. The activity includes mainly production and marketing of oil and gas from the producing reservoirs and the development of additional reservoirs.

– Fuel operations in Israel: The main operation is marketing and sale of fuels and commodities at gas stations and other outlets.

– Others: Other sectors, including mainly desalination up to the date of the sale of the investment in IDE, as set out in Note 3B above.

It should be noted that in view of the sale of the Company's investment in Delek Automotive and in The Phoenix in 2019, and presentation of their operating results under income from discontinued operations, Delek Automotive and The Phoenix were not presented as reportable segments in the comparative figures. In addition, in view of the binding agreement for the sale of the power plant operation for power generation, as well as the sale of the fuel storage and distribution facilities, these operations were recognized under results of discontinued operations with reclassification of comparative figures.

NOTE 9 – OPERATING SEGMENTS (CONTD.)

B. Segment reporting

1) Revenue

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS millions				
Revenue from external sources					
Oil and gas exploration and production in Israel and its surroundings *)	1,172	662	498	304	1,332
Development and production of oil and gas assets in the North Sea	2,190	742	971	350	2,062
Fuel in Israel **)	1,429	2,419	483	1,317	4,846
Other segments **)	5	8	2	6	22
Inter-segment *)	(37)	(32)	(20)	(21)	(63)
Adjustments	2	-	1	-	3
Total in statement of income	4,761	3,799	1,935	1,956	8,202

*) Inter-segment sales are mainly for the sale of natural gas to other segments.

**) Restated, see Note 2D

2) Segment results

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS millions				
Oil and gas exploration and production in Israel and its surroundings	411	254	4	150	649
Development and production of oil and gas assets in the North Sea	(2,749)	212	340	49	(104)
Fuel in Israel **)	(76)	73	(4)	56	124
Other segments **)	21	142	2	(18)	(63)
Adjustments *)	(24)	(46)	(5)	(29)	(55)
Operating profit (loss)	(2,417)	635	337	208	551

*) Mainly administrative and general expenses attributable to the Staff Companies

**) Restated, see Note 2D

NOTE 9 – OPERATING SEGMENTS (CONTD.)

B. Segment reporting (contd.)

3) Contribution to net profit from continuing operations attributable to the shareholders of the Company

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS millions				
Oil and gas exploration and production in Israel and its surroundings	(53)	161	(211)	57	476
Development and production of oil and gas assets in the North Sea	(2,274)	84	80	27	(128)
Fuel in Israel *)	(89)	34	(17)	32	65
Other segments *)	23	158	2	1	(45)
Adjustments **)	(352)	(159)	(81)	(124)	(371)
Profit (loss) from continuing operations attributable to shareholders of the Company	(2,745)	278 *)	(227)	(7) *)	(3)

*) Restated, see Note 2D

**) Mainly administrative and general expenses, financing and taxes attributable to headquarter companies

NOTE 10 – AGREEMENTS WITH DEBENTURE HOLDERS AND BANKS AND OTHER INSTITUTIONS

Further to Note 1B, in June 2020, the Company entered into agreements with its various financial creditors as follows:

1. Amendments to the deeds of trust between the Company and the debenture holders of the various series

On June 17, 2020, the general meeting of the holders of the various series of the Company's debentures approved the amended deed of trust of each of the Company's debenture series, including (among others), the following provisions:

A. Raising capital: The Company's commitment to raise capital in an aggregate amount of NIS 500 million by April 8, 2021, in accordance with the following milestones: By July 31, 2020, raising of NIS 300 million (the Company raised NIS 313 million in May and August 2020), by December 15, 2020, raising of NIS 150 million, and by April 8, 2021, raising of NIS 50 million.

NOTE 10 – AGREEMENTS WITH DEBENTURE HOLDERS AND BANKS AND OTHER INSTITUTIONS (CONTD.)

1. Amendments to the deeds of trust between the Company and the debenture holders of the various series (contd.)

B. Negative pledge, prohibition of early payment and other liabilities: the Company’s undertaking that in the stipulated period (as defined below), the Company and the private companies under its control:

1. Will not create liens, will not increase amounts secured by existing liens, and will not provide guarantees, other than liens and guarantees that are exempt as set out in the deed of trust.
2. Will not pay creditors on a date that is earlier that the date set out in the repayment schedule, other than payments that are exempt as set out in the deed of trust.
3. Will not transfer funds and/or assets to Ithaca companies and/or their creditors and will not assume liabilities and/or guarantees regarding Ithaca companies and/or their debts, other than payments that are exempt or that the Company is permitted to perform as set out in the deed of trust .

According to the amendment to deed of trust, “the record period" is the period from the approval date of the deed of trust until seven days have elapsed from the publication date of the Company’s immediate report on the expiration condition; “the expiration condition" means that the following conditions were fulfilled at that date: (A) The Company's equity in the Company statements and the statements of the prior quarter exceed the amount set out in the amendment to the deed of trust; (B) the ratio of equity to the balance sheet in the Company's statements (separate) and in the statements of the prior quarter is not less than 22.5%; (C) the rating of the Company's debentures is at least A (according to Maalot); "Ithaca companies" means DKL Investment Limited (“DKL”) and any company under its control.

C. Liens: The Company’s undertaking to create a lien on the various assets of the Group, in favor of the Company's trustees and debenture holders, including the following assets: (A) Participation units conferring rights in the rights of the limited partner in Delek Drilling, representing 40% of Delek Drilling’s capital (up to the approval date of the financial statements, 13.7% of Delek Drilling’s participating units were pledged in favor of the trustees and the Company undertook to complete the pledge on the rest of the participating units of Delek Drilling by October 30, 2020). As from January 1, 2022, the Company may have the right to demand the release of some of the pledged participating units, in the amount and subject to the terms set out in the amendment to the deed of trust; (B) the shares and rights in most of the companies that are controlled by the Company; (C) the rights by virtue of the loans provided to the Company and/or companies under its control; (D) the assets of Delek Financial Investments Partnership that holds the Company's debentures and shares; (E) the Group’s rights in connection with the overriding royalties of the Leviathan reservoir; and (F) rights by virtue of loans provided to third parties.

D. According to the amendment to the deed of trust, the trustee and the debenture holders will have grounds to call for immediate payment if the Company does not receive certain amounts of cash from Delek Petroleum Ltd. and/or other sources set out in the amendment to the deed of trust in a cumulative amount of NIS 800 million (including an amount of at least NIS 600 million, which should be received by October 31, 2020, of which NIS 400 million are from a dividend from Delek Israel).

NOTE 10 – AGREEMENTS WITH DEBENTURE HOLDERS AND BANKS AND OTHER INSTITUTIONS (CONTD.)

1. Amendments to the deeds of trust between the Company and the debenture holders of the various series (contd.)

E. Other grounds for immediate repayment in the amendment to deed of trust:

1. For the period up to May 31, 2021, the trustee and the debenture holders will not call for immediate repayment of the debentures based on the established grounds, but only on the state of the Company's business as it was at the publication date of the amendment to the deed of trust and as at June 1, 2021 this restriction will no longer apply to the trustee of the debenture holders.

2. Up to the publication date of the statements for the first quarter of 2021, the grounds for immediate repayment included in the deeds of trust regarding low equity will not apply. For the statements as from the second quarter of 2021 and up to the financial statements for 2021, the debenture holders will have grounds to call for immediate repayment if the equity net of the additional capital from revaluations as defined in the amendment to the deed of trust is lower than the total equity of the Company as at June 30, 2020, with the addition of NIS 600 million, or if the equity in the financial statements is less than NIS 1.6 billion. These limits gradually increase over the years.
   In view of the capital attributed to the Company's shareholders as at June 30, 2020, the minimum capital required in the subsequent periods is as follows: with regard to the financial statements commencing from the second quarter of 2021 report through to the annual financial statements for 2021, NIS 1.6 billion; with regard to all the financial statements for 2022 (including quarterly reports), NIS 2 billion; with regard to all financial statements for 2023 (including quarterly reports), NIS 2.4 billion; and commencing from the first quarter of 2024 financial statements, NIS 2.6 billion. Failure to comply with the standard in any of the foregoing financial statements will constitute grounds for immediate repayment.
   Up to the publication date of the statements for the first quarter of 2021, the grounds for immediate repayment included in the deeds of trust regarding the equity to balance sheet ratio will not apply. For the statements as from the second quarter of 2021 and up to the financial statements for 2021, the equity to total balance sheet ratio in accordance with the separate financial statements falls below 12.5% over two consecutive quarters. This ratio rises gradually over subsequent years, so that as from the first quarter of 2024, the debenture holders will have grounds to call for immediate repayment if the equity to total balance sheet ratio in accordance with the Company’s separate financial statements falls below 20% over two consecutive quarters.

4. Low rating: Until May 31, 2021, the trustee and debenture holders will not have cause to call the debentures for immediate repayment due to a rating that is lower than BBB-. As from June 1, 2021, the debenture holders will have the right to call for immediate repayment if the debenture rating is lower than BBB-.

5. If another creditor of the Company or creditors of the Company’s subsidiaries call for payment of their debt (in accordance with the quantitative limits set out in the amendment to the deed of trust), and in certain cases, they also have grounds to call for immediate repayment, this will constitute grounds to call for immediate repayment of the debentures.

6. In the effective period: general and administrative expenses in 2020, including those of the Staff Companies, will not exceed (including the costs of the amendment to the deed of trust) those in 2019, based on the Company's financial statements. In 2021, they will not exceed NIS 45 million; in 2022, NIS 40 million; and from 2023, NIS 35 million.

NOTE 10 – AGREEMENTS WITH DEBENTURE HOLDERS AND BANKS AND OTHER INSTITUTIONS (CONTD.)

1. Amendments to the deeds of trust between the Company and the debenture holders of the various series (contd.)

F. The amendment to the deed of trust includes various declarations and undertakings of the Company, including: (A) In connection with the uses to be made of the proceeds from the capital issuances and/or dividends and/or sale and/or pledge of certain assets; (B) a commitment not to deposit funds and/or securities in banks that are creditors of the Company or companies under its control, other than the exceptions that were established; (C) a commitment not to acquire assets and/or to make investments and/or to take credit and/or to make financial liabilities to financial creditors and/or to change the terms of certain credit agreements, other than the exceptions that were established; (D) in the record period: The Company's general and administrative expenses will not exceed the amounts that were established, the Company will not perform a distribution, the Company and the companies under its control will not enter into transactions in which the controlling shareholder has a personal interest (other than officers, insurance and existing agreements as set out in the statements), the Company and private companies under its control will not sell or purchase the Company’s debentures; (E) an obligation to give various notices to the trustees; (F) an obligation to cover the expenses and fees of the trustees and their representatives. It was further established that a breach of any of the Company's obligations under the amendment to the deed of trust will serve as grounds for the trustees and debenture holders to call for immediate repayment and the right to exercise all the collateral provided to the trustees.

1. Deed of consent with the banks
On June 15, 2020, the Company, Delek Energy, and DKL (jointly below: “ the Companies”) signed a deed of consent with various banks that provided the Company and/or Delek Energy with credit secured by a lien on the participating units of the Partnership, and with a foreign bank that provided a loan to DKL (“the Banks”) , which includes the following provisions:

2. Lien on the shares of Delek Israel in favor of the Banks: A subsidiary of the Company will pledge all the shares of Delek Israel that it holds to the Banks. The Company will take steps to sell Delek Israel shares, and the consideration from their sale and/or dividends received for the pledged shares will be used to repay the credit to the Banks, pro-rata, in accordance with the proportion of each bank in the credit balance. A trust company was appointed with the consent of the parties as a trust company for the Banks and the companies ("the Collateral Trustee").

3. The standstill period

A. In the period up to September 30, 2020 ("the Standstill Period"): (A) the Companies will not be required to complete collateral in favor of the Banks, even if the collateral is impaired; (B) the Banks will not take any legal action against the Companies for the credit documents; (C) the loans provided by the Banks will not be called for immediate repayment and the credit facilities will remain in force in the amount of the actual credit used; and (D) the Banks will not take steps to exercise the collateral.

B. The Standstill Period may be extended to October 30, 2020, subject to certain conditions set out in the deed of consent, and among other things, that by until September 30, 2020: A binding agreement will be signed for the sale of Delek Israel, to allow repayment of the entire debt to the Banks; the Company will present cash flow sources at a high level of certainty, which will allow payments to the debenture holders with a repayment date by October 31, 2020, and repayment to the Banks of at least 50% of the credit amount at the date the deed of consent is signed.

NOTE 10 – AGREEMENTS WITH DEBENTURE HOLDERS AND BANKS AND OTHER INSTITUTIONS (CONTD.)

1. Amendments to the deeds of trust between the Company and the debenture holders of the various series (contd.)

F. (contd.)

3. The standstill period (contd.)

C. The deed of consent sets out events, which, if they occur, each of the Banks will have the right to cancel the Standstill Period and implement all the means at their disposal, including to call for immediate repayment of the entire debt and to act to exercise the lien on Delek Israel and dispose of the participating units that are pledged in its favor (“the Terminating Event"), including: if the Companies fail to pay the Banks any amount at its due date; if the Companies breach an undertaking under the deed of consent and/or its appendixes and/or the amendment to the deed of trust with the debenture holders and/or other undertakings of Delek Israel towards a foreign bank; if insolvency proceedings were taken against the Companies; if a decision was taken at a general meeting of the debenture holders of any series to call for immediate repayment of the debt to them or if the amendment to the deed of trust with the debenture holders is cancelled by the debenture holders; if the price of the participating unit is lower than the price set out in the letter consent and the collateral ratio falls below the ratio set out in the deed of consent; if it evolves that a declaration or representation of the Companies in the deed of consent and/or its appendixes is incorrect in a way that could prejudice the lien on Delek Israel shares; if an application for temporary or permanent foreclosure is filed and/or if a temporary or permanent foreclosure is imposed on Delek Israel shares, and it has not been dismissed or canceled within 30 days; if any of the Banks announces the cancellation of the Standstill Period due to the materialization of any of the events described above.

4. Current repayments and advance payments

A. In the Standstill Period, the Companies will continue to make regular repayments of interest to the Banks, in accordance with the agreements signed with them.

B. The Company will transfer to the Collateral Trustee, for repayment of credit to the Banks, up to 75% but not less than 50% of the amounts received and/or to be received as a result of the raising capital performed by the Company in May 2020 and raising additional capital in the Standstill Period (if any). In addition, it was determined that the Company will transfer to the Collateral Trustee, for repayment of the credit to the Banks, up to 75% but no less than 50% of the amounts to be received by the Company for the sale of the overriding royalty in the Karish and Tanin reservoirs.

NOTE 10 – AGREEMENTS WITH DEBENTURE HOLDERS AND BANKS AND OTHER INSTITUTIONS (CONTD.)

1. Amendments to the deeds of trust between the Company and the debenture holders of the various series (contd.)

F. (contd.)

5. End of the Standstill Period

A. If, at the end of the Standstill Period, Delek Israel shares are not sold or not all of the credit to the Banks is repaid, and if an event occurs that allows the Banks to end the Standstill Period - the Banks will be permitted to exercise the lien on Delek Israel.

B. At the end of the Standstill Period, the provisions of the credit documents with the Banks will continue to apply (other than for the credit facilities that will meet the actual level of credit utilized). Notwithstanding the aforesaid, the Banks will not call for immediate repayment of the credit on the grounds of events of default set out in the credit documents, and which occurred before the end of the Standstill Period, and will not cancel the credit facilities before the final repayment date of the credit, subject to the fulfillment of cumulative conditions: (1) By the end of the Standstill Period, the Banks will be repaid at least 60% of the credit amount when signing the deed of consent; (2) the Companies comply with financial ratios (the LTV ratio) set out in the credit documents with each of the Banks.

6. Release of participating units

A. It was established, together with the repayment of credit to the Banks (which is not from proceeds arising from the shares or assets of Delek Israel), the Banks will release participating units in a quantity to be calculated such that immediately after the release, the collateral ratio set out in the deed of consent will be fulfilled. In accordance with irrevocable instructions issued by the Companies to the Collateral Trustee, the Collateral Trustee will transfer the participating units that will be released as aforesaid to the trustee of the debenture holders, and they will be pledged in favor of the debenture holders, up to a quantity representing 40% of the total units of Delek Drilling. The participating units that will be released in excess of this amount will be transferred to the Companies.

B. In connection with repayment of credit to Banks arising from proceeds from the shares or assets of Delek Israel, it was established that at the end of the Standstill Period, the Banks will release a quantity of participating units, which will be calculated so that immediately after the release, the collateral ratio set out in the deed of consent will be fulfilled. Notwithstanding the aforesaid, if the Standstill Period is canceled due to the occurrence of a termination event, the participating units will only be released after exercise of the pledge on Delek Israel shares.

2. For information about the understandings reached by the Company with financial institutions regarding the support documents, see Note 3A(1) above.

Delek Group Ltd.

Financial Information from the Interim Consolidated Financial Statements Attributed to the Company

As at June 30, 2020

Unaudited

Kost Forer Gabbay & Kasierer *144A Menachem Begin Avenue, Tel Aviv 6492102*	*Tel: 972-3-6232525* *Fax: 972-3-5622555* *ey.com*

Special Report in accordance with Regulation 38D

Financial Figures and Financial Information from the Interim Consolidated Financial Statements

Attributed to the Company

Below are the separate figures and financial information attributed to the Company from the interim consolidated financial statements of the Group as at June 30, 2020, published as part of the periodic reporting ("Consolidated Reports"), presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970:

Breakdown of Financial Information from the consolidated statement of financial position attributable to the Company

	June 30		December 31
	2020	2019	2019
	Unaudited		Audited
	NIS million		
Current assets			
Cash and cash equivalents	62	314	685
Short-term investments	24	72	112
Assets in respect of swap transactions	-	-	261
Trade receivables	-	-	1
Income tax receivable	19	67	20
Financial derivatives	-	64	6
Other receivables	41	171	71
	146	688	1,156
Assets held for sale,	93	2,329	-
Total current assets	239	3,017	1,156
Non-current assets			
Investments in investees and partnerships	2,104	6,113	4,810
Loans and capital notes to investees	5,029	3,748	4,923
Financial assets	69	78	185
Assets in respect of swap transactions	-	-	261
Long term loans and debit balances	258	148	407
Financial derivatives	12	16	34
Investment property	188	192	222
Fixed assets, net	49	50	49
Total non-current assets	7,709	10,345	10,891
	7,948	13,362	12,047

The accompanying additional information is an integral part of the financial information and of the separate financial information.

Breakdown of Financial Information from the consolidated statement of financial position attributable to the Company

	June 30		December 31
	2020	2019	2019
	Unaudited		Audited
	NIS million		
Current liabilities			
Debentures including current maturities	5,811	1,272	894
Borrowings, bank loans and others, including current maturities	507	293	253
Current maturities of bank liabilities in respect of the swap transactions	-	-	259
Loan from a subsidiary	-	-	135
Financial derivatives	-	22	16
Other payables	149	175	170
	6,467	1,762	1,727
Liabilities attributable to assets classified as held for sale	-	745	-
Total current liabilities	6,467	2,507	1,727
Non-current liabilities			
Long Term Bank Loans	-	121	502
Loan from a subsidiary	-	-	123
Long term bank liabilities in respect of the swap transactions	-	-	234
Debentures	-	5,148	4,578
Debentures convertible into Company shares	-	691	694
Financial derivatives	-	18	19
Other liabilities (primarily liability for decommission of long term assets)	53	25	37
Total non-current liabilities	53	6,003	6,187
Equity attributable to equity holders of the Company			
Share capital	14	13	13
Share premium	2,041	1,910	1,919
Proceeds for conversion options	18	27	18
Options	12	-	-
Retained earnings	314	3,628	3,382
Foreign currency translation differences for foreign operations	(506)	(388)	(653)
Reserve for transactions with holders of non-controlling interests	(672)	(336)	(289)
Other reserves	521	148	(3)
Treasury shares	(314)	(150)	(254)
Total capital	1,428	4,852	4,133
	7,948	13,362	12,047

August 30, 2020			
Date of approval of the financial statements	Gabriel Last Chairman of the Board of Directors	Idan Wallace CEO	Barak Mashraki CFO

The accompanying additional information is an integral part of the financial information and of the separate financial information.

Breakdown of Financial Information from the consolidated statement of income attributable to the Company

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS million				
Revenue from overriding royalties and gas sales (net of royalties)	4	13	2	6	27
Rental fees	4	5	1	3	9
Company's share in earnings (losses) of partnerships and investees, net	(2,542)	393 *)	(55)	107 *)	37
Management fees from investees	1	1	1	-	2
Total revenue (expenses)	(2,533)	412	(51)	116	75
Production cost of gas sold	4	3	2	3	11
General and administrative expenses	25	27	11	18	51
Other revenues (expenses), net	(130)	13	(127)	-	157
Operating profit (loss)	(2,692)	395	(191)	95	170
Net financing income with respect to loans to investees and others	24	7	10	6	22
Financing income (expenses) (mainly for financial investments), net	(160)	113	12	30	71
Financing expenses (mainly with respect to debentures)	(176)	(224)	(86)	(135)	(389)
Profit (loss) before taxes on income	(3,004)	291	(255)	(4)	(126)
Taxes on income	-	-	-	-	(1)
Profit (loss) from continuing operations	(3,004)	291 *)	(255)	(4) *)	(127)
Profit (loss) from discontinued operations, net	(88)	189 *)	(71)	194 *)	361
Net profit (loss) attributed to Company shareholders	(3,092)	480	(326)	190	234

*) For further information, see Note 2D to the Interim Consolidated Financial Statements.

The accompanying additional information is an integral part of the financial information and of the separate financial information.

Breakdown of Financial Information from the consolidated statement of comprehensive income attributable to the Company

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS million				
Net profit (loss) attributed to Company shareholders	(3,092)	480	(326)	190	234
Other comprehensive income (loss)					
Amounts not reclassified to profit or loss:					
Profit (loss) from investment in equity instruments measured at fair value through other comprehensive income	(11)	-	11	-	(19)
Other comprehensive income (loss) attributable to partnerships and investees	(61)	(59)	5	(53)	(88)
Total	(72)	(59)	16	(53)	(107)
Amounts classified or reclassified to profit or loss under specific conditions:					
Profit with respect to financial assets at fair value through other comprehensive income	-	-	-	1	-
Loss with respect to cash flow hedges	-	-	-	-	(8)
Transfer to profit or loss for cash flow hedges	-		-		9
Adjustments for translation of financial statements of foreign operations	20	(25)	(128)	(14)	(94)
Transfer to statement of income for foreign currency translation differences for foreign operations	-	8	-	8	-
Other comprehensive income (loss) attributable to partnerships and investees (after tax effect)	702	(305)	(525)	(78)	(558)
Total	722	(322)	(653)	(83)	(651)
Total other comprehensive income (loss) from continuing operations	650	(381)	(637)	(136)	(758)
Total other comprehensive income from discontinued operations	-	62	-	3	23
Total other comprehensive income (loss)	650	(319)	(637)	(133)	(735)
Total comprehensive income (loss) attributed to Company shareholders	(2,442)	161	(963)	57	(501)

The accompanying additional information is an integral part of the financial information and of the separate financial information.

Financial Information from the consolidated statements of cash flows attributable to the Company

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS millions				
Cash flows from the Company's operating activities					
Net income (loss) attributable to Company shareholders	(3,092)	480	(326)	190	234
Adjustments to reconcile statement of cash flows from the Company's ongoing operations (a)	3,061	294	239	281	798
Net cash from (used for) the Company's ongoing operations	(31)	774	(87)	471	1,032
Cash flows from the Company's investment activities					
Investments in property, plant and equipment and investment property	(2)	(2)	(1)	(2)	-
Proceeds from disposal of financial assets	83	-	83	-	48
Proceeds from sale of investments in investees	207	-	207	-	1,723
Short term deposits, net	31		-		(31)
Investment in financial assets, net	(13)	19	-	-	(27)
Proceeds from disposal of investment property	33	64	-	-	65
Long-term deposits	(112)	-	-	-	(70)
Collection of long-term deposits	138	52	138	47	105
Repayment of loans provided to others	5	97	3	95	210
Proceeds from sale of oil and gas assets including overriding royalty	-		-		160
Provision of loans and capital investments of investees, net	(155)	(697)	(119)	(560)	(2,096)
Net cash from (used for) the Company's investment activities	215	(467)	311	(420)	87
Cash flows from the Company's financing activities					
Issuance of capital	135	-	135	-	-
Dividend paid to shareholders of the Company	-	(260)	-	(260)	(260)
Short term borrowings from banks and others, net	(243)	(168)	(144)	200	(127)
Loans from a subsidiary	-	-	-	-	257
Repayment of loans from a subsidiary	(257)	-	-	-	-
Receipt of a bank loan	-	-	-	-	404
Repayment of loans from banks and others	(86)	(6)	(86)	(6)	(208)
Buy back of debentures	(5)	-	-	-	-
Repayment of debentures	(350)	(187)	(75)	(76)	(1,129)
Net cash used for the Company's financing operations	(806)	(621)	(170)	(142)	(1,063)
Exchange differences for cash and cash equivalents	(1)	-	-	1	1
Increase (decrease) in cash and cash equivalents	(623)	(314)	54	(90)	57
Cash and cash equivalents at the beginning of the period:	685	628	8	404	628
Cash and cash equivalents at the end of the period	62	314	62	314	685

The accompanying additional information is an integral part of the financial information and of the separate financial information.

Financial Information from the consolidated statements of cash flows attributable to the Company

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS millions				
(A) Adjustments for presentation of statement of cash flows from the Company's ongoing operations (a)					
Adjustments for profit and loss items of the Company:					
Depreciation, depletion and amortization	-	3	-	1	3
Loss (profit) from disposal of investment in an investee	127	-	127	-	(66)
Decrease of loans granted, net	49	19	56	13	30
Impairment (appreciation) of investments and loans provided, net	155	(57)	(11)	(5)	(34)
Company's share in the expenses of investees and partnerships *)	2,722	375	64	214	998
Impairment of liabilities, net	2	49	1	48	52
Change in fair value of financial derivatives, net	6	(37)	(3)	(11)	(20)
Other revenues (with respect to disposal of gas and oil assets including overriding royalty)	-	-	-	-	(103)
Revaluation of other long-term assets	(7)	(7)	(2)	3	(11)
Exchange differences for cash balance and cash equivalents, net	1	-	-	(1)	(1)
Gain from disposal of investment property	(1)	(23)	-	-	(23)
Loss (gain) from impairment in investment property	4	1	-	-	(31)
Changes in the Company's asset and liability items:					
Decrease in trade receivables	1	1	1	1	-
Decrease (increase) in other receivables	23	(4)	1	(5)	33
Increase (decrease) in other accounts payable	(21)	(26)	5	23	(29)
	3,061	294	239	281	798
*) Net of dividends received	180	957	9	515	1,343
(B) Company's significant non-cash activities					
Dividend receivable from investees and partnerships	-	31	-	31	6
Acquisition of Company shares by a subsidiary partnership	60	7	-	-	111
Investment in a financial asset as a result of distribution in kind	-	-	-	-	83
Sale of investment property against loan provided	-	39	-	-	39
Repayment of a liability to a bank against the sale of shares in swap transactions	-	-	-	-	132
Disposal of subsidiary against provision of a loan	-	-	-	-	152

The accompanying additional information is an integral part of the financial information and of the separate financial information.

Financial Information from the consolidated statements of cash flows attributable to the Company

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
	NIS million				
(C) Additional information on cash flows					
Cash paid by the Company during the period for:					
Interest	157	174	54	75	350
Cash paid by the Company during the period for:					
Interest	1	12	-	11	17
Taxes	-	-	-	-	56
Dividends	180	957	9	515	1,344

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The accompanying additional information is an integral part of the financial information and of the separate financial information.

NOTE 1 – GENERAL

This separate financial information was drafted in a condensed format pursuant to the provisions of article 38d of the securities regulations (periodic and immediate reports), 1970. This separate financial information should be reviewed in conjunction with the separate financial information to the annual financial statements as of December 31, 2019, and for the year then ended and their accompanying notes, and in conjunction with the Interim Consolidated Financial Statements as of June 30, 2020 ("Interim Consolidated Financial Statements").

A. The COVID-19 crisis and the decline in oil and gas prices

In December 2019, the COVID-19 pandemic broke out in China. In the reporting period, the virus spread to many countries around the world and in March 2020, it was declared a pandemic by the World Health Organization (“the COVID-19 Crisis”). The spread of COVID-19 has caused widespread morbidity and mortality in many countries. Due to the COVID-19 Crisis, many countries have imposed and are continuing to impose significant restrictions that included and/or include, among other things, self-isolation, restrictions on traffic and transportation (including flights), and closure and reduction of business activity. The crisis and the associated restrictions have caused a significant slowdown in global economic activity and sharp declines and fluctuations in capital markets around the world. Following the decline in business activity, there has been a slump in demand for oil products. Moreover, in March 2020, the Russia-Saudi Arabia oil price war was reflected in an increase in oil production compared to the decline in demand. These events resulted in plummeting oil and natural gas prices in some countries. However, agreements have recently been reached between countries to reduce the volume of daily oil production in the coming months. In addition, in recent weeks, many countries have started to adopt an exit strategy and controlled and gradual return to routine. In this context, it should be noted that in 2020 and shortly before the approval date of the financial statements, oil prices were highly volatile, and, at its lowest point, the Brent oil price was USD 16 per barrel and shortly before the approval date of the financial statements the Brent oil price is USD 45 per barrel (as at December 31, 2019 the price was USD 65 per barrel).

As at the approval date of the financial statements, there is significant uncertainty regarding when the pandemic will be contained and/or will break out again and the continuation and/or deepening of the global economic crisis, and future oil and natural gas prices. Since the Group’s main activity is in the energy sector, if oil and natural gas prices remain at their current levels, this could have a material adverse effect on the Group's operating results, on the value of its assets (marketable and non-marketable), capital, cash flows from its operating activity, as well as on its ability to dispose of assets and on the expected considerations from the disposals, and on its ability to raise additional sources of financing and/or financing costs. It is further noted that continuation of the crisis may result in a decline in local and global demand for the Group’s products, and impairment of the economic robustness of the Group’s customers, partners and suppliers.
For information regarding assessments of impairment of assets and amortization recorded in the reporting period, see Notes 3 and 5 to the Interim Consolidated Financial Statements. In this context, it should be noted that the estimates used by the Group for the assessments may be volatile, among other things, due to the aforesaid uncertainty. The Group will continue to review its estimates and update them according to developments in connection with the crisis, its effect on the economy in Israel and globally, and its effect on prices of oil and natural gas.

In addition, it should be noted that in view of the economic crisis in global markets and the sharp decline in oil and gas prices in the first half of 2020, there was a very significant decline in the trading value of the shares of the Company and its investees (including the participating units of Delek Drilling - Limited Partnership (“Delek Drilling”), which resulted in significant impairment of the Group's financial position and its liquid resources, mainly due to the fact that some of these shares serve as collateral for the credit facilities provided to the Group. For information about the Group's financial position, see section B below.

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group

1. General

- As at June 30, 2020, the Company (separate) has a working capital deficit of NIS 6.2 billion, and the Group (consolidated) has a working capital deficit of NIS 12.9 billion. Of this amount, NIS 5.1 billion is attributed to the reclassification of short-term debentures in view of the fact that the foreign bank has not yet agreed to waive its right for immediate repayment due to non-compliance with financial covenants and due to the debenture holders' cross default clause and in view of the fact that the waiver items included in the amendment to the deed of trust for the debenture series (see Note 10 to the Interim Consolidated Financial Statements) are for a period less than twelve months from the date of the financial statements. Subsequent to the balance sheet date, the Group signed a waiver with the foreign bank for all of the violations that were due to the agreement with the foreign bank and an update to the agreement was signed with the foreign bank. see section B2(3) below.

  It should be noted that, in addition to the aforesaid regarding the liabilities of the Company (separate), the Company provided certain guarantees to banks and other institutions for loans and credit taken out by certain subsidiaries ("the Staff Companies").
  Based on the current repayment schedules (taking into consideration the agreements with banks, debenture holders and others), in the period between July 2020 and June 2021, the Company and the Staff Companies have repayments (of principal and interest) amounting to NIS 2.6 billion and in the period between July 2021 and June 2022, NIS 2.4 billion.

- As at June 30, 2020, liabilities (short- and long-term) to financing entities (mainly to debenture holders and banks and other institutions) of the Company and the Staff Companies amount to NIS 7.6 billion, against the financial assets (short- and long-term, mainly cash, deposits and marketable securities measured at fair value) of the Company and the Staff Companies as at that date in the amount of NIS 174 million.

- Shortly before the approval date of the financial statements, the liabilities amount to NIS 7.1 billion, against financial assets amounting to NIS 261 million. For a breakdown of the current collateral for these liabilities (taking into account the foregoing agreements with the banks, debenture holders and others), see Note 10 to the Interim Consolidated Financial Statements.

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group (contd.)

2. Decrease in oil and gas prices and implications on financial covenants

- As set out in section A above, in the reporting period, the COVID-19 Crisis broke out (and it is still ongoing), which resulted in a significant slowdown in the local land global economy and a significant drop in oil and gas prices (having an adverse effect on the Group's main activity).

  It should be noted that, as a result of the above, from the beginning of 2020 until the approval date of the financial statements, the following main events occurred:
  - There was a significant decrease in the TASE value of the shares of the Company and its investees (mainly Delek Drilling).
  - There was an increase in returns from the Company's debentures (traded close to the date of approval of the financial statements at substantial double-digit returns), which could make it difficult in practice to refinance/raise additional debt and debentures.
  - There was a significant decrease in capital attributable to the Company's shareholders, which amounted to NIS 1.4 billion as at June 30, 2020 (as at December 31, 2019, NIS 4.1 billion). As provided in Note 10 to the Interim Consolidated Financial Statements, in accordance with the provisions of the revised deed of trust, the capital attributed to the Company's shareholders as at June 30, 2021, should amount to a minimum amount of NIS 1.6 billion. It should be noted that the continuation of the Covid-19 pandemic and further declines in oil prices and/or the dollar exchange rate may adversely affect the balance of capital attributed to the Company's shareholders. On the other hand, the capital raising completed subsequent to the balance sheet date and future capital raising will increase the capital attributed to the Company's shareholders, and an increase in oil prices and continued improvement in the results of the investees will lead to an increase in capital attributed to the Company's shareholders.

- Following the spread of COVID-19, which led to sharp volatility in the capital markets in Israel and the world and plummeting gas and oil prices, there was an impairment in market value of the collateral (mainly Delek Drilling participating units) provided by the Company and its subsidiary Delek Energy Systems Ltd. (”Delek Energy”) in favor of the credit providers. Under the provisions of the financing agreements, the impairment in the collateral against the balance of the debt to the credit providers fell below the rates set out in the various loan agreements, and as a result, at certain points in the first trimester of 2020, the Company and Delek Energy were required to provide (pledge) additional collateral and/or to deposit cash (under the provisions of any agreement) in favor of the credit providers to meet the requirements of the agreements and/or to attempt to avoid a call for immediate repayment of the debt. In this context, it is noted that:

  1) For a specific loan provided to Delek Energy by a foreign bank in 2013, with a balance of USD 57 million in March 2020, secured at that time by a lien on participating units representing 15% of the capital of Delek Drilling in favor of the foreign bank, in March 2020, the foreign bank claimed that in view of the exceptional decline in the price of Delek Drilling units, it (allegedly) has grounds to call for immediate repayment of the debt. Accordingly, on March 15, 2020, the foreign bank entered into an agreement with a third party for the sale of 12% of Delek Drilling’s capital. Under the settlement arrangement between Delek Energy, the foreign bank, and a third party, which was completed on March 26, 2020, Delek Energy acquired 7% of the unit capital of Delek Drilling (out of the 12%) for a consideration of USD 35.8 million. The remaining 3% of Delek Drilling’s capital was released back to Delek Energy.

     After the completion of the aforesaid, the Group holds 55% of the capital of Delek Drilling. Following the aforesaid (net disposal of 5% of the capital of Delek Drilling), the capital attributable to the Company’s shareholders decreased by NIS 329 million. For further information, see Note 3C to the Interim Consolidated Financial Statements

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group (contd.)

2. Decrease in oil and gas prices and implications on financial covenants (contd.)

2) For the loan of NIS 100 million backed by Delek Drilling's participating units, provided by an Israeli bank ("the Bank") to Delek Energy and guaranteed by the Company, on March 31, 2020, the Bank informed Delek Energy and the Company that the participating units that had been pledged in its favor had fallen below the value set in the agreement and since additional participating units had not been pledged to it in accordance with the terms of the loan, it seeks to call for immediate repayment of the loan and to immediately exercise the collateral provided in its favor.
In discussions between the Company and Delek Energy with the Bank, the Bank sent an update letter stating the terms and requirements for postponing the exercise of the collateral. To avoid a situation in which the Bank exercises the participating units that were pledged to it, Delek Energy pledged additional participating units in favor of the Bank (at a lower rate than that stipulated in the loan terms), even though Company and Delek Energy believe that under the special circumstances, partially due to the COVID-19 Crisis, the Bank does not have the right to demand additional collateral and/or immediate repayment of the loan. Following the foregoing addition, the participating units were pledged in favor of the bank constituting 5.7% of the share capital of Delek Drilling (compared with 4.4% of the share capital of Delek Drilling prior to the addition).

The Bank gave Delek Energy until April 30, 2020 to fulfill the requirements in the letter of suspension of exercise, and on this date, if the requirements have been fulfilled, the financing facility will be provided again. As at April 30, 2020, the Company was unable to reach agreements with the Bank that would ensure the non-exercise of the pledged participating units. Accordingly, on April 30, 2020, Delek Energy filed a motion for a temporary injunction ordering the Bank to refrain in any way from exercising the participation units pledged in its favor (among other things, in view of the Company's position that it has no grounds to call for immediate repayment). Following the court hearings, in May 2020, Delek Energy repaid its debt to the bank.

3) With regard to the loan of USD 200 million taken by a wholly-owned foreign subsidiary (DKL Energy), as set out in Note 10F(3) to the Consolidated Financial Statements, and in view of the fact that the loan is not backed by marketable assets (other than 51% of the share capital of Delek North Sea Limited ("DNSL") and the entire share capital of Ithaca, which are not a traded company), the loan agreement sets out margin call events that include a decrease of 20% in the index of benchmark companies (as defined in the loan agreement) or in the FTSE-100 Index, where in such event, the borrower will be required to deposit cash in the amount of the decrease in value as defined in the agreement. Grounds for early repayment under the loan agreement include a 50% decrease in the index of benchmark companies, a decrease of 50% in the FTSE-100 Index, and a decrease of 50% in Company's shares, and a downgrade in Maalot's rating of the Company to BBB (plus) or below, represents grounds for repayment of half of the loan amount. The loan was provided under limited recourse terms and the Company provided the lender a guarantee for the borrower's obligation to unpaid accrued interest, the first margin call, and exceptional violation events.

In 2020, DKL Energy failed to comply with specific financial covenants in connection with the loan, conferring on the bank the right to call for immediate repayment of part/or of its debt. On April 7, 2020, the Bank signed an amendment to an agreement according to which the cash deposit amounting to USD 43.3 million will be used for partial repayment of the loan and extension of the cure period for the call for immediate repayment, in May 2020, another amount of USD 20 million was repaid due the dividend received from Ithaca (the balance of the loan amounts to USD 137 million as at the approval date of the financial statements).

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group (contd.)

2. Decrease in oil and gas prices and implications on financial covenants (contd.)

3) (contd.)

Subsequent to the balance sheet date, on August 27, 2020, wholly-owned foreign subsidiaries of the Group, DKL Energy and Delek North Sea Limited ("DNSL" and jointly "the Foreign Subsidiaries") signed an amendment and addendum to the agreement with a foreign bank concerning the loan ("the Amended Agreements"), which will come into effect after registration of the collateral has been completed. Under the Amended Agreements, a waiver was received from the foreign bank for existing breaches. There was no change in the original repayment dates of the principle. There will be a 2% increase in the interest rate on the loan up to November 2020, followed by further 2% increase. The existing collateral remain in place, and collateral of the remaining DNSL shares was added, such that 100% of the shares of DNSL, the parent company (100%) of Ithaca were pledged, and a loan and capital note between DKL Energy and DNSL will be pledged. Under the Amended Agreements, there was no change in events underlying the Company's guarantee.
The Company and the foreign subsidiaries undertook to make every effort to ensure the distribution of dividends from Ithaca, subject to the required approvals, including the approval of the banks that provide Ithaca's RBL. Any dividend paid in Ithaca Group companies will be used first to repay this loan, and the shareholder loans provided by the Company and the Foreign Subsidiaries or capital notes issued by the Foreign Subsidiaries will be subordinated. The Company and the Foreign Subsidiaries also undertook to make every effort to advance a transaction with a potential buyer for Ithaca shares or for shares of the investees held, directly or indirectly, by Ithaca with the approval of the lender, and to complete such transaction by December 31, 2020, using the consideration to repay the loan.
In addition, a negative pledge was provided on 6% of the total participating units of Delek Drilling, in the same number of units as a negative lien provided to another foreign bank.

<u>Liabilities, financial covenants, and grounds for immediate repayment</u>

The revised agreements eliminated the margin call events that were set out in the original agreement and removed criteria relating to ratings and the Company's share price and various indices as described above.
Under the Amended Agreements, the undertaking to comply with financial covenants remained unchanged, according to which the ratio of total net debt to net profit before taxes and financing, net of depreciation and amortization and net of appraisal and exploration expenses (EBITDAX) does not exceed 2.5. A review of this ratio is required at each calculation date (March 31, June 30, September 30, and December 31 of each year).

Under the Amended Agreements, the lender has the right to call for immediate repayment of the loan (after the cure period), among other things, in the event of default, non-compliance with the dividend obligations set out above, non-compliance with the financial covenants set out above, changes in inter-company loans in the Foreign Subsidiaries, non-compliance with undertakings under the agreement, events of change in control of assets, events of insolvency and liquidation in Delek Group companies, and impairment of the closing value of the S&P Global Oil Index below the level set in the agreement. The right to call for immediate repayment was also determined in the event of cross default within the borrower group (DKL Energy and subsidiaries and its investees) and in the event of the materialization of this right.

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group (contd.)

2. Decrease in oil and gas prices and implications on financial covenants (contd.)

3) (contd.)

- On March 23, 2020, Midroog Ltd. (“Midroog”) downgraded the rating of the Company’s debentures from A2.il to Ca.il (down 14 ratings), due to Midroog’s assessment of a high probability of default. The Company disputed the rating report of Midroog and its result. On April 1, 2020, Maalot downgraded the Company’s debentures from ilA to ilBBB (a downgrade of four ratings), keeping it on CreditWatch with negative outlook, due to weak liquidity reflected in a material gap between short-term sources and uses. Following the downgrade, the annual interest rate of some of the debenture series increased by 1%. It is further noted that on May 5, 2020, Maalot downgraded the Company's debenture rating to ilCCC with negative outlook due to the increased risk of default.

  In addition, further to Note 19 to the Annual Consolidated Financial Statements, a downgrade in the rating by Midroog to below BBB- of Maalot or an equivalent rating for more than 21 business days represents grounds to call for immediate repayment of the debentures. In this context, it should be noted that on April 13, 2020, the Company announced the termination of its relations with Midroog and that Midroog will cease to serve as the Company’s rating company from that date. The Company's series of debentures will continue to be rated by Maalot.

- The Company's financing agreements stipulate that if an event of change of control occurs in the Company (as this term is defined in the various agreements), the lenders (including the debenture holders) will have the right to call for immediate payment of the debt. In addition, the financing agreements of the investee companies stipulate that if the Company ceases to hold control in the investee companies and/or its holdings fall below a certain rate, the credit providers of the investee companies will have the right to call for immediate repayment of the debt.

- Further to the foregoing, regarding the impairment of the various collaterals, the rating downgrade, the deterioration in the ratios of Company’s debt to asset value, and the going concern remark in the Annual Financial Statements, in the reporting period, there were events that are considered or that may be considered to be events of default for some of the liabilities of the Company and the Staff Companies towards the financial institutions and the debenture holders. For information about the agreements and the amendment to the deeds of trust that were approved on June 17, 2020 with the Company’s debenture holders, and the standstill agreement with some of the banks, under which the grounds for calling for immediate payment were revised and/or frozen, see section 4 below.

- As at June 30, 2020, the consent of one of the banks has not yet been obtained. In addition, it should be noted that some of the waiver items included in the amendment to the deed of trust are for a period of less than twelve months from the date of the financial statements. In view of the above (including for the cross compliance clauses), as at June 30, 2020, all the liabilities of the Company and the Staff Companies towards financial institutions and debentures holders were classified as current liabilities (including those with a repayment date in the period exceeding twelve months as from the date of the financial statements). As set out above, on August 27, 2020, the Company and the wholly-owned Foreign Subsidiaries signed a waiver and amendment to the agreement with a foreign bank, eliminating margin call events that were set in the original agreement and removing covenants relating to ratings and the Company’s share price and various indices. For further information, see section B2(3) above.

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group (contd.)

3. Disposal of assets and investments and raising capital

- In view of the sharp decline in the Company's cash balance and in order to meet current debt repayments, in March 2020, the Company disposed of the balance of its holdings (20%) in the shares of IDE Holdings Ltd. ("IDE") for proceeds of NIS 169 million (see Note 3B to the Interim Consolidated Financial Statements) and an investment property in Haifa for an amount of NIS 33 million. In addition, in April 2020, the Company disposed on the balance of its holdings in the shares of Cohen Development for proceeds of NIS 207 million (see Note 3D to the Interim Consolidated Financial Statements). Furthermore, subsequent to balance sheet date, in July 2020, the transaction was completed for the sale of the rights of the Company and Delek Energy to overriding royalties in the Karish and Tanin reservoirs for a consideration of NIS 318 million. For further information, see Note 5J to the Interim Consolidated Financial Statements.

- In April and May 2020, the Company informed the banks of early termination of all the swap transactions in connection with The Phoenix shares. The swap shares (25,000,000 shares) were sold by the banks in off-floor transactions for an amount of NIS 413 million. On completion of the transactions, a cash amount of NIS 143 million, which was pledged to the banks to secure the transactions, as is standard in this type of transaction, was released in favor of the Company. For further information, see Note 3A(3) to the Interim Consolidated Financial Statements.

- In July 2020, Delek Israel completed the transaction for the sale of its holdings in the Pi Glilot terminals for a consideration of NIS 720 million (see Note 3E1 to the Interim Consolidated Financial Statements) and a binding detailed agreement was signed for the disposal of Delek Israel's holdings in IPP Delek Ashkelon Ltd. and IPP Delek Sorek Ltd., which hold power plants (for further information, see Note 3E to the Interim Consolidated Financial Statements).

- Subsequent to balance sheet date, in July 2020, Delek Israel distributed a dividend to the Group in the amount of NIS 150 million.

- In May and August 2020, the Group completed raising of capital (shares and options) in the amount of NIS 137 million and NIS 176 million, respectively. For further information, see Note 7 to the Interim Consolidated Financial Statements. Furthermore, the Company is required to raise additional capital in accordance with the revised deed of trust for the debenture series, for further information, see Note 10 to the Interim Consolidated Financial Statements.

- Subsequent to balance sheet date, on August 19, 2020, the Company and a wholly owned subsidiary of the Company, Delek Petroleum Ltd., signed a memorandum of understanding with a third party (the "Investor"), under which the Investor will make a capital investment of NIS 450 million in preferred shares of Delek Israel and/or in a different structure as will be agreed between the parties under a detailed investment agreement (for further information, see Note 3H3 below to the Interim Consolidated Financial Statements). The foregoing investment, if completed (together with a dividend of NIS 150 million to be received from Delek Israel, will enable the Company to meet its obligations as set out in the revised deed of trust signed between the Company and the debenture holders for receipt of consideration in the amount of NIS 600 million from Delek Israel (see also Note 10 to the Interim Consolidated Financial Statements)) and to use the funds that will be received to repay in full the balance of the debt to relevant banks as set out in the revised deed, to release all Delek Drilling participating units from the lien to the relevant banks, and to complete the lien of 40% of Delek Drilling participating units in favor of the debenture holders.

- In addition, the Company is assessing the disposal of additional assets and obtaining a loan against a specific lien of the overriding royalties from the Leviathan reservoir, among other things, as part of the agreements signed with the debenture holders and the banks, as set out in section 4 below.

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group (contd.)

4. Discussions and agreements with representatives of the debentures and with banks

- In March 2020, the general meeting of the Company's debenture holders approved the establishment of a joint representation on their behalf and joint legal and economic advisors for all debenture series, with the aim of assisting the debenture holders and trustees and to act as their representative in the assessment of the Company’s financial position, the alternatives, and the actions available to the debenture holders to protect their rights and in negotiations and proceedings with the Company and/or its controlling shareholder. The Company and the representation held discussions, with the aim of regulating the terms of the debentures and the Company's obligations to them. In addition, in April-June 2020, the Company held negotiations with certain banks, in view of breaching of the covenants, with the aim of rearranging the terms of the loans that were provided and the Company’s obligations towards them. In June 2020, agreements and understandings with the debenture holders and the banks were approved. Under the agreements, the Company undertook to raise capital, dispose of assets, pledge assets and investments in favor of the debenture holders and the banks, and comply with various financial covenants, some of which were revised in the agreements. The agreements set out events and covenants, which, if breached, will allow the debenture holders and the banks to call for immediate repayment of the Company's liabilities to them. For further information, see Note 10 to the Interim Consolidated Financial Statements.

5. Repayments to debenture holders and banks and pledge of assets

In 2020 and shortly before the approval date of the financial statements, the Company repaid the full amount of its liabilities to the debenture holders and the banks under the agreements with them, including in connection with the agreements set out in section 4 above. In this context, it should be noted that in July and August 2020, the Company repaid an amount of NIS 504 million to the banks in an arrangement, such that the balance of the debt to these banks amounted to NIS 340 million shortly before the approval date of the financial statements. For further information, see Note 10 to the Interim Consolidated Financial Statements.

6. Conclusion

Under the agreements with the debenture holders and the banks, and for the Company and the staff companies to meet repayment of their liabilities, the Company is required to raise a substantial amount of capital, dispose of assets and investments on a substantial scale (some of which have been completed and/or agreements or memorandums of understanding have been signed for their disposal), raise debt based on assets, and receive dividends from investees. The amounts of these sources are required for the repayment of the Company's liabilities, which reach substantial amounts (by the end of 2020, the Company is required to repay liabilities to the debenture holders and banks amounting to NIS 1.2 billion; in 2021, NIS 1.5 billion; in the first half of 2022, NIS 1.5 billion).

As aforesaid, repayment of the liabilities of the Company and the staff companies at their due date is subject to their ability to dispose of assets and investments on a significant scale; raise debt and capital on a significant scale, some of which is required in the near future and is greatly affected by oil and natural gas prices; and receive dividends from investees in substantial amounts. The Company is also required to comply with the terms of the agreements and covenants with the debenture holders and the banks, so that they will not call for immediate repayment of the liabilities of the Company and the staff companies.

NOTE 1 – GENERAL (CONTD.)

B. Financial position of the Group (contd.)

6. Conclusion (contd.)

It should be noted that the Company's ability to receive a substantial amount of dividend from investees refers mainly to the receipt of dividends from Delek Drilling and Ithaca, as well as from Delek Israel, if the Company's holdings in it are not disposed of. The ability of these companies to distribute dividends is subject, among other things, to their ability to refinance existing debts and/or meet financial covenants, and to obtain the consent of the financing entities and/or their ability to generate significant available cash flows, which is also dependent on the demand for oil and natural gas and further increase in the price of oil and natural gas. Also see section C below with regard to completing the refinancing by Delek Drilling with respect to the Leviathan reservoir in the amount of USD 2.25 billion.

The Company acted and is working to realize its plans, including the raising of capital, disposal of substantial assets and investments, raising of debt based on assets and receipt of dividends from investees, in order to meet its various obligations. The Company believes that it is highly likely that its plans will be realized, and in this regard it should be noted, as set out above, that the significant and important measures that the Group was able to complete within a short period in accordance with the outline enabled it to make early repayments of substantial amounts to the banks and to the debenture holders on time and as required. Nonetheless, since completion of the Company's plans is not under its sole control and depends, as described above, on the materialization of several incremental events, some of which must occur within relatively short periods and/or in a significant scope, there is uncertainty as to the actual fulfillment of these plans. These factors, together with the other factors described above, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include adjustments for the values of assets and liabilities and their classification, which might be required if the Company is unable to continue as a going concern.

C. Financial positions of subsidiaries

1. Delek Drilling

- As at June 30, 2020, Delek Drilling has a working capital deficit of USD 1.9 billion (NIS 6.5 billion) arising mainly from current maturities of liabilities to banks and Tamar Bond debentures amounting to USD 2.3 billion (NIS 7.9 billion). In July 2020, Delek Drilling repaid some of the above debentures ahead of their repayment date, in an amount of USD 240 million. In August 2020, Delek Drilling (through a special purpose company) issued debentures in an amount of USD 2.25 billion (“Leviathan Bond”, for further information see Note 5K to the Interim Consolidated Financial Statements) which were used primarily to repay short-term loans of USD 2 billion and consequently the Group’s working capital deficit is expected to decrease significantly. It should be clarified that the terms of the Leviathan Bond did not define any terms regarding the rate of the holdings of the Group in Delek Drilling.

- With respect to the Covid-19 crisis, it should be noted that there has been a decrease in demand and accordingly in sales of the natural gas produced from the Leviathan and Tamar reservoirs (“the Reservoirs”), as compared with the Partnership's previous forecasts that were revised in July 2020. As at date of approval of the financial statements, it is not possible to estimate the extent and duration of the Covid-19 crisis and therefore it is difficult to estimate, at this stage, the impact it will have on demand and sales from the Reservoirs in the coming years.
  Nonetheless, it should be noted that, notwithstanding the foregoing, the rate of sales from the Reservoirs in July and August 2020 increased compared with the previous months.

NOTE 1 – GENERAL (CONTD.)

C. Financial positions of subsidiaries (contd.)

1. Delek Drilling (contd.)

If the Covid-19 crisis continues, is liable to adversely affect the Partnership and adversely affect various aspects of its operations, among others, a decline in demand for energy products and drop in oil and natural gas prices in international and domestic markets, decreased demand for natural gas in markets relevant to the Partnership and to adversely impact the Partnership's revenues from the Reservoirs and impair the financial robustness of the Partnership's customers and partners.

2. Ithaca

The COVID-19 Crisis and the decline in oil and gas prices could have a material effect on the results of Ithaca's operations and the value of its assets and its liquidity (including its ability to distribute a dividend to its shareholders). The management of Ithaca is closely following the crisis and the market developments and is taking steps and formulating plans to minimize the implications.

In this context, measures were taken to isolate and separate work teams to the minimum required level, reduce capital investment in 2020, and reduce operating and production costs in substantial amounts. It is further noted that Ithaca has hedge transactions on oil and gas prices for 2020-2022 in a material scope (see Note 8 to the Interim Consolidated Financial Statements). The management of Ithaca believes that Ithaca will be able to continue its planned activities and repay its obligations on time. For further information see Notes 3, 5 and 8 to the Interim Consolidated Financial Statements.

In May 2020, Ithaca distributed a dividend in the amount of USD 20 million.

3. Delek Israel

As at June 30, 2020, Delek Israel has positive working capital, also due to the fact that some of its net assets are held for sale. With regard to the transaction for the sale of the Pi Glilot operations that was completed in July 2020 and the transaction for the sale of the power plants (which have not yet been closed), see Note 3 to the Interim Consolidated Financial Statements.

The management of Delek Israel believes, based, among other things, on the cash flow from operating activities, available credit facilities, and non-pledged assets in a material amount, it is able to convert short-term loans into long-term loans or to continue to receive short-term loans and/or dispose of its assets to further finance its investments and repay its obligations.
Concerning the COVID-19 Crisis, as set out in section 1A above, could have a material adverse effect on the results of Delek Israel's future operations, depending on the duration of the crisis and its implications (it should be noted that in the early months of the crisis, there was a material decrease in the operations of Delek Israel, however there has recently been an increase in the scope of operations parallel to the partial lifting of the restrictions in the country).

In addition, it should be noted that in the reporting period, Delek Israel has undertaken towards the banks, among other things, that for any distribution to its shareholders (including distribution of a dividend), the consent of the banks is required in advance. In July 2020, Delek Israel distributed a dividend to the Group in the amount of NIS 150 million.

NOTE 2 – INVESTMENT PROPERTY

For further information concerning disposal of investment property see Note 4 to the Interim Consolidated Financial Statements.

NOTE 3 – CONTINGENT LIABILITIES

There are certain contingent claims against the Company and certain investees for significant sums, including petitions to grant class actions, that might amount to anywhere from hundreds of million to several billions of shekels. In some cases, it is not possible to assess their outcome at this stage, and therefore no provision was recorded in the financial statements as set forth in Note 6 to the Interim Consolidated Financial Statements.

NOTE 4 – CAPITAL

With regard to the Company's issue of shares and options exercisable for Company shares and concerning the purchase of Company shares by subsidiaries, see Note 7 to the Interim Consolidated Financial Statements.

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Delek Group Ltd.

Pro Forma Consolidated Interim Financial Statements

June 30, 2020

Unaudited

Contents

Pro Forma Consolidated Statement of Income

	Six months ended June 30, 2020		
	Actual data	Pro forma reconciliations	Pro forma data
		Unaudited	
	NIS millions (other than net loss per share)		
Revenue	4,761	-	4,761
Cost of revenues	3,020	-	3,020
Gross profit	1,741	-	1,741
Selling, marketing and gas station operating expenses	231	-	231
General and administrative expenses	167	-	167
Group share in profits of operating associates, net	2	-	2
Other expenses, net	(3,762)	-	(3,762)
Operating loss	(2,417)	-	(2,417)
Financing income	101	-	101
Financing expenses	(1,308)	-	(1,308)
	(3,624)	-	(3,624)
Group share in profits of associates, net	3	-	3
Loss before income tax	(3,621)	-	(3,621)
Tax benefit	(981)	-	(981)
Loss from continuing operations	(2,640)	-	(2,640)
Loss from discontinued operations, net	(348)	-	(348)
Loss	(2,988)	-	(2,988)
Attributable to:			
Shareholders of the Company	(3,092)	-	(3,092)
Non-controlling interests	104	-	104
	(2,988)	-	(2,988)
Loss per share attributable to shareholders of the Company (NIS)			
Basic loss from continuing operations	(234.5)	-	(234.5)
Basic loss from discontinued operations	(29.7)	-	(29.7)
Basic loss	(264.2)	-	(264.2)
Diluted loss from continuing operations	(234.5)	-	(234.5)
Diluted loss from discontinued operations	(29.7)	-	(29.7)
Diluted loss	(264.2)	-	(264.2)

August 30, 2020			
Date of approval of the financial statements	Gabriel Last Chairman of the Board of Directors	Idan Wallace CEO	Barak Mashraki Executive VP and CFO

The accompanying notes are an integral part of the pro forma consolidated financial statements.

Pro Forma Consolidated Statements of Comprehensive Income

	Six months ended June 30, 2020		
	Actual data	Pro forma reconciliations	Pro forma data
		Unaudited	
		NIS millions	
Loss	(2,988)	-	(2,988)
Other comprehensive income (loss) (net of tax effect):			
Amounts not reclassified to profit or loss:			
Loss from investment in equity instruments measured at fair value through other comprehensive income	(139)	-	(139)
Amounts classified or reclassified to profit or loss under specific conditions:			
Profit for financial assets at fair value through other comprehensive income	1	-	1
Profit for cash flow hedges	985	-	985
Transfer to profit or loss for cash flow hedges	(379)	-	(379)
Foreign currency translation differences for foreign operations	169	-	169
Transfer to statement of income for foreign currency translation differences for foreign operations	28	-	28
Other comprehensive loss attributable to associates, net	(2)	-	(2)
Total	802	-	802
Total other comprehensive income from continuing operations	663	-	663
Total other comprehensive income from discontinued operations, net	-	-	-
Total other comprehensive income	663	-	663
Total comprehensive loss	(2,325)	-	(2,325)
Attributable to:			
Shareholders of the Company	(2,442)	-	(2,442)
Non-controlling interests	117	-	117
	(2,325)	-	(2,325)

The accompanying notes are an integral part of the pro forma consolidated financial statements.

Pro Forma Consolidated Statement of Income

	Three months ended June 30, 2020		
	Actual data	Pro forma reconciliations	Pro forma data
	Unaudited		
	NIS millions (other than net loss per share)		
Revenue	1,935	-	1,935
Cost of revenues	1,126	-	1,126
Gross profit	809	-	809
Selling, marketing and gas station operating expenses	110	-	110
General and administrative expenses	92	-	92
Group share in profits of operating associates, net	1	-	1
Other expenses, net	(271)	-	(271)
Operating profit	337	-	337
Financing income	35	-	35
Financing expenses	(535)	-	(535)
	(163)	-	(163)
Group share in profits of associates, net	1	-	1
Loss before taxes on income	(162)	-	(162)
Taxes on income	16	-	16
Profit from continuing operations	(178)	-	(178)
Loss from discontinued operations, net	(100)	-	(100)
Loss	(278)	-	(278)
Attributable to:			
Shareholders of the Company	(326)	-	(326)
Non-controlling interests	48	-	48
	(278)	-	(278)
Loss per share attributable to shareholders of the Company (NIS)			
Basic loss from continuing operations	(18.9)	-	(18.9)
Basic loss from discontinued operations	(8.3)	-	(8.3)
Basic loss	(27.2)	-	(27.2)
Diluted loss from continuing operations	(18.9)	-	(18.9)
Diluted loss from discontinued operations	(8.3)	-	(8.3)
Diluted loss	(27.2)	-	(27.2)

The accompanying notes are an integral part of the pro forma consolidated financial statements.

Pro Forma Consolidated Statement of Comprehensive Income

	Three months ended June 30, 2020		
	Actual data	Pro forma reconciliations	Pro forma data
		Unaudited	
		NIS millions	
Loss	(278)	-	(278)
Other comprehensive income (loss) (net of tax effect):			
Amounts not reclassified to profit or loss:			
Profit from investment in equity instruments measured at fair value through other comprehensive income	10	-	10
Amounts classified or reclassified to profit or loss under specific conditions:			
Profit for financial assets at fair value through other comprehensive income	1	-	1
Loss from cash flow hedges	(201)	-	(201)
Transfer to profit or loss for cash flow hedges	(248)	-	(248)
Foreign currency translation differences for foreign operations	(241)	-	(241)
Transfer to statement of income for foreign currency translation differences for foreign operations	13	-	13
Total	(676)	-	(676)
Total other comprehensive loss from continuing operations	(666)	-	(666)
Total other comprehensive loss from discontinued operations, net	-	-	-
Total other comprehensive loss	(666)	-	(666)
Total comprehensive loss	(944)	-	(944)
Attributable to:			
Shareholders of the Company	(963)	-	(963)
Non-controlling interests	19	-	19
	(944)	-	(944)

The accompanying notes are an integral part of the pro forma consolidated financial statements.

Pro Forma Consolidated Statements of Income

	Six months ended June 30, 2019		
	Actual data *)	Pro forma reconciliations	Pro forma data
	Unaudited		
	NIS millions (Other net earnings per share)		
Revenue	3,799	2,185	5,984
Cost of revenues	2,829	1,352	4,181
Gross profit	970	833	1,803
Selling, marketing and gas station operating expenses	239	-	239
General and administrative expenses	103	30	133
Group share in profits of operating associates, net	2	-	2
Other revenues (expenses), net	5	(2)	3
Operating profit	635	801	1,436
Financing income	339	97	436
Financing expenses	(539)	(238)	(777)
	435	660	1,095
Group share in profits of associates, net	13	-	13
Profit before taxes on income	448	660	1,108
Taxes on income	81	317	398
Profit from continuing operations	367	343	710
Profit from discontinued operations, net	476	-	476
Net profit	843	343	1,186
Attributable to:			
Shareholders of the Company	480	343	823
Non-controlling interests	363	-	363
	843	343	1,186
Net earnings per share attributable to shareholders of the Company (NIS)			
Basic earnings from continuing operations	23.8	29.3	53.1
Basic earnings from discontinued operations	17.3	-	17.3
Basic earnings	41.1	29.3	70.4
Diluted earnings from continuing operations	23.4	29.3	52.7
Diluted earnings from discontinued operations	16	-	16
Diluted earnings	39.4	29.3	68.7

*) Restated, see Note 2B

The accompanying notes are an integral part of the pro forma consolidated financial statements.

Pro Forma Consolidated Statements of Comprehensive Income

	Six months ended June 30, 2019		
	Actual data *)	Pro forma reconciliations	Pro forma data
	Unaudited		
	NIS millions		
Net profit	843	343	1,186
Other comprehensive income (loss) (net of tax effect):			
Amounts not reclassified to profit or loss:			
Loss from investment in equity instruments measured at fair value through other comprehensive income	(100)	-	(100)
Amounts classified or reclassified to profit or loss under specific conditions:			
Profit for cash flow hedges	88	-	88
Transfer to profit or loss for cash flow hedges	(52)	-	(52)
Foreign currency translation differences for foreign operations	(591)	(92)	(683)
Transfer to statement of income for foreign currency translation differences for foreign operations	14	-	14
Total	(541)	(92)	(633)
Total other comprehensive loss from continuing operations	(641)	(92)	(733)
Total other comprehensive income from discontinued operations, net	139	-	139
Total other comprehensive loss	(502)	(92)	(594)
Total comprehensive income	341	251	592
Attributable to:			
Shareholders of the Company	161	251	412
Non-controlling interests	180	-	180
	341	251	592

The accompanying notes are an integral part of the pro forma consolidated financial statements.

Pro Forma Consolidated Statements of Income

	Three months ended June 30, 2019		
	Actual data *)	Pro forma reconciliations	Pro forma data
	Unaudited		
	NIS millions (Other net earnings per share)		
Revenue	1,956	1,046	3,002
Cost of revenues	1,550	675	2,225
Gross profit	406	371	777
Selling, marketing and gas station operating expenses	120	-	120
General and administrative expenses	58	17	75
Group share in profits of operating associates, net	1	-	1
Other revenues (expenses), net	(21)	4	(17)
Operating profit	208	358	566
Financing income	86	91	177
Financing expenses	(285)	(103)	(388)
	9	346	355
Group share in profits of associates, net	3	-	3
Profit before taxes on income	12	346	358
Taxes on income (tax benefit)	(20)	213	193
Profit from continuing operations	32	133	165
Profit from discontinued operations, net	334	-	334
Net profit	366	133	499
Attributable to:			
Shareholders of the Company	190	133	323
Non-controlling interests	176	-	176
	366	133	499
Net earnings per share attributable to shareholders of the Company (NIS)			
Basic earnings (loss) from continuing operations	(0.6)	11.4	10.8
Basic earnings from discontinued operations	16.9	-	16.9
Basic earnings	16.3	11.4	27.7
Diluted earnings from continuing operations	(0.6)	11.4	10.8
Diluted earnings from discontinued operations	16.9	-	16.9
Diluted earnings	16.3	11.4	27.7

*) Restated, see Note 2B

The accompanying notes are an integral part of the pro forma consolidated financial statements.

Pro Forma Consolidated Statements of Comprehensive Income

	Three months ended June 30, 2019		
	Actual data	Pro forma reconciliations	Pro forma data
		Unaudited	
		NIS millions	
Net profit	366	133	499
Other comprehensive income (loss) (net of tax effect):			
Amounts not reclassified to profit or loss:			
Loss from investment in equity instruments measured at fair value through other comprehensive income	(89)	-	(89)
Amounts classified or reclassified to profit or loss under specific conditions:			
Profit for cash flow hedges	81	-	81
Transfer to profit or loss for cash flow hedges	(27)	-	(27)
Foreign currency translation differences for foreign operations	(212)	(33)	(245)
Other comprehensive income attributable to associates, net	1	-	1
Total	(157)	(33)	(190)
Total other comprehensive loss from continuing operations	(246)	(33)	(279)
Total other comprehensive income from discontinued operations, net	6	-	6
Total other comprehensive loss	(240)	(33)	(273)
Total comprehensive income	126	100	226
Attributable to:			
Shareholders of the Company	57	100	157
Non-controlling interests	69	-	69
	126	100	226

The accompanying notes are an integral part of the pro forma consolidated financial statements.

Pro Forma Consolidated Statements of Income

	Year ended December 31, 2019		
	Actual data	Pro forma reconciliations	Pro forma data
		Audited	
		NIS millions (Other net earnings per share)	
Revenue	8,202	3,267	11,469
Cost of revenues	6,062	2,178	8,240
Gross profit	2,140	1,089	3,229
Selling, marketing and gas station operating expenses	487	-	487
General and administrative expenses	184	(25)	159
Group's share in losses of operating associates, net	(39)	-	(39)
Other expenses, net	(879)	(28)	(907)
Operating profit	551	1,086	1,637
Financing income	572	97	669
Financing expenses	(1,288)	(223)	(1,511)
	(165)	960	795
Group share in profits of associates, net	14	-	14
Profit before taxes on income	(151)	960	809
Taxes on income (tax benefit)	(405)	443	38
Profit from continuing operations	254	517	771
Profit from discontinued operations, net	532	-	532
Net profit	786	517	1,303
Attributable to:			
Shareholders of the Company	234	517	751
Non-controlling interests	552	-	552
	786	517	1,303
Net earnings per share attributable to shareholders of the Company (NIS)			
Basic earnings (loss) from continuing operations	(0.3)	44.4	44.1
Basic earnings from discontinued operations	20.4	-	20.4
Basic earnings	20.1	44.4	64.5
Diluted earnings (loss) from continuing operations	(0.3)	44.4	44.1
Diluted earnings from discontinued operations	20.4	-	20.4
Diluted earnings	20.1	44.4	64.5

The accompanying notes are an integral part of the pro forma consolidated financial statements.

Pro Forma Consolidated Statements of Comprehensive Income

	Year ended December 31, 2019		
	Actual data	Pro forma reconciliations	Pro forma data
		Audited	
		NIS millions	
Net profit	786	517	1,303
Other comprehensive income (loss) (net of tax effect):			
Amounts not reclassified to profit or loss:			
Loss from investment in equity instruments measured at fair value through other comprehensive income	(167)	-	(167)
Amounts classified or reclassified to profit or loss under specific conditions:			
Profit for cash flow hedges	92	-	92
Transfer to profit or loss for cash flow hedges	(100)	-	(100)
Foreign currency translation differences for foreign operations	(969)	(110)	(1,079)
Transfer to statement of income for foreign currency translation differences for foreign operations	14	-	14
Other comprehensive loss attributable to associates, net	(4)	-	(4)
Total	(967)	(110)	(1,077)
Total other comprehensive loss from continuing operations	(1,134)	(110)	(1,244)
Total other comprehensive income from discontinued operations, net	148	-	148
Total other comprehensive loss	(986)	(110)	(1,096)
Total comprehensive income (loss)	(200)	407	207
Attributable to:			
Shareholders of the Company	(501)	407	(94)
Non-controlling interests	301	-	301
	(200)	407	207

The accompanying notes are an integral part of the pro forma consolidated financial statements.

NOTE 1 – GENERAL

A. As described in Note 10F3 to the consolidated financial statements as at December 31, 2019, on May 29, 2019, Ithaca entered into an agreement with Chevron Products UK Limited ("the Seller") for the acquisition of 100% of the shares of Chevron North Sea Limited ("CNSL") owned by the Seller. CNSL owns rights in ten producing oil and gas assets in the North Sea region of the UK, drilling and exploration licenses, and infrastructure, and has professional and skilled human resources, all of which are part of the acquisition transaction. The oil and gas assets underlying the acquisition agreement are ten producing oil and gas fields and an exploration license. In four of the acquired assets, representing 67% of the total reserves(2P) in the acquired assets, CNSL serves as the operator. According to the opinion of external experts for estimating reserves, as at December 31, 2019, the total quantity of proved and probable (2P) reserves as a best estimate and the total quantity of contingent resources (2C) attributable to the acquired assets is 206 million BOE and 66 million BOE, respectively. On the signing date of the agreement and as part of the purchase price, a deposit of USD 200 million was deposited in favor of the Seller.

B. On November 8, 2019, after fulfillment of all the preconditions, the transaction was completed. As part of the transaction, the Seller transferred to Ithaca ownership of the entire share capital of CNSL. Ithaca paid the Seller the consideration, which amounted to USD 1.477 billion (in addition to a deposit of USD 200 million, as set out above), after deducting the funds accumulated at CNSL since January 1, 2019. In addition, an amount of USD 50 million was paid for working capital.

As from the completion date, Ithaca assumed all the rights and liabilities of CNSL for the acquired assets, including the oil assets, and provided guarantees (letters of credit) funded by RBL, for CNSL's abandonment obligations for the acquired assets, instead of the collateral provided by CNSL or its related companies.
Alongside completion of the transaction, companies in the Ithaca Group signed agreements with companies in the BP International Oil Limited Group ("BP") for the distribution and marketing of gas and oil from the acquired assets for a period of five years.

C. Financing for the consideration of the transaction and the additional capital required by Ithaca for completion of the transaction is mainly based on the following sources:

– In July 2019, Ithaca entered into an agreement with a consortium of international banks for the provision of a reserve based lending facility of USD 1,650 million ("the RBL Facility"), which was provided to Ithaca to finance its acquisition of CNSL, subject to its completion. The RBL Facility was provided for a period of five years. Most of the RBL Facility bears annual interest of Libor + 3% in the first four years and 3.25% in the fifth year. A facility of USD 550 million out of the total amount will serve as an unused facility, half of which was used by Ithaca to provide collateral for the abandonment obligations of CNSL in the acquired assets as set out above, and this amount will bear annual interest at a rate of 1.5% in the first four years and 1.625% in the fifth year. The other half can only be utilized if certain conditions are fulfilled, based mainly on the expected production rate, and forecasted prices of oil and gas.

NOTE 1 – GENERAL (CONTD.)

C. (contd.)

- In July 2019, Ithaca completed an issue of debentures amounting to USD 500 million. Under the terms of the issue, the principal of the debentures will be repaid within five years and the annual interest rate set in the tender is 9.375% (paid every six months). The debentures were issued without any collateral, and Ithaca used the consideration from the issue to finance the CNSL transaction.
- In November 2019, DKL Energy Limited (a wholly-owned subsidiary of the Company, which holds Ithaca shares - "DKL Energy") raised a loan from a foreign bank in the amount of USD 200 million. USD 50 million of the loan principal will be repaid in November 2020, another USD 50 million will be repaid in February 2021, and the balance will be repaid in May 2021 or when Ithaca is listed on the London Stock Exchange, whichever is the earlier. The loan will bear interest based on Libor plus 6.5% per year in the first 12 months of the loan life and will increase by 0.5% in each of the next three-month periods.
- The consideration for the acquisition, including the deposit made when signing the agreement, was financed by the independent sources of the Company and Ithaca.

D. In view of the gain of control in CNSL, the Group consolidates the financial statements of CNSL as from the date control was gained (November 8, 2019).

E. The gain of control in CNSL constitutes a pro forma event as defined in the Israel Securities Regulations (Periodic and Immediate Reports), 1970.

F. The pro forma consolidated financial statements were prepared to reflect the effect of the pro forma event on the results of the Company's operations (consolidated), under the assumption that the financial statements of CNSL were consolidated with the Company's financial statements as from January 1, 2019, in accordance with Notes 2 and 3 below.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A. The accounting policy applied in the pro forma consolidated interim financial statements is consistent with that applied in the preparation of the Company's consolidated interim financial statements as at June 30, 2020 and for the six and three months then ended ("the Consolidated Interim Financial Statements"). These pro forma consolidated interim financial statements are prepared in accordance with Regulation 38B of the Israel Securities Regulations (Periodic and Immediate Reports), 1970. The consolidated interim financial statements should be read in the context of the Company's consolidated interim financial statements as at June 30, 2020 and the six and three months then ended and with the pro forma financial statements as at December 31, 2019 and the year then ended.

B. <u>Restatement of comparative figures</u>

As set out in Note 10G to the Annual Financial Statements, in 2019 the Group sold its investment in Delek Automotive. Accordingly, the contribution of Delek Israel to the Group's result in the comparison periods was reclassified to profit (loss) from discontinued operations, net. In addition, as set out in Note 3E to the Annual Financial Statements, Delek Israel sold the fuel distribution and storage operation and signed a binding agreement for the sale of the power plant operation for power generation. In view of the aforesaid, the results of these operations were presented in all reporting periods under profit (loss) from discontinued operations, net when comparative figures were reclassified.

NOTE 3 – ASSUMPTIONS USED IN THE PREPARATION OF THE CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS

1. The pro forma consolidated financial statements are based on the consolidated financial statements of the Company and on the financial statements of the acquired company (after carve-out adjustments for operations remaining with the Seller subsequent to the transaction) for the relevant reporting period, which were prepared in accordance with international financial reporting standards (IFRS).

2. The pro forma consolidated statements of income and the pro forma consolidated statements of comprehensive income for the six and three months ended June 30, 2019 were prepared on the assumption that the acquisition of the acquired company occurred on January 1, 2019.

3. The pro forma statements of income included notional financing expenses for the financing sources set out in section 1C above, to reflect in these reports the effects if such financing had been made on January 1, 2019. Regarding the Company's independent sources of financing (in the amount of NIS 550 million), the notional financing expenses that were included are at an annual rate of 4.5%. In addition, for the notional financing expenses for Ithaca's financing sources, a tax benefit was included in accordance with the tax rate applicable to Ithaca, and for the financing sources that are not from Ithaca, a tax benefit was not included.

4. The pro forma statements of income for the reported periods included the amortization of excess costs arising from the acquisition, based on a provisional measurement of the fair value of the assets and liabilities of CNSL, in accordance with the draft valuation prepared by an external appraiser, as set out in Note 10F3 to the Company's consolidated financial statements as at December 31, 2019 and the year then ended. For the amortization, the effect of tax was recognized according to the tax rate that applied to CNSL. It should be noted that the cost of income item in the pro forma consolidated interim statements for the six and three month periods included depletion expenses for the assets of CNSL that were acquired in the amount of NIS 296 million and NIS 625 million, respectively.

5. Since the pro forma information is inherently based on various assessments and estimates, and due to the changes that occurred and are likely to occur in the operations of CNSL, and in particular, due to the changes in oil and gas prices and changes that are expected in production volumes from the acquired reservoirs, the reported pro forma information is not necessarily an indication of the contribution of CNSL to the representative and/or future results of the Group subsequent to acquisition of the operations.

NOTE 4 – OPERATING SEGMENTS

A. General

In accordance with IFRS 8, the Group's operating segments are determined on the basis of management reports, which are mainly based on the investments in each subsidiary.

– Oil and gas exploration and production in Israel and its surroundings: The main operation is in the Tamar joint venture, the Ratio Yam joint venture, the Yam Tethys joint venture, and other oil rights, mainly offshore the coast of Israel.

– Development and production of gas and oil assets in the North Sea: The activity is carried out by Ithaca, which owns rights in oil and gas assets in the North Sea region. The activity includes mainly production and marketing of oil and gas from the producing reservoirs and the development of additional reservoirs.

– Fuel in Israel: The main operation is marketing and sale of fuels and commodities at gas stations and other outlets, and storage and production of fuels in facilities.

– Others: Other sectors, including mainly desalination up to the date of the sale of the investment in IDE, which coordinates this operation, as set out in Note 3B to the Annual Financial Statements.

It should be noted that in view of the sale of the Company's investment in Delek Automotive and in The Phoenix in 2019, and presentation of their operating results under income from discontinued operations, Delek Automotive and The Phoenix were not presented as reportable segments in the comparative figures. In addition, in view of the binding agreement for the sale of the power plant operation for power generation, as well as the sale of the fuel storage and distribution facilities, these operations were recognized under results of discontinued operations with reclassification of comparative figures.

B. Pro forma segment reporting

1) Revenue

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2020	2019	2020	2019	2019
	Unaudited		Unaudited		Audited
	NIS millions				
Revenue from external sources					
Oil and gas exploration and production in Israel and its surroundings	1,172	662	498	304	1,332
Development and production of oil and gas assets in the North Sea	2,190	2,927	971	1,396	5,329
Fuel in Israel **)	1,429	2,419	483	1,317	4,846
Other segments **)	5	8	2	6	22
Inter-segment *)	(37)	(32)	(20)	(21)	(63)
Adjustments	2	-	1	-	3
Total in statement of income	4,761	5,984	1,935	3,002	11,469

*) Inter-segment sales are mainly for the sale of gas to other segments.

**) Reclassified, see Note 2B.

NOTE 4 – OPERATING SEGMENTS (CONTD.)

B. Pro forma segment reporting (contd.)

2) Segment results

	Six months ended June 30		Three months ended June 30		Six months ended June 30
	2020	2019	2020	2019	2019
	Unaudited		Unaudited		Audited
	NIS millions				
Oil and gas exploration and production in Israel and its surroundings	411	254	4	150	649
Development and production of oil and gas assets in the North Sea	(2,749)	1,013	340	407	982
Fuel in Israel **)	(76)	73	(4)	56	124
Other segments **)	21	142	2	(18)	(63)
Adjustments *)	(24)	(46)	(5)	(29)	(55)
Total in statement of income	(2,417)	1,436	337	566	1,637

*) Mainly administrative and general expenses attributable to the Staff Companies

**) Reclassified, see Note 2B.

3) Contribution to net profit from continuing operations attributable to the shareholders of the Company

	Six months ended June 30		Three months ended June 30		Six months ended June 30
	2020	2019	2020	2019	2019
	Unaudited		Unaudited		Audited
	NIS millions				
Oil and gas exploration and production in Israel and its surroundings	(53)	161	(211)	57	476
Development and production of oil and gas assets in the North Sea	(2,274)	459	80	193	460
Fuel in Israel **)	(89)	34	(17)	32	65
Other segments **)	23	158	2	1	(45)
Adjustments *)	(352)	(159)	(81)	(157)	(442)
Total in statement of income	(2,745)	653	(227)	126	514

*) Mainly administrative and general expenses and financing expenses attributable to the Staff Companies

**) Reclassified, see Note 2B

NOTE 5 – THE COVID-19 CRISIS AND THE GROUP'S FINANCIAL POSITION

In this connection, see Notes 1A, 1B, and 1C to the Interim Consolidated Financial Statements as at June 30, 2020 about the Covid-19 crisis and the extreme decline in global oil and gas prices in 2020, including: The significant impairment subsequent to this date in the Group's assets and capital attributable to the Company's shareholders; a consolidated working capital deficit and working capital of the Company (separate); downgrade of the Company's debenture rating; significant amounts of required payments (repayments) of the Company and the staff companies to the debenture holders and the banks, as well as agreements reached with the debenture holders and some of the banks, according to which, among other things, they will not call for immediate repayment of the Company's obligations towards them, subject to the Company's compliance with its obligations and covenants set out in the agreements; and regarding the disposals, binding agreements, and memorandums of understanding for the sale of assets and investments in significant amounts, raising of capital and receiving dividends from investees; and repayment of the Company's financial liabilities to its creditors.

As set out in these Notes, the continued repayment of the liabilities of the Company and the staff companies at their due date is subject to their ability to dispose of assets and investments on a significant scale; raise debt and capital on a significant scale, some of which is required in the near future and is greatly affected by oil and natural gas prices; and receive dividends from investees in substantial amounts. The Company is also required to comply with the terms of the agreements and covenants with the debenture holders and the banks, so that they will not call for immediate repayment of the liabilities of the Company and the staff companies.

The Company acted and is acting to implement its plans in order to meet the required conditions and to raise the required sources for repayment of its liabilities, including by raising capital and disposing of assets and investments. The Company believes that it is highly likely that its plans will be realized, and in this context, it should be noted that the significant actions that the Group was able to complete in a short period in accordance with the outline enabled it to make early repayments to the banks in substantial amounts and to the debenture holders on time and as required. However, since completion of the Company's plans is not under its sole control and depends, as described above, on the materialization of several incremental events, which are required in relatively short periods and/or in a significant scope, there is uncertainty as to the actual fulfillment of these plans. These factors, together with the other factors describe in the Notes above, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include adjustments for the values of assets and liabilities and their classification, which might be required if the Company is unable to continue as a going concern.

NOTE 6 – CONTINGENT LIABILITIES

Motions for class actions have been filed against the Company and certain investees, in significant amounts. In some cases, it is not possible to assess their outcome at this stage, therefore no provision was recorded in the financial statements as set out in Note 6 to the Company's consolidated interim financial statements.

Delek Group Ltd.

Additional Data Concerning the Proforma Consolidated Financial Statements as of June 30, 2020

1. The Company's Board of Directors hereby presents the Company's proforma consolidated financial statements for the three and six month periods ended June 30, 2020 ("Proforma Statements"), as well as additional data connected to the Proforma Statements. This report should be read in conjunction with the Board of Directors Report on the Company's consolidated financial statements for said periods.

2. On November 8, 2019, Ithaca completed a strategic transaction for acquiring 100% of the shares of Chevron North Sea Limited ("CNSL") from Chevron Products UK Limited ("the Seller"). CNSL holds various right interests in ten production oil and gas assets located in the North Sea offshore of England, drilling and exploration licenses, a pipeline and infrastructure, and skilled professional staff, all of which were included in the acquisition. CNSL serves as the operator for four of the acquired assets, accounting for 67% of all 2P reserves in the acquired assets.

   The consideration paid upon the transaction's completion, net of amounts accrued by CNSL since January 1, 2019, amounted to USD 1.477 billion (in addition to USD 200 million which were part of the consideration for the purchase and which were paid to the Seller as a deposit upon the agreement's signature in May 2019). A sum of USD 50 million was also paid against working capital.

   To finance the consideration and its additional capital requirements to complete the transaction, Ithaca relied mainly on the following sources:

   1) A reserve-based lending (RBL) facility of USD 1,100 million for a period of 5 years (of which USD 600 million were used to repay a previous Ithaca debt);

   2) Issue of USD 500 million in debentures by Ithaca;

   3) A USD 200 million loan from a foreign bank received by a wholly-owned Group subsidiary near the transaction's completion date;

   4) The remaining balance, including the advance paid upon the agreement's signature, was provided from the Company's and Ithaca's own funds. It is emphasized that, as part of the financing behind Ithaca's acquisition of CNSL's rights, a USD 300 million guarantee by the Company toward Ithaca was canceled.

   In addition, upon the transaction's completion, Ithaca provided letters of credit out of and as part of the RBL facility it had secured as aforesaid. These letters of credit guarantee CNSL's abandonment obligations for the acquired assets.

3. After assuming control of CNSL, the Group is consolidating CNSL's financial statements starting from the date when it assumed control (November 8, 2019).

4. The Proforma Statements were prepared to reflect the effect of the proforma event on the Company's consolidated results, assuming that CNSL's statements had been consolidated with the Company's financial statements in the reporting periods prior to the purchase, as detailed in Notes 2 and 3 to the Proforma Statements.

5. The Proforma Statements were prepared based on the Company's consolidated financial statements, with retrospective consolidation of CNSL's financial statements for all relevant reporting periods, using the assumptions detailed in Note 3 to the Proforma Statements.

6. According to the proforma statement of income, the Group's proforma revenues for the six and three months ended June 30, 2019 totaled NIS 3 billion and NIS 6 billion, respectively, as compared to actual revenues of NIS 2 billion and NIS 3.8 billion, respectively, in the six and three months ended June 30, 2019, an increase of NIS 1 billion and NIS 2.2 billion, respectively. Proforma revenues from development and production of gas and oil assets in the North Sea in the six and three months ended June 30, 2019 totaled NIS 2.9 billion (USD 0.8 billion) and NIS 1.4 billion (USD 0.4 billion), respectively, as compared to actual revenues of NIS 0.4 billion (USD 0.1 billion) and NIS 0.7 billion (USD 0.5 billion), respectively.

7. Net profit attributable to Company shareholders, proforma, totaled NIS 823 million and NIS 323 million, respectively, in the six and three months ended June 30, 2019, as compared to actual net profits of NIS 480 million and NIS 190 million, respectively.

   Gas and oil asset development and production operations in the North Sea contributed NIS 459 million and NIS 193 million, respectively, to the proforma net profit attributable to the Company's shareholders in the three and six months ended June 30, 2019.

8. For information concerning developments in the reporting period, including the COVID-19 epidemic's impact on the Group's financial position, see Note 1 to the consolidated financial statements.

In light of the fact that proforma data, by nature, are based on various assessments and estimates and in light of changes that have occurred and which may occur in CNSL's operations, and particularly in light of changes in oil and gas prices and expected changes in production volumes from the acquired reservoirs, the reported proforma data should not be construed as indicative of CNSL's contribution to the Group's representative and/or future results following the acquisition.

Sincerely

Gabriel Last	**Idan Wallace**
Chairman of the Board	CEO

Signature date: August 30, 2020

Chapter D

Report on the Effectiveness of Internal Controls for Financial Reporting and Disclosure

Delek Group Ltd

Quarterly report on the effectiveness of internal control for financial reporting and disclosure, pursuant to Ordinance 38C(a):

Management, under the supervision of the Board of Directors of Delek Group Ltd. ("the Corporation"), is responsible for setting and maintaining an appropriate internal control for financial reporting and disclosure in the Corporation.

For this matter, the members of Management are:

1. Idan Wallace, President & CEO
2. Barak Mashraki, Deputy CEO & CFO
3. Leora Pratt Levin, Chief General Counsel
4. Tamar Rosenberg, CFO & Head of Corporate Accounting

Internal control of financial reporting and disclosure includes controls and procedures existing in the Corporation, which were planned or overseen by the CEO and the most senior financial officer or under their supervision, or by whoever fulfills those functions in practice, under the supervision of the Board of Directors of the Corporation, and were designed to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Corporation is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format laid down in law.

Internal control includes, inter alia, controls and procedures planned to ensure that the information that the Corporation is required to disclose as aforesaid, is accumulated and forwarded to the Management of the Corporation, including to the CEO and the most senior financial officer or to whoever fulfills those functions in practice, in order to enable decisions to be made at the appropriate time in relation to the disclosure requirements.

Due to its structural limitations, the internal control of financial reporting and disclosure is not intended to provide absolute assurance that misstatement in or omission of information from the reports will be prevented or will be discovered.

It should be noted that the assessment of internal control of Chevron North Sea Ltd (“Chevron”), whose commercial operations were acquired and included in the Company’s consolidated commercial operations from November 8, 2019, has not yet been completed (expected to carried out during 2020).

In the annual report on the effectiveness of internal control for financial reporting and disclosure, which was attached to the Periodic Report for the period ending December 31, 2019 ("the Last Annual Internal Control Report"), the Board of Directors and Management assessed the internal controls within the Corporation; based upon this assessment, the Board of Directors and Management of the Corporation have concluded that the said internal controls, as of December 31, 2019, were effective.

Up until the date of this report, no event or matter was brought to the attention of the Board of Directors and Management that leads them to change the assessment of the effectiveness of the internal controls, as reported in the Last Annual Internal Control Report.

For the period of this report, based upon the effectiveness assessment of the internal controls in the Last Annual Internal Control Report, and based upon information brought to the attention of Management and the Board of Directors as stated above, the internal controls are effective.

Declaration of Executives in accordance with Ordinance 38C(d)(1)

Declaration of Executives
Declaration of the CEO

I, Idan Wallace, declare that:

(1) I have reviewed the quarterly report of Delek Group Ltd. ("the Corporation") for Quarter 2 of 2020 ("the Reports");

(2) To the best of my knowledge, the reports do not include any representation that is not correct and do not lack any representation of any vital, material fact, so that was has been presented, within the context in which they have been provided, shall not be misleading in respect of the period covered by the reports;

(3) To the best of my knowledge, the financial statements and other financial information in the Reports reflect fairly, from all material aspects, the financial condition, the results of operations and the cash flows of the Corporation at the dates and for the periods to which the Reports relate:

(4) I disclosed to the auditor of the Corporation, to the Board of Directors, to the Audit and the Financial Statements Committees of the Board of Directors of the Corporation, based on my latest assessment of the internal control of the financial reporting and disclosure:

   (i) all the significant flaws and material weaknesses in the determination or operation of the internal control of the financial reporting and disclosure that could reasonably have an adverse effect on the ability of the Corporation to collect, process, summarize or report on financial information in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and -

   (ii) any deception, whether material or not material, in which the CEO or anyone directly subordinate to him is involved, or in which other employees are involved who fulfill an important function in the internal control of the financial reporting and disclosure;

(5) I, alone or together with others in the Corporation:

   (i) set controls and procedures or ascertained the setting and upholding of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities (Annual Financial Statements) Ordinances, 2010, is brought to my knowledge by others in the Corporation and in the subsidiaries, particularly during the period of preparation of the Reports; and -

   (ii) I set controls and procedures or ascertained the setting and upholding of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles.

   (iii) No event or matter has been brought to my attention during the period between the Last Report and the date of this report that changes the conclusion of the Board of Directors and Management in respect of the effectiveness of the internal controls on the Corporation's financial reporting and disclosure.

Nothing in the foregoing shall derogate from my responsibility or that of anyone else in law.

August 30, 2020

Idan Wallace
Chief Executive Officer

Declaration of the most senior financial officer pursuant to Ordinance 38C(d)(2):

Declaration of Executives
Declaration of the most senior financial office

I, Barak Mashraki, declare that:

(1) I have reviewed the interim financial statements and other financial information of Delek Group Ltd. ("the Corporation") for Quarter 2 of 2020 ("the Reports" or "the Reports for the Interim Period");

(2) To the best of my knowledge, the interim financial statements and other financial information included in the Reports for the Interim Period do not include any representation that is not correct and do not lack any representation of any vital, material fact, so that was has been presented, within the context in which they have been provided, shall not be misleading in respect of the period covered by the reports.

(3) To the best of my knowledge, the interim financial statements and other financial information in included in the Reports for the Interim Period reflect fairly, from all material aspects, the financial condition, the results of operations and the cash flows of the Corporation at the dates and for the periods to which the Reports relate:

(4) I disclosed to the auditor of the Corporation, to the Board of Directors, to the Audit and the Financial Statements Committees of the Board of Directors of the Corporation, based on my latest assessment of the internal control of the financial reporting and disclosure:

(i) all the significant flaws and material weaknesses in the determination or operation of the internal control of the financial reporting and disclosure insofar as they refer to the financial statements and other financial information included in the Reports for the Interim Period that could reasonably have an adverse effect on the ability of the Corporation to collect, process, summarize or report on financial information in a way that could cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and -

(ii) any deception, whether material or not material, in which the CEO or anyone directly subordinate to him is involved, or in which other employees are involved who fulfill an important function in the internal control of the financial reporting and disclosure.

(5) I, alone or together with others in the Corporation -

(i) set controls and procedures or ascertained the setting and upholding of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its subsidiaries as defined in the Securities (Annual Financial Statements) Ordinances, 2010, is brought to my knowledge by others in the Corporation and in the subsidiaries, particularly during the period of preparation of the Reports; and -

(ii) I set controls and procedures or ascertained the setting and upholding of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles.

(iii) No event or matter has been brought to my attention during the period between the Last Periodic Report and the date of this report that refers to the interim financial statements and all financial information included in the Reports for the Interim Period that changes the conclusion of the Board of Directors and Management in respect of the effectiveness of the internal controls on the Corporation's financial reporting and disclosure.

Nothing in the foregoing shall derogate from my responsibility or that of anyone else in law.

August 30, 2020

Barak Mashraki
Deputy CEO & CFO