

**Framework for increasing the quantity of natural gas produced from the Tamar natural gas field and rapid development of the Leviathan, Karish and Tanin natural gas fields and others<sup>1</sup>**

**Resolution**

**RESOLVED,**

Further to the Government Resolution of June 23, 2013, No. 442, on the subject of "Adopting the main recommendations of the Committee for the Examination of the Government Policy in the Area of the Natural Gas Economy in Israel (the Zemach Committee Report," the resolution of the Ministerial Committee on National Security (the Political – Security Cabinet), No. B/6 of June 25, 2015 (hereinafter: "the Cabinet Resolution"), and following the public hearing regarding the natural gas Framework and the exemption from being considered a cartel in accordance with Article 52 of the Antitrust Law 5748-1988, and subject to granting an exemption ,

A. Definitions

In this Resolution –

**"Delek"** – Delek Drilling Limited Partnership and Avner Oil Exploration Limited Partnership;

**"Resolution 442"** – Government Resolution No. 442 dated June 23, 2013 "to adopt the main recommendations of the Committee for the Examination of the Government Policy in the Area of the Natural Gas Economy in Israel ("the Zemach Committee Report");

**"Expansion of Tamar Field"** – expanding the developing of the field and increasing production of the natural gas as compared to the amount currently produced;

**"The Antitrust Law"** – The Antitrust Law, 5748-1988;

**"Petroleum Profits Tax Law"**– Petroleum Profits Tax Law, 5771–2011;

**"The Petroleum Law"** – The Petroleum Law, 5712-1952

**"Leviathan Lease Holdings"** – The Leviathan North Lease Holding and the Leviathan South Lease Holding";

**"Leviathan North Lease Holding"** – Lease holding I/15 "Leviathan North" issued under Section 26 of the Petroleum Law and held by the following parties: Noble – 39.66%; Avner Oil Exploration Limited Partnership – 22.67%; Delek Drilling

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<sup>1</sup>The English version of all translated law and regulation documents is a non-binding, unofficial translation from the original, binding, Hebrew version and is published for the convenience of the Public. Only the Hebrew version, as officially published in the official gazette (Reshumot) or in the Ministry of Energy website, or in the Israel Government Secretariat, as applicable, shall be binding.

Limited Partnership – 22.67%; Ratio Oil Exploration (1992) Limited Partnership – 15.0%;

**"Leviathan South Lease Holding"** – Lease holding I/14 "Leviathan South" issued under Section 26 of the Petroleum Law and held by the following parties: Noble – 39.66%; Avner Oil Exploration Limited Partnership – 22.67%; Delek Drilling Limited Partnership – 22.67%; Ratio Oil Exploration (1992) Limited Partnership – 15.0%;

**"Tamar Lease Holding"** – Lease holding I/15 "Tamar" issued under Section 26 of the Petroleum Law and held by the following parties: Noble – 36%; Isramco Negev - 2, Limited Partnership – 28.75%, Avner Oil Exploration Limited Partnership – 15.6250%; Delek Drilling Ltd. Limited Partnership – 15.6250% and Dor Gas Exploration Limited Partnership – 4.0%;

**"Karish"** – A natural gas field known as "Karish" located within License "366/Alon C";

**"The Determining Date"** – The date on which the exemption in accordance with clause 52 of the Antitrust Law is authorized;

**"The Petroleum Commissioner"** – The Commissioner as defined in Article 2 of the Petroleum Law;

**"The Framework"** – Sections A through J of this Resolution, as well as the exemption in accordance with the Antitrust Law;

**"Noble"** – Noble Energy Mediterranean, Ltd.;

**"The Exemption According to the Antitrust Law"** – the exemption in accordance with Article 52 of the Antitrust Law;

**"The Minister"** – The Minister of National Infrastructures, Energy, and Water Resources.

**"Tanin"** – A natural gas field known as "Tanin" located within License "364/Alon A";

## B. Exemption under Article 52 of the Antitrust Law

The government believes that as part of the overall arrangement with regard to the natural gas industry, it is advisable to grant an exemption from some of the provisions of the Antitrust Law as set forth in Appendix A, with the scope of the exemption as set forth in the aforesaid Appendix and in accordance with the conditions set out therein, under Article 52 of the Antitrust Law and subject to consultation with the Economic Committee.

C. Timetables for development of the Leviathan field and expansion of the Tamar field

1. Considering the change in circumstances and in accordance with the request of the rights holders of the Leviathan Leases and the mechanism established in the Leviathan Lease documents, the Government notes the Petroleum Commissioner's notification of his intention to postpone the date on which commercial production and the transmission of natural gas to the local economy is to begin up to 48 months after the Determining Date.
2. The Government notes the announcement of the "Leviathan" and "Tamar" Lease rights holders that they will take immediate steps to continue with the investments and operations necessary for the speedy development of the Leviathan field and expansion of the Tamar field.
3. In order to promote the fastest possible development of the Leviathan field, all the government entities will take steps to provide all the permits, licenses and approvals required for taking an investment decision (FID) within reasonable periods of time. Applications for approvals will be passed on as soon as possible and in such a way as to enable the Government to complete the procedures within a reasonable time.
4. By the end of 2017, the Leviathan Lease rights holders will be required to enter into binding agreements to purchase equipment and services for the purpose of developing the Lease in the amount of US \$1.5 billion at least, in addition to the sums invested up to the date of the Government Resolution.

D. Prices

1. It is the position of the Government of Israel that as long as the Lease rights holders fulfill all conditions of the Framework, including herein the price and updating method specified below, the decision of the Minister and the Minister of Finance (hereinafter in this paragraph - **the Ministers**) will remain in place with regard to the application of Chapter G of the Supervision of Prices and Services Law, 5756-1996 (hereinafter – **the Supervision Law**), which is concerned with reporting profitability and prices, to the price of natural gas, and this for the duration of the transition period, as defined herein below.

Detailed below is the mechanism on which the Government Resolution was based.

1. Commencing from the date of the Government Resolution and throughout the transition period, the Lease rights holders will only offer potential consumers with whom they are negotiating the price options and the linkage of natural gas, as detailed below, and no other option:
  - 1.1 A basic price derived from the equation specified in Section 1.1.1 and updated according to Section 1.1.2 ("Basic Price"):

1.1.1  $P(T) = R(T-2)/Q(T-2)$

Wherein:

- P(T) is the basic price at the time the agreement is signed;
- R(T-2) is the income from the total sales transactions of natural gas carried out in the quarter preceding the quarter before the agreement was signed, by a Lease holder;
- Q(T-2) is the accumulated quantity of natural gas in MMBTU units that was supplied in the quarter preceding the quarter before the agreement was signed, by anyone who is a Lease holder;

1.1.2 At the beginning of each calendar quarter, commencing from the quarter immediately following the signing of the agreement, the basic price will be updated so that the price of natural gas applicable to that agreement will conform to the result derived from a calculation based on the equation specified in Section 1.1.1.

1.1.3 With regard to this section–

- a. It is hereby clarified that if the basic price is not paid for gas supplied at the entry point to the national transmission system, the necessary adjustments will be made by the Natural Gas Authority.
- b. The amount of revenue from all sales of natural gas and the cumulative amount of natural gas will be calculated by the Natural Gas Authority in accordance with the data provided to it by the Lease rights holders.
- c. Quarter – Calendar quarter.

1.2 A natural gas price that will be determined in accordance with the price of a Barrel of Brent as to be calculated in accordance with the optimal formula for the consumer that appears in the contracts of the Lease holders for supply from Tamar at the time of this Resolution.

1.3 The Lease rights holders will offer potential consumers who are private electricity producers with a production license for a supply capacity of 20 megawatts and up per site, also the alternative detailed below, which includes linkage to the weighted production rate published by the Public Electricity Authority, and this is in addition to the two alternatives detailed in Sections 1.1 and 1.2.

1.3.1 Conventional electricity producers – a simple average of the prices stipulated in the contracts of the three largest

conventional electricity producers, and linkage in accordance with said contracts;

1.3.2 Cogeneration electricity producers – a simple average of prices stipulated on the Government Resolution date in the cogeneration contracts linked to the weighted production rate, and linkage in accordance with said contracts;

1.3.3 Said averages in sub-sections 1.3.1 and 1.3.2 will be calculated by the Natural Gas Authority in accordance with data provided by the Lease rights holders.

2. It is clarified that the possibility of choice among the alternatives specified in Section 1 will only be offered to the buyer prior to entering into a contract.
3. In addition to the aforesaid in Section 1:
  - 3.1 Nothing stated in Section 1 shall derogate from the obligation of the Lease rights holders to offer consumers the price of gas that is determined within the framework of an export agreement in a mechanism that is specified in Section 2(d) of Appendix B.
  - 3.2 The Lease rights holders will be permitted to offer potential consumers a discount on the prices that ensue from the alternatives specified in Section 1.
  - 3.3 With respect to agreements that have been signed up to the date of the Government Resolution, the arrangements determined therein will apply to the matter of prices and the method of updating prices.
4. Notwithstanding the provisions of sub-section 1.1.2, the parties to the agreement will be entitled to select any method for updating the basic price so long as such method is reasonable and customary in natural gas agreements in Israel or around the world. In such a case the basic price will be updated in accordance with the selected linkage method.
5. Lease rights holders will be required to provide the Natural Gas Authority with all the data pertaining to calculating the price and the method of updating prices, in accordance with Section 1.1.1, 1.1.2, and 1.3. The Natural Gas Authority will be entitled to publish only the basic natural gas price or the simple average, as relevant.
6. On the matter of this section:
  - a. **Transition Period** – A period commencing from the date of the Government decision and ending on the later of the following two dates: The date on which the full transfer of the Karish and Tanin lease rights holders' rights has been accomplished, as stated in Section 1 or Section 28 of the Resolution as per Article 52 of the Antitrust Law, or the date on which the full transfer of the Tamar lease rights holders' rights has been

accomplished, as stated in Sections 11 and 12, or Section 39 of the Resolution as per Article 52 of the Antitrust Law.

- b. **Leases** – “Tamar” and “Leviathan”.
  - c. **Lease rights holders** –Rights holders in the Tamar and Leviathan Leases at the time of the Resolution and whoever shall come in place thereof.
  - d. **Sale by whoever is a Lease holder** – Any sale or supply of natural gas that is performed by a Lease holder or for him, including a sale that originates in rights ensuing from any Lease whatsoever.
2. To apply to the Prices Committee, which acts under the Supervision Law, with a request to examine retaining supervision over the natural gas price, in accordance with Section G of the Supervision Law during the transition period, as defined above, and this subject to full compliance with the Framework conditions. The Prices Committee will formulate its position as soon as possible.

E. Gas Export

1. To amend Resolution 442:
  - a. In the definition of “Quantity of Natural Gas” in Section 1(a) of the Resolution, in place of the words: “according to category 2P” shall come: “according to categories 2P and 2C cumulatively.”
  - b. In Section 1(b) of the Resolution, after the words: “shall be no less than 540 BCM, as aforesaid in sub-section (a) of this Resolution” shall come: “and in accordance with the relative share of each reservoir in the quantities permitted for export in all the reservoirs at that time as stated in Section 1(h).”
  - c. In Section 1(h)(4) of the Resolution, after the words: “reservoirs in which the quantity of natural gas therein” shall come: “as determined by the Commissioner.”
  - d. The following text will be added to the end of Section 1(h)(6) of the Resolution: "Notwithstanding the above, the allowed export quota from Karish and Tanin, which according to sub-sections (h)(3) and (h)(4) will be 47 BCM, will be replaced, at such time that the transfer of all rights in Karish and Tanin is approved by the Petroleum Commissioner with "an obligation to supply the local economy" that applies to the holders of the Leviathan lease. The Leviathan lease holders will be able to utilize the export quota immediately afterwards, in proportion to the relative part of the Leviathan reservoir in the quantities allowed for export from all reservoirs at such time, as stipulated in Section 1(h)".
  - e. In Section 1(h)(10) of the Resolution, in place of the words: “provided that the total quantity of natural gas for the Israeli market shall be 540 BCM as

aforesaid in Section A of this Resolution. Nonetheless, the Prime Minister and the Minister of Energy and Water Resources may authorize the supply of natural gas from the Israeli national transmission system to bordering countries forthwith, in a quantity that shall not exceed 20 BCM from said reservoir in this section, and within the framework of 50% of the quantity permitted for export from said reservoir herein in this section” shall come: “and no more than this, and this forthwith, provided that authorization for export has been given; it must be clarified that in the event that a consumer exercised the option of reducing the quantities granted thereto, in accordance with an agreement signed with the Lease holders, the quantity of natural gas with respect to which the option of reducing quantities was exercised shall be deemed as part of the quantity of natural gas with respect to which the Lease holders have not yet undertaken vis-à-vis the domestic market.”

f. At the end of Section 1(h)(11) shall come: “However, the quantities of natural gas that shall serve the plant to be set up as the result of a tender to establish a plant for the production of ammonia at Mishor Rotem shall not be considered as export.”

g. In place of Section 2 shall come:

“2. a. The Government of Israel shall act to create redundancy in the supply systems of natural gas to the domestic market and, in accordance therewith, directs the Minister of National Infrastructure, Energy and Water Resources to examine the need for the various alternatives to create said redundancy, and included herein is the option of using and the compatibility of existing infrastructure, including prior to the expansion of Tamar, and the possibility of construction of an additional pipeline from the Mari B platform to the national natural gas transmission system in the Ashkelon region, including a treatment facility (**in this section – the Additional Pipeline**);

b. If it is decided to set up the Additional Pipeline, the Natural Gas Authority Director will inform the Tamar Lease holders of this in writing and they will act to fulfill all that is specified herein below:

1. They will take all necessary means, at their expense, to facilitate the connection of the Additional Pipeline to the Mari B platform, provided that they received written notice of this from the Natural Gas Authority Director at least a year in advance.
2. In order to ensure the efficient, continuous flow of natural gas to the national natural gas transmission system in the south, the Tamar Lease holders will transfer the quantity that the Director of the Natural Gas Authority determined to the Additional Pipeline, according to the directive of the Natural Gas Authority Director, provided that it does not exceed 600,000 MMBTU of natural gas per

day, with the quality of treatment currently available at the Tamar platform, instead of transmission to the Ashdod receiving facility.

3. It must be clarified that the transmission of natural gas and treatment thereof will be carried out by the Tamar Lease holders with no consideration and for no remuneration
  4. The Tamar Lease holders will provide treatment services and transmission to other suppliers, in accordance with the provisions determined in the authorization for operation of the Mari B platform.
  5. If the Natural Gas Authority Director instructed as specified in sub-Section (b)(2) and this instruction was given due to an inability to have the natural gas flow to the national transmission system at the level of treatment required for this by means of the systems used by the Tamar Lease holders, or in the event that the Tamar Lease holders requested that natural gas be transmitted via the Additional Pipeline, the Tamar Lease holders will pay the rate to be determined by the Natural Gas Authority Council.
2. The Tamar Lease rights holders will be permitted to make use of the Mari B platform for the entire period of the Tamar Lease for the purpose of export or for the supply of natural gas to the domestic market from the Tamar field, subject to the fulfillment of the provisions of all laws, including the Petroleum Law, obtaining all requisite authorizations, and complying with all conditions to be determined by the Petroleum Commissioner, in accordance with his authority and obtaining all the permits needed , including the fulfillment of all that is stated herein below:
- a. Upon the conclusion of the use of the platform, the Petroleum Commissioner will be permitted to order the Tamar Lease rights holders to dismantle the platform and its facilities, at their expense , including the gathering pipelines.
  - b. The text of the guarantees given to the Petroleum Commissioner for the Tamar Lease and authorization of operation of the Tamar platform will be amended so that the guarantees will all serve for the operation of the Ashkelon Lease and for the operation of the Mari B platform, including all uses thereof, and for the fulfillment by the Lease holders of the aforesaid in sub-Section (a), including the obligations of the Ashkelon Lease rights holders in this matter.
  - c. The consent of the Ashkelon Lease rights holders to the use of the Mari B platform and the arrangement of relations between the Ashkelon Lease rights holders and the Tamar Lease rights holders.

F. Taxation

1. The Government notes the announcement of the Taxation Authority that is appended as Appendix B to the Resolution.
2. To immediately circulate a memorandum for the amendment of the **Petroleum Profits Tax Law**, in which various amendments will be made, among other things, in order to close tax loopholes, make a number of clarifications, and assessment and implementation of collection procedures. *Inter alia*, in the context of said amendment of the Law, the definition of "special relations" included in the Law will be expanded. This expansion will also address the definition of control so that it shall also be applied to the direct or indirect holding of more than 20% of one of the means of control.

G. Karish and Tanin Leases

The Government notes the Petroleum Commissioner's announcement that he will award within seven days of the Determining Date Lease deeds for Karish and Tanin. Said Lease deeds which will be amended by the Petroleum Commissioner following the transfer of all specified rights in Karish and Tanin in accordance with the exemption under the Antitrust Law, and not later than 4 months after transfer of the rights and according to the circumstances of the matter, *inter alia*, after the Petroleum Commissioner has examined the needs that have been presented by a buyer of the rights to Karish and Tanin (hereinafter – "**Amendment of the Karish and Tanin Leases**"). The sales agreement will establish that the buyer of the Karish and Tanin rights is aware that the Lease areas will be amended in accordance with the above.

H. **Development of the Tamar South West Field:**

1. To instruct the inter-ministerial negotiating team to be headed by the Accountant General, to conclude the negotiations with the Tamar Lease rights holders with the aim to reach agreement on the subject of the development of the Tamar South West Field.
2. The Government notes the announcement of the Petroleum Commissioner that he will grant authorization of a development plan for the Tamar South West Field, as well as other authorizations, insofar as necessary, for the purpose of beginning natural gas production. The validity of all authorizations will be limited to the production of a quantity of natural gas, the sale of which will yield revenues in an amount that will not exceed 575 million dollars (the costs of gas production as to be audited / examined by the Accountant General in the Ministry of Finance). Revenues from the Tamar South West Field will be calculated in accordance with the quantity of natural gas that exits from the field, which will be multiplied by the average price of natural gas to be sold from the field during the year of the sale.
3. All said authorizations will be stipulated on the fact that the Lease holders will be required to present, for the scrutiny of the representatives of the

Department of the General Accountant in the Ministry of Finance, all information and data pertaining to financing development of the Tamar South West Field, including all data pertaining to expenses involved in development activities and incoming revenues from the sale of the natural gas to be produced from the field.

4. The Petroleum Commissioner will cancel the restriction, aforesaid in subsection (2), after agreement is reached between the Accountant General and the Tamar Lease rights holders.

I. Local content

- a. The Government notes the announcement of the Minister of Economy that the Leviathan and Tamar Lease rights holders (in this section – the Lease Rights Holders) undertake to invest in local content as detailed below.
- b. The main undertakings are as follows:
  - a. The Lease Rights Holders will invest in local content a cumulative sum of US \$500 million over a period of 8 years, starting from the Determining Date.
  - b. Expenditure in the following areas will be considered as local content:
    1. Purchase of goods or services (direct or indirect) from an entity registered in Israel (including foreign entities registered in Israel);
    2. Purchase of goods will be considered as any expenditure (direct or indirect) for the purchase of physical objects of any type;
    3. Purchase of services will be considered as any expenditure (direct or indirect) that is not the purchase of goods;
    4. Purchase from Israeli contractors, suppliers or manufacturers – global cumulative purchasing outside Israel by the Lease Rights Holders or by other companies that are part of the same group as the Lease Rights Holders and that operate in the gas and oil industry from Israeli contractors, suppliers and manufacturers, will be considered as expenditure on local content in Israel;
    5. Research and Development (R&D) and foreign investment –in the event that the Lease Rights

Holders decide to invest in R&D in Israel, either directly or by funding R&D in the field that will be implemented by Israeli academia or industry, in order to find technological solutions to the challenges of the oil and gas industry, these investments will be considered as an expenditure on local content;

6. Expenditure on professional training, donations or other instruction, and all activities in the field of corporate social responsibility (CSR) by the Lease Rights Holders will be considered as an expenditure on local content.
  7. Expenditure on personnel – expenditure on the employment of local workers will be considered as an expenditure on local content, up to a ceiling of 20% of the total undertaking for local content as stated above in this section;
  8. Expenditure on local content will be calculated against invoices received by the Lease holders or against any other proof in respect of expenditure or investment, in a manner to be decided by the Lease Rights Holders and the Foreign Investments Unit of the Ministry of the Economy, as of the date of final authorization of the Framework.
- c. A joint work team will be set up by the Foreign Investments Unit of the Ministry of the Economy, the Petroleum Commissioner and the Lease Rights Holders, to be headed by the Foreign Investments Unit of the Ministry of the Economy, in order to promote investment in local content as stated above. Within six months from the Determining Date, the Lease Rights Holders will present to the joint work team their assessments regarding realization of their overall undertaking with regard to local content, in accordance with the provisions of this section. The joint work team will monitor fulfillment of the said undertaking in order to ascertain that the Lease Rights Holders are complying with their undertakings. Once a year the Lease Rights Holders will present to the joint work team their assessments regarding investments in local content during the following year, and will also report on investments made during the previous year.

J. Stable regulatory environment

(1) The Government is aware that development of the offshore natural gas production sector has unique characteristics and requires enormous investments. These are exceptional investments in their scope as compared with other investments in the Israeli economy and these investments serve an important public interest.

(2) The Government recognizes that a stable regulatory environment encourages investments by international and local companies in the natural gas exploration and production sector, and thus serves an important public interest. To this end, the Government wishes to create the conditions that will help speed up investments in this sector, advance them and encourage additional investments in the sector, including through the entry of new investors.

(3) The Government's Resolution is also based on the duty of the current lease rights holders to develop the lease holdings with appropriate speed and diligence in accordance with their lease deeds and the Petroleum Law. In addition, it is based on the obligation of the rights holders to comply with all conditions of the Framework stipulated in this Government Resolution.

(4) In recent years the Government has taken a number of significant and material steps to organize the natural gas production sector, mainly through the Petroleum Profits Tax Law and Government Resolution 442, which mainly deals with ensuring the supply of natural gas to the domestic economy. To these should be added the structural arrangement in accordance with the exemption under the Antitrust Law.

(5) In view of these material changes, the Government resolves that:

- a. Following the material change in the maximum share of the public in the revenues of the to Lease rights holders ("the Government Take" rate) established by the Petroleum Profits Taxation Law and the arrangements that accompanied it, the Government sees no need for an additional change that would be viewed as material by a reasonable investor in the public share of the profit of the present Lease rights holders, as against the maximum rate currently established in this law and in the Petroleum Law. For this reason, the Government will not initiate any such changes in this area, and will also oppose any private bills aimed at promoting such changes in this area.

If a law is passed that began as a private bill and constitutes a material change as aforesaid, despite the Government's opposition, then the Government shall promote, immediately thereafter, a government bill to revoke the material change. In such a case, the fact of approval of a law that began as a private bill by the legislative authority, in opposition to the Government's position, shall not constitute an action that is contrary to this section.

It is hereby clarified that the Government's position does not apply to any system-wide changes in the tax regime which do not relate solely to the natural gas production sector.

- b. The Government considers it important to make changes in the fiscal regime, including legislative changes, aimed at realizing the principles on which the Petroleum Profits Taxation Law and the Petroleum Law are based, as well instituting changes aimed at protecting the appropriate Government Take as it is presently anchored in these laws.

Without derogating from this general principle, the Government deems it important to close any tax loopholes and to clarify existing laws, including via legislative amendments. Moreover, the Government considers important the furthering of collection processes and the implementation of current amendments in the area of taxation laws and royalties, even if such have implications for lease rights holders, including fiscal implications.

- c. The Government views the arrangements established in Government Resolution 442 and in the structural arrangements set out in the exemption under the Antitrust Law as sufficient arrangements, each in its own area of applicability. Accordingly, the Government sees no need to initiate any material changes in said issues. The Government will also oppose any private bills in these matters whenever such bills attempt to institute changes as above.

If a law is passed that began as a private bill and constitutes a material change as aforesaid despite the Government's opposition, then the Government shall promote, immediately thereafter, a government bill to revoke the material change. In such a case the approval of a law that began as a private bill by the legislative authority, in opposition to the Government's position, shall not constitute an action that is contrary to this section.

This statement applies to the limitations that such arrangements impose on the current lease rights holders.

It is hereby clarified that this position does not apply to any system-wide change in the normative regime that does not specifically apply to the natural gas production sector, nor to enforcement proceedings under existing laws.

- d. Any change in the regulation of the natural gas production sector that is liable to materially impact the feasibility of investing in development of the lease holdings by the Lease rights holders will be meticulously examined. When establishing regulatory rules, the regulator will strive, as far as possible, to match them to the standards

prevailing in OECD countries with oil and gas industries. It is hereby emphasized that this position shall not bar the development of regulatory practices in this sector, including both primary and secondary legislation, guidelines, enforcement proceedings and decisions of legally authorized bodies.

(6) (A) The provisions of Section 5 shall apply for a period of 10 years from the date of the Government Resolution, subject to compliance by the present Lease rights holders with the Framework's conditions. An examination of the government's policy following this period shall be carried out in accordance with the conditions at that point in time.

(B) In order to promote the expedited development of the Leviathan field, the following arrangements will apply:

- (1) By the end of 2017 the rights holders in the Leviathan Leases will be required to enter into agreements for the purchase of equipment and services to develop the Lease in the amount of at least \$1.5 billion, in addition to sums already invested up to the date of the Government Resolution. If said agreements are not entered into, the Government will consider and weigh the need for its policy with regard to stability, taking into account, among other things, the provisions of Section b(3).
- (2) After five years from the Determining Date, the Government shall be entitled to examine its policy regarding stability. If at this time gas has begun flowing from the Leviathan field to the domestic market, or if it is clear at this time that the rights holders to the Leviathan Leases have, since the date of receiving the licenses that preceded the Leviathan Leases, invested in practice an amount of at least \$4 billion in developing the Leases, and they are in the advanced stages of developing the Leviathan Leases, then the policy will not be changed until 10 years have passed from the date of the Government Resolution.
- (3) There is nothing in that stated in sub-sections (1) and (2) to derogate from the authorities of the Minister and the Petroleum Commissioner under the Petroleum Law and the Lease deeds.
- (4) When exercising authority under sub-sections (1) and (2), an effort will be made not to harm natural gas exploration activities and the development of other natural gas fields apart from Tamar and Leviathan.

(C) To the extent that other timetables are established in the context of the general Framework, wherein the Government shall refrain from making

changes in accordance with certain authorities – the specific timetables established in the Framework shall apply in this regard.

(D) All arrangements specified in this part of the Resolution do not relate to any form of regulation whose implementation began prior to the date of the Government Resolution, or that were presented to the Lease rights holders prior to the date of the Government Resolution. These arrangements also do not apply to the regulation specified in the present Government Resolution.

(7) A. From this point on, any change in the conditions of the leases will only be made under exceptional circumstances and under the conditions established for changing the Lease conditions of the Leviathan Lease holding (Section 32 of the "Leviathan South" lease deed and the Leviathan North lease deed).

B. Transfer of the rights of Lease rights holders and mortgaging them to others will be performed in accordance with the Petroleum Law and its regulations. Parties authorized to approve such transfer of rights will authorize such transfers so long as they conform to the provisions of the law.

C. The Government is aware that effective development of petroleum rights requires obtaining regulatory permits within reasonable periods of time. This is in order to facilitate advancing performance of the investment. Accordingly, the Government instructs the regulators to discuss the issues that require them to exert their authority with regard to development of the reservoirs within reasonable time periods.

(9) In this section, "Leases" – Tamar and Leviathan."

K. Monitoring implementation of the Framework, removal of obstacles and encouragement of small reservoirs

1. In order to guarantee implementation of the proposed Framework and support the rapid development of the natural gas sector in general, to establish a professional team that will include the following entities and representatives on their behalf: the director-general of the Ministry of National Infrastructures, Energy and Water Resources, the Petroleum Commissioner, the head of the Natural Gas Authority, the Supervisor of Budgets in the Ministry of Finance, the chair of the National Economic Council, the director-general of the Ministry of Environmental Protection, the director-general of the Ministry of Economy, and a representative of the Attorney General.
2. The Minister will appoint the head of the professional team from among its members.
3. Roles of the team:

- a. To accompany implementation of the Framework, including ensuring compliance with the conditions set out therein.
  - b. To maintain contact with the lease rights holders of Leviathan, Tamar, Karish, and Tanin, in order to provide assistance by means of inter-ministerial coordination and removal of obstacles to guarantee the conditions for development of said fields.
  - c. To assist the Minister in developing and implementing government policy in the natural gas sector in Israel.
4. The establishment of the professional team and its work shall not derogate from the powers of other entities so authorized under the law.
5. The team will meet at least once every two months in the coming two years, and thereafter at least once a quarter.
6. The head of the team will report to the Minister and to the government once a quarter on the state of progress in implementation of the Framework.
7. The Minister and the Finance Minister will look into granting incentives, including economic incentives that will help promote exploration and the development of small oil and natural gas fields, and this within 100 days from the date of this resolution.

## Appendix A

### Appendix A: Exemption in accordance with

#### Section 52 of the Antitrust Law

##### Chapter 1 – Definitions

<b>“Person”</b>	Including a corporation;
<b>“Associated Person”</b>	Each of the following: <ul style="list-style-type: none"><li>(a) A Person with controlling interests in a corporation;</li><li>(b) A Person regarding which the corporation holds controlling interests therein;</li><li>(c) A person who has controlling interests in a corporation in accordance with an agreement;</li><li>(d) A corporation in which any of these have controlling interest therein;</li></ul> Each of these severally or jointly with others, directly or indirectly, through himself or through his relative;
<b>“Means of Control”</b>	Each of the following: <ul style="list-style-type: none"><li>(a) 5% or more of the corporation’s shares of stock;</li><li>(b) 5% or more of the voting rights at the corporation’s general meeting;</li><li>(c) 5% or more of the right to profits in the corporation;</li><li>(d) The right to appoint directors in the corporation;</li></ul>
<b>“Directly or Indirectly”</b>	To include one or more of the following: <ul style="list-style-type: none"><li>(a) By means of an agent or trustee;</li><li>(b) Together with another in cooperation by means of an agreement;</li><li>(c) By means of rights granted in accordance with an agreement;</li><li>(d) By means of ownership or purchase by a relative, trust company or registry company;</li><li>(e) Through subsidiaries or sister companies;</li></ul>
<b>“Delek”</b>	Delek Drillings Limited Partnership and Avner Oil and Gas Explorations Limited Partnership;

<b>“Government Resolution”</b>	Government Resolution No. _____ of _____.
<b>“The Announcements”</b>	Announcements concerning monopoly owners in accordance with Article 26(a) of the Antitrust Law, 5748-1988: Delek Drillings Limited Partnership together with Avner Oil and Gas Explorations Limited Partnership, Noble Energy Mediterranean, Ltd., Isramco Negev 2 Limited Partnership and Dor Gas Explorations Limited Partnership –owners of a monopoly in the supply of natural gas to Israel as of the second half of 2013 (November 13, 2012), Antitrust 500249;
<b>“Ratio-Yam Permit”</b>	The permit for Ratio Yam/193, which was granted by the Petroleum Commissioner to Ratio Oil Explorations Limited Partnership on February 19, 2007;
<b>“Delek’s Rights in Karish and Tanin,” “Noble’s Rights in Karish and Tanin”</b>	All rights held by Delek and Noble (respectively) in Karish and Tanin;
<b>“Delek’s Rights in Tamar,” “Noble’s Rights in Tamar”</b>	All rights held by Delek and Noble (respectively) in Tamar;
<b>“Subsidiary Company”</b>	As defined in the Antitrust Law;
<b>“Binding Sales Contract”</b>	A binding contract for the immediate sale of rights to gas assets that complies with all the legal and regulatory requirements, including this Resolution, except for contingent conditions relating mostly to the regulatory approval itself;
<b>“Antitrust Law”</b>	The Antitrust Law, 5748-1988;
<b>“Petroleum Law”</b>	The Petroleum Law, 5712-1952;
<b>“Force Majeure in Karish and Tanin”</b>	A legal hindrance to the transfer of rights in Karish and Tanin arising from the submission of a petition to the Supreme Court in its capacity as a High Court of Justice;
<b>Force Majeure in Tamar</b>	War, military action, terrorist action, major accident or natural disaster as a result of which there is significant failure or significant malfunction in any of the facilities or systems necessary to realize the gas production. As a result thereof the gas supply has been halted or substantially reduced for a significant period of time, and Delek and Noble are prevented from the option of selling the relevant

petroleum asset during routine business, and which a reasonable and rational person in their position would not be able to prevent or overcome.

<b>“Annual Quantity”</b>	The annual quantity of natural gas stipulated in the sales agreement to the consumer;
<b>“Karish and Tanin”</b>	Petroleum licenses that cover the natural gas reserves known by the name of “Karish” located in license “366/Alon C” and the petroleum license that covers the natural gas reserves known by the name of “Tanin” located in the petroleum license “364/Alon A”;
<b>“Leviathan”</b>	A natural gas reserves located in the Leviathan South I/14 and Leviathan North I/15 Leases, presently held by Delek, Noble and Ratio;
<b>“Date of Sale”</b>	Date of submission of a binding sales contract for the approval of the Petroleum Commissioner, including all documents and information required in accordance with his discretion.
<b>Date of the opening of the Options</b>	Four years from the date on which the Petroleum Commissioner approved the transfer of right in Karish and Tanin in accordance with that which is stated in Section 1 below;
<b>“Determining Date for Tamar”</b>	72 months from the date on which the authority is imposed, in accordance with Article 52 of the Antitrust Law;
<b>“Determining Date for Karish and Tanin”</b>	14 months following the fulfillment of the latest of the following two events: (1) Exercising the authority in accordance with Article 52 of the Antitrust Law; and (2) Publication of a draft of the new arrangement by the Petroleum Commissioner in respect of the suitability/aptness conditions for a natural gas reserve operator;
<b>“Petroleum Commissioner”</b>	The Commissioner for Petroleum Affairs in the Ministry of Energy;
<b>“Antitrust Commissioner”</b>	The Commissioner for Restrictive Trade Practices;
<b>“INGL System”</b>	Israel natural gas transmission system operated by Israel Natural Gas Lines Ltd.;
<b>“Ministry of Energy”</b>	The Ministry of National Infrastructures, Energy and Water Resources;

<b>“The Trustee”</b>	A person appointed in accordance with this arrangement to serve as trustee for the transferred rights (as defined below) or any part thereof;
<b>“Noble”</b>	Noble Energy Mediterranean Ltd.;
<b>“The Parties”</b>	Delek, Noble and Ratio, jointly and severally, and any person associated therewith;
<b>“Relative”</b>	A family member as defined in The Securities Law, 5728-1968;
<b>“Ratio”</b>	Ratio Oil Explorations (1992) Limited Partnership;
<b>Minister of Energy</b>	Minister of National Infrastructures, Energy and Water Resources
<b>“Tamar”</b>	The natural gas reserve located in the area of the Tamar I/12 and Dalit I/13 Leases and the rights held by the entities that own Tamar, the gas transmission infrastructure and all of its components and parts, including the rights the holders in Tamar hold for the use of the onshore gas receiving and processing terminal, from the Tamar reserve to the national transmission system;
<b>“Take or Pay Clause”</b>	An undertaking by a natural gas consumer to pay for a minimum Annual Quantity of natural gas, even if there is no actual consumption.

Chapter 2 – The restrictive trade practices in respect of which the imposition of authority is being considered in accordance with Article 52 of the Antitrust Law (hereinafter, “the Exemption”)

	<b>The restrictive trade practice to which the Exemption pertains</b>	<b>Provisions of the Antitrust Law regarding which the Exemption applies</b>
1.	The cartel ostensibly created, in the view of the Antitrust Commissioner, as a result of the purchase of the rights in the Ratio-Yam Permit by Delek and by Noble, and the ostensible cartel created as a result of the Parties joining together as joint owners of	All the provisions of the Law.  This exemption shall apply retroactively.

	<b>The restrictive trade practice to which the Exemption pertains</b>	<b>Provisions of the Antitrust Law regarding which the Exemption applies</b>
	the Ratio-Yam and Leviathan permit.	
2.	The cartel ostensibly created in the event the Parties or some of them jointly market the gas produced from Leviathan to the domestic market.	<p>The provisions of Chapter B, Article 43(a)(1), Article 47(a)(1), Article 50a regarding the provisions of Chapter B, and Article 50D(a)(1) of the Law all until 1.1.2025.</p> <p>However, should the Minister of Energy find that there are at least three natural gas reservoirs connected to the national transmission system, and in each one of them there is on this date a supply requirement of at least 30 BCM to the domestic market, and that there is no party holding more than 25% of any right in more than one reservoir, (for this purpose Karish and Tanin will be considered as one reservoir), then the exemption will be extended until 1.1.2030.</p> <p>After this date, the Antitrust Commissioner can re-examine the issue of joint marketing to the domestic market with reference to contracts signed after 1.1. 2025 or 1.1.2030 (according to the results of the examination by the Minister of Energy as stated), and to take any steps in the matter, should he find it necessary to do so, in accordance with his legal authority, so long as the Minister of National Infrastructures, Energy and Water Resources has made regulatory arrangements for the separate marketing of natural gas.</p>
3.	The cartel ostensibly created in the event the Parties or some of them jointly market the gas produced from Leviathan for export only.	All provisions of the Law.

	<b>The restrictive trade practice to which the Exemption pertains</b>	<b>Provisions of the Antitrust Law regarding which the Exemption applies</b>
4.	A cartel that may be created from a particular purchase agreement for natural gas from Leviathan.	The provisions of Chapter B, Article 43(a)(1), Article 47(a)(1), Article 50a regarding the provisions of Chapter B, and Article 50D(a)(1) of the Law, provided that the agreement was signed prior to January 1, 2025.
5.	The fact that Delek and Noble constitute a monopoly by virtue of the Announcements.	Articles 30, 30a and 31 of the Law, and all as related to the activities of Delek and Noble in Leviathan and in Tamar only, and all until 1.1. 2025. However, should the Minister of Energy find that there are at least three natural gas reservoirs connected to the national transmission system, and in each one of them there is on this date a supply requirement of at least 30 BCM to the domestic market, and that there is no party holding more than 25% of any right in more than one reservoir, (for this purpose Karish and Tanin will be considered as one field), then the exemption will be extended until 1.1. 2030.

Chapter 3 – The conditions under Sections 2-5 of the Exemption:

The exemption under Sections 2-5 are conditioned on the full and complete fulfillment of the conditions set forth below:

Karish and Tanin

1. Until the Determining Date for Karish and Tanin, Delek and Noble will transfer Delek’s rights in Karish and Tanin and Noble’s rights in Karish and Tanin (hereinafter, “**the Transferred Rights in Karish and Tanin**” respectively) to a third party who shall be approved by the Petroleum Commissioner in accordance with Article 76 of the Petroleum Law and its provisions, and who is not a person affiliated with the parties or any of them and who does not hold any of the controlling interests in Tamar or in Leviathan, or a person associated therewith. Said transfer shall be final and irrevocable. Once the request for the transfer of rights has been submitted to the Petroleum Commissioner as stated in this section, the latter will notify the Antitrust Commissioner of this fact so that he may assess the compliance of such transfer with the provisions of the present Resolution. The

existence of a sales date by the Karish and Tanin Determining Date will be considered as fulfillment of the provisions under this paragraph.

2. Notwithstanding the above mentioned, in the event that Delek's and Noble's Karish and Tanin licenses should expire and Delek and Noble were not issued Lease deeds for Karish and Tanin in place of the licenses, then the Determining Date for Karish and Tanin shall be extended for the duration between the expiry of said licenses and the issue of said Lease deeds.

Moreover, in the event of a Force Majeure event in Karish and Tanin, the Determining Date for Karish and Tanin shall be extended for the duration of the Force Majeure event at Karish and Tanin.

3. Delek and Noble are entitled to approach the Petroleum Commissioner and ask to receive a preliminary opinion regarding the suitability of the potential buyers of Karish and Tanin (in this section hereinbelow: "Potential Buyer"). The Petroleum Commissioner shall reply to them within 14 working days from receiving all the information he might need at his discretion in order to give said opinion. It is hereby clarified that approval of the transfer of the rights shall be given solely in accordance with the provisions of any law.
4. Should the preliminary position of the Petroleum Commissioner according to Section 3 prove to be negative, all negotiations with such potential buyer shall be terminated.
5. The following provisions shall apply in the event that the preliminary position of the Petroleum Commissioner according to Section 3 was positive, but the Petroleum Commissioner did not ultimately approve the transfer of the transferable Karish and Tanin rights to the potential buyer in regard to whom the preliminary position was positive: The Determining Date for Karish and Tanin will be extended by a period commencing from the date on which the request for rights transfer to a potential buyer was submitted to the Petroleum Commissioner, including all documents and information required by the Petroleum Commissioner at the Commissioner's discretion, and ending on the date of the Petroleum Commissioner's decision, minus two months.
6. Delek and Noble will cooperate fully and completely and at their expense with the process of transferring the rights in Karish and Tanin.
7. The buyers of the rights transferred to Karish and Tanin will undertake that they are subject to all of the rights and obligations in accordance with any law that were applicable to Delek or Noble, as relevant, in respect of their rights in Karish and Tanin until the date of transfer of Karish and Tanin , and all subject to the provisions set forth below.
8. According to the Government Resolution, the export quota of 47 BCM allowed for Karish and Tanin according to Sections 1(h)(3) and 1(h)(4) of Resolution 442, will be replaced, commencing from the date on which the transfer of all transferable rights in Karish and Tanin is approved by the Petroleum

Commissioner, in exchange for an "obligation to supply the domestic market" of the Leviathan Lease holders, so that, immediately afterwards, the Leviathan Lease holders will be able to use the export quota in accordance with their relative share in the volumes allowed for export present in the reservoirs at such time.

9. The consideration/remuneration:
  - A. Except for the rights to royalties as detailed in paragraph (b) below, the consideration/remuneration for Delek's and Noble's full rights to Karish and Tanin may be paid in periodic payments, provided that (1) the milestones for these payments shall not be connected to prices or amounts of gas sold from Karish or Tanin; (2) the lower amount between \$40 million or the total of the entire consideration paid for Karish and Tanin will be paid on the date the rights are transferred to the buyer.
  - B. The consideration for transferring Delek's rights in Karish and Tanin and Noble's Rights in Karish and Tanin will not include payment of royalties to Delek and Noble by the buyers. Notwithstanding the above mentioned, if the contract for selling the rights is signed within the time frame set forth below, Delek and Noble will be able to receive some of the consideration/remuneration by way of royalties with the approval of the Petroleum Commissioner, according to Section 76 of the Petroleum Law and its provisions, up to a maximum scope noted beside the date:

Number of months that have passed between the date on which the authority is imposed, in accordance with Article 52 of the Antitrust Law and the sale date of Delek's Rights to Karish and Tanin and of Noble's rights to Karish and Tanin	Up to 8 months	8-14 months
Maximum percentage of royalties permitted	9%	7%

- C. Notwithstanding that which is stated above, Delek and Noble may retain the right to royalties from the sale of oil (except for condensate that is produced from "Tamar Sands" together with the natural gas), from Karish and Tanin, if found, and this in accordance with Section 76 of the Petroleum Law and its provisions.
10. In the event that all of the rights in Karish and Tanin have not been sold by the Determining Date in Karish and Tanin, the right to sell the unsold rights (hereinafter: "**the unsold rights in Karish and Tanin**") will be transferred to the

Trustee, who will act as specified below and in accordance with the instructions he will receive from the Antitrust Commissioner.

### Tamar

11. By the Determining Date for Tamar, Delek will transfer all of Delek's rights in Tamar to a third party that will be approved by the Petroleum Commissioner, in accordance with Section 76 of the Petroleum Law and its provisions, and that is not connected with any of the parties, holds no means of control over Leviathan, Karish or Tanin, and is not a person connected with them. Upon submitting a request to transfer rights to the Petroleum Commissioner as stated in this section, the latter will send a notice to the Antitrust Commissioner, who will examine the request's compliance with the instructions of this Resolution. Should the sale date take place by the Tamar Determining Date, it will be considered as compliance with the provisions of this section.
12. By the Determining Date for Tamar:
  - a. Noble will send to the Petroleum Commissioner a binding sale contract, such that after the contract has been realized, Noble's rights in Tamar will, at any given time, be no higher than 25% of any Tamar right. The aforementioned rights will be transferred to a third party that will be approved by the Petroleum Commissioner in accordance with Section 76 of the Petroleum Law and its provisions and that is not connected with any of the parties, that holds no means of control over Leviathan, Karish or Tanin, and is not a person connected with them. Upon sending the request to the Petroleum Commissioner for the transfer of rights as aforesaid in this paragraph, the latter will send notification of this to the Antitrust Commissioner, who will examine whether the request complies with the provisions of this decision. Fulfillment of the date of sale by the Determining Date for Tamar shall be considered as compliance with the provisions of this paragraph.
  - b. As of the Determining Date for Tamar or the date of the sale of Noble's holdings in Tamar, as stated above, whichever is the earlier, Noble will hold no veto right of any kind regarding Tamar, including with regard to any contractual agreement for the sale of gas from Tamar or any component of such a contractual agreement, or for the development, expansion or upgrading of Tamar, subject to Noble's obligations as a prudent operator.
13. Delek and Noble are authorized to apply to the Petroleum Commissioner with a request for a preliminary position on the issue of the potential buyers' suitability for Tamar (hereinafter in this section: "Potential Buyer"). The Petroleum Commissioner will respond to them within 14 working days of the receipt of all information needed at his discretion for the provision of said position. It is clarified that authorization to transfer the rights will be given solely in accordance with the provisions of any law.

14. Should the preliminary position of the Petroleum Commissioner according to Section 13 above prove to be negative, all negotiations with such potential buyer shall be terminated.
15. The following provisions shall apply in the event that the preliminary position of the Petroleum Commissioner according to Section 13 above was positive, but the Petroleum Commissioner did not ultimately approve the transfer of the transferable Tamar rights to the potential buyer in regard to whom the preliminary position was positive: The Determining Date for Tamar will be extended by a period commencing from the date on which the request for rights transfer to a potential buyer was submitted to the Petroleum Commissioner, including all documents and information required by the Petroleum Commissioner at the Commissioner's discretion, and ending on the date of the Petroleum Commissioner's decision, minus two months.
16. Delek and Noble will fully and completely cooperate with the transfer of the transferable Tamar rights, at their own expense.
17. The rights to be transferred by Delek in accordance with Section 11 and by Noble in accordance with Section 12 shall be referred to hereinafter as: **“the rights transferred in Tamar.”**
18. The buyers of the rights in Tamar according to Sections 11 and 12(a) will undertake that they are bound by all of the obligations and rights specified by law that applied to Delek or Noble, as relevant due to their rights in Tamar until the date of transfer, as set forth below.
19. Delek and Noble will endorse their rights to use the Yam Tethys infrastructure according to the use agreement of the Tamar lease holders to the benefit of the buyers, under the same conditions that they enjoy.
20. The consideration/remuneration for all of Delek and Noble's rights in Tamar will not be paid in royalties. The consideration may be paid via periodic payments, so long as the payment milestones are not connected to prices or amount of gas sold from Tamar. Notwithstanding the above, Delek and Noble are entitled to retain their right to receive royalties from the sale of oil (except for the condensate derived from the "Tamar Sands" layer along with the natural gas) from Tamar, whenever such oil is found, subject to the provisions of Section 76 of the Petroleum Law and its provisions.
21. The various dates relating to Tamar in this document do not account for any Force Majeure event periods occurring at Tamar. To the extent that such events take place, the clock on the various relevant Tamar dates in this documents shall be stopped, so long as Delek and Noble both diligently and speedily take steps to correct damages caused by such Force Majeure events.

Leviathan contracts and new Tamar contracts

22. Sale agreements for natural gas from the Leviathan reservoir and sale agreements for natural gas from the Tamar reservoir to be signed by the parties from the date of the Government Resolution shall abide by the following instructions:
- a. The consumer shall not be subject to any limit on the purchase of natural gas from any other natural gas supplier.
  - b. The consumer will be able to sell natural gas for use by other distribution and/or transmission consumers (hereinafter: “**secondary sale**”), up to 15% of the annual quantity in any year and subject to the following provisions:
    - (1) If the gap between the quantity specified in the Take or Pay stipulation and the quantity needed by the consumer for his own use is 15% less than the product of the annual quantity of gas, then the parties may allow the consumer to deviate the quantity specified in the Take or Pay stipulation, so that he will be able to make a secondary sale of gas of at least 15% of the annual quantity for that year.
    - (2) Should the consumer not fully utilize the quantity specified in the Take or Pay stipulation, the parties will allow him to sell natural gas via secondary sale up to the quantity specified in the Take or Pay stipulation, even if the quantity of gas that he is permitted to sell via secondary sale exceeds 15% of the annual quantity for that year.
    - (3) The parties shall impose no limit on the sale price at which the consumer may sell natural gas via secondary sale.
  - c. With respect to the Tamar natural gas sale agreements to be signed by the parties from the date of the Government Resolution until the Date of the Opening of the Options–
    - (1) The parties will grant the consumer the option of buying gas via a contract for a period of his choosing up to a 8 years or for a longer period to be agreed between the parties and the customer
    - (2) Should the consumer choose a contract that exceeds 8 years, the parties will grant the consumer a unilateral and unconditional right to reduce the agreement period to a date falling between the Date of the Start of the Options up to the end of 3 years from that date. Notice of the reduction of the agreement period shall become valid twelve months after said notice is given.
  - d. With respect to the Leviathan natural gas sale agreements to be signed by the parties from the date of the Government Resolution until the Date of the Opening of the Options, the parties will provide the consumer with an option to purchase gas on a contractual basis for any period he chooses up to 8 years or a longer period as agreed between the parties and the customer.
  - e. With respect to the Leviathan natural gas sale agreements, and without derogating from the provisions of Section (d), so long as a period of six months from the date on which the Petroleum Commissioner has approved the transfer of transferrable

rights in Karish and Tanin in accordance with the provisions of Section 1 above has not elapsed:

- (1) The parties will not engage in negotiations, undertake to supply gas, or sign any agreement, memorandum of understanding or any other document for the supply of gas from Leviathan with a customer who purchased gas from Tamar and has already exercised the option for reduced quantities in regard to the quantities that were reduced.
- (2) With regard to any agreement that is signed for a period of between 4 and 8 years for supply that exceeds 0.5 BCM per year, the parties will grant the consumer a unilateral and unconditional right to reduce the agreement period during the period that will begin on the later of the following dates and ends after one year from said date: (1) December 31, 2022 or (2) if the start date for supply from Leviathan is postponed in accordance with the Lease deed, 3 years after from the start of commercial supply of natural gas from Leviathan, (3) Date of the Start of the Option.

Notice of the reduction of the agreement period shall become valid twelve months after said notice is given.

All of the above will apply solely if signed and valid export agreements from Leviathan are in effect, at a cumulative scope of at least 120 BCM.

- (3) With regard to agreements exceeding 8 years, the parties will grant the consumer a unilateral and unconditional right to give notice regarding a reduction in the gas quantity stipulated in the Take or Pay condition, down to a volume equal to half the actual average annual consumption volume of said consumer over the three years preceding said notice (hereinafter: "**Reduction in the Purchase Volume**").

It will be possible to submit a notice regarding a Reduction in Purchase Volume at any time during the period commencing from the latter among the following dates and ending three years from said date: (1) Date of the Opening of the Options (2) beginning of the sixth year on which the consumer is supplied with natural gas from Leviathan.

Notice of the reduction of the agreement period shall become valid twelve months after said notice is given and up to the end of the agreement period.

Once the minimum quantity for which the consumer is to be charged is determined in accordance with the Effective Volume, both the annual gas quantity and the total gas quantity in the agreement will be updated.

- f. The gas sale agreements shall include no condition whereby the consumer's notice of reduction of the agreement period or Reduction in the Purchase Volume brings about a change in the agreement terms that in any way negatively impacts on the consumer's status, including a change that is unfavorable to the consumer in the

price or payment terms, supply terms and dates, supply quantities, addition of restrictions on gas sale via secondary sale, and the like.

- g. In the event that the Determining Date for Karish and Tanin is extended pursuant to a Force Majeure event in Karish and Tanin in accordance with Section 2, and at the Determining Date for Karish and Tanin as of the date of this Resolution, that which is stated in Section 1 did not take place, the dates stipulated in this section will be extended for the period determined for extending the Determining Date in Karish and Tanin.

### **Additional provisions pertaining to Karish and Tanin**

- 23. If all of the rights designated for transfer in Karish and Tanin have not been transferred by the Determining Date for Karish and Tanin, the right to transfer the unsold transferrable rights (hereinafter: “**the unsold transfer rights in Karish and Tanin**”) shall be transferred to the trustee, who will act in accordance with the provisions below and with the guidelines to be received from the Antitrust Commissioner.
- 24. Within 14 days following the date on which the authority is imposed in accordance with Article 52 of the Antitrust Law, Delek and Noble will submit to the Antitrust Commissioner a written notice in which they will propose three candidates who meet the following eligibility requirements in order to serve as a Trustee of Karish and Tanin:
  - (1) A person, who not a corporation, who has expertise in conducting large-scale international transactions;
  - (2) Does not have any conflicts of interest in the fulfillment of his duties. Without derogating from the generality of the above, the Trustee or the corporation in which he is a partner or employee, does not provide any service to Noble or Delek, nor has received any benefit from them for at least two years before his appointment and throughout the Trusteeship period.
- 25. The Antitrust Commissioner will select one of the three candidates and will notify Delek and Noble of the identity of the selected Trustee within 7 days from receiving their written notice regarding their proposed Trustees. Within 7 days from receiving the notice of the Antitrust Commissioner regarding the identity of the Trustee, Delek and Noble will provide the Antitrust Commissioner with a Trustee Appointment Document, and in addition, with an irrevocable power of attorney appended to this decision as an appendix and signed by them. In addition, the Trustee will provide a legally drawn and signed affidavit in which he declares that he meets the requirements of Section 24 above, and also undertakes not to provide Delek and Noble with any service nor receive any benefit from them for the entire Trustee period and for a period of 5 years from the time that said period ends.

26. For the purpose of transferring the rights transferred in Karish and Tanin, the Trustee will seek the assistance of an investment bank or company specializing in this matter, whose fee will be paid by Delek or Noble, as relevant.
27. The Trustee will transfer the unsold rights transferred in Karish and Tanin to a third party approved by the Petroleum Commissioner under Section 76 of the Petroleum Law and its provisions, who is not a person affiliated with any of the parties, nor holds the means of controlling Tamar or Leviathan and is not affiliated with them.
28. The Trustee will act with appropriate diligence and devotion to find buyers and to receive a maximum number of proposals to purchase the rights transferred in Karish and Tanin. The Trustee will sell the unsold rights transferred in Karish and Tanin , with consideration for the market value and the highest price, even if such bid does not represent their real value, and in any event not later than 4 months from the date of transfer of the rights to Karish and Tanin.
29. The Trustee will be entitled to perform any action and take any step on behalf of Delek and Noble in their stead, as he sees fit, for the purpose of selling the unsold rights transferred in Karish and Tanin, including signing in their names on each deed transferring their rights in Tamar, and contacting any competent authority in order to receive its approval to transfer the unsold rights transferred in Karish and Tanin.
30. The Trustee's fee, including the fees of all those acting on his behalf, will be established in advance at such time that the Trustee is appointed and will in no event be conditioned on the consideration received for the sale of the rights transferred in Karish and Tanin, which were not sold (hereinafter: "the Trustee's Fee"). The Trustee's Fee will be paid by Delek and Noble. Throughout the Trusteeship period, the Trustee shall not receive any direct or indirect consideration for the Trusteeship or for the sale of the asset from any person whatsoever, including any promise of a future fee or consideration, except for the Trustee's Fee.
31. Except for the Trustee's Fee, Delek and Noble will refrain from receiving any service from the Trustee or providing him with any benefit whatsoever for a period of 5 years from the date on which he was appointed to the position of Trustee.
32. In any case where the Trustee is prevented from fulfilling his role under these conditions, the Trustee shall immediately stop serving in his role, and the Trustee or Delek and Noble (as relevant) will inform the Commissioner of this fact within seven days from the date on which they were informed of this matter, and the Commissioner will nominate a new Trustee to replace him.
33. In addition to the above, the following conditions shall apply to the work of the Trustee in any other place in this agreement and its appendix:

- a. Delek and Noble or whoever is acting on their behalf will not influence in any way the sale of the rights transferred in Karish and Tanin that were not sold by the Trustee, including as regards the identity of the buyer or the price, and will not interfere in any way in the sale of the asset, except when explicitly required to do so by the Trustee. That which is stated does not prevent Delek and Noble from referring potential buyers to the Trustee, who will act according to his discretion.
- b. Delek and Noble or whoever is acting on their behalf will not give the Trustee any order or instruction and will not receive from the Trustee any information relating to the transferred rights that were not sold. Notwithstanding that which has been stated, Delek and Noble will be able to apply to the Trustee through the Antitrust Commissioner in order to receive information regarding the rights transferred in Karish and Tanin that are unsold, and the Antitrust Commissioner will act in this matter in accordance with his discretion.
- c. Delek and Noble waive in advance any claim against the Trustee and the State of Israel and the parties operating on its behalf, as regards the manner in which the unsold rights transferred in Karish and Tanin are to be managed, including compensation to be received, except for claims of fraud or malice;
- d. Delek and Noble will fully and wholly cooperate with the Trustee in order to sell the rights transferred in Karish and Tanin that have not been sold, and for the purpose of transferring the rights under the Petroleum Law, to the extent that the Trustee shall require this. Delek and Noble will not take any action intended to or resulting in the delay or elimination of such transfer as above;
- e. Following the sale of the unsold rights transferred in Karish and Tanin, the consideration received from their sale will be transferred by the Trustee to Delek and Noble within fifteen business days from the date at which such consideration was actually received by the Trustee;
- f. The Trustee will act to sell all of the rights in Karish and Tanin as detailed above and in any event said rights will not be returned to the State before their transfer to a buyer in the framework of this arrangement.

#### **Additional provisions pertaining to Tamar**

34. In the event that all of the rights in Tamar were not transferred by the Determining Date for Tamar, the right to transfer the transferred unsold rights ("**the Unsold Transferred Tamar Rights**") will be transferred to the Trustee, who will act in accordance with the following provisions and the instruction that he will receive from the Antitrust Commissioner.
35. Within 24 months following the date on which the authority is imposed in accordance with Article 52 of the Antitrust Law, Delek and Noble will submit to

the Antitrust Commissioner a written notice in which they will propose three candidates who meet the following eligibility requirements in order to serve as a Trustee of Tamar:

- (1) A person, who is not a corporation, who is skilled in conducting large volume international transactions;
  - (2) Does not have any conflicts of interest in the fulfillment of his duties. Without derogating from the generality of the above, the Trustee or the corporation in which he is a partner or employee, does not provide any service to Noble or Delek, nor has received any benefit from them for at least two years before his appointment and throughout the Trusteeship period.
36. The Antitrust Commissioner will select one of the three candidates and will notify Delek and Noble of the identity of the selected Trustee within 30 days from receiving their written notice regarding their proposed Trustees. Within 30 days from receiving the notice of the Antitrust Commissioner regarding the identity of the Trustee, Delek and Noble will provide the Antitrust Commissioner with a Trustee Appointment Document, and in addition, with an irrevocable power of attorney in a format that is appended to the Resolution as an appendix and signed by them. In addition, the Trustee will provide a legally drawn and signed affidavit in which he declares that he meets the requirements of Section 35 above, and also undertakes not to provide Delek and Noble with any service nor receive any benefit from them for a period of 5 years from the time that he was appointed to the position of Trustee.
37. For the purpose of transferring the rights transferred in Tamar, the Trustee will seek the assistance of an investment bank or company specializing in this matter, whose fee will be paid by Delek or Noble, as relevant.
38. The Trustee will transfer the unsold rights transferred in Tamar to a third party approved by the Petroleum Commissioner under Section 76 of the Petroleum Law and its provisions, who is not a person affiliated with any of the parties, nor holds the means of controlling Tamar or Leviathan or person affiliated with them.
39. The Trustee will act with appropriate diligence and devotion to find buyers and to receive a maximum number of proposals to purchase the rights transferred in Tamar. The Trustee will sell the unsold rights transferred in Tamar with consideration for the market value and the highest price, even if such bid does not represent their real value, and in any event not later than 12 months from the date of transfer of the rights to Tamar.
40. The Trustee may take any action and carry out any measure in the name of Delek and Noble and on their behalf, as he shall see fit, for the purpose of selling the Unsold Transferred Tamar Rights, including signing on their behalf any deed in order to transfer the Tamar Rights and appealing to any competent authority to obtain its approval to transfer the Unsold Transferred Tamar Rights.

41. The Trustee's fee, including the fees of all those acting on his behalf, will be established in advance at such time that the Trustee is appointed and will in no event be conditioned on the consideration received for the sale of the rights transferred in Tamar, which were not sold by the Trustee (hereinafter: "**the Trustee's Fee**"). The Trustee's Fee will be paid by Delek and Noble. Throughout the Trusteeship period, the Trustee shall not receive any direct or indirect consideration for the Trusteeship or for the sale of the asset from any person whatsoever, including any promise of a future fee or consideration, except for the Trustee's Fee.
42. Apart from the Trustee's Fee, Delek and Noble will refrain from receiving any service from the Trustee or providing him with any benefit whatsoever for a period of 5 years from the date on which he was appointed to the position of Trustee.
43. In any case where the Trustee is prevented from fulfilling his role under these conditions, the Trustee shall immediately stop serving in his role, and the Trustee or Delek and Noble (as relevant) will inform the Commissioner of this fact within seven days from the date on which they were informed of this matter, and the Commissioner will appoint a new Trustee to replace him.
44. In addition to the above, the following conditions shall apply to the work of the Trustee in any other place in this agreement and its appendix:
  - A. Delek and Noble or whoever is acting on their behalf will not influence in any way the sale of the rights transferred in Tamar that were not sold by the Trustee, including as regards the identity of the buyer or the price, and will not interfere in any way in the sale of the asset, except when explicitly required to do so by the Trustee. That which is stated does not prevent Delek and Noble from referring potential buyers to the Trustee, who will act according to his discretion.
  - B. Delek and Noble or whoever is acting on their behalf will not give the Trustee any order or instruction and will not receive from the Trustee any information relating to the transferred rights that were not sold; Notwithstanding that which is stated, Delek and Noble will be able to refer to the Trustee through the Antitrust Commissioner in order to receive information regarding the rights transferred in Karish and Tanin that are unsold, and the Antitrust Commissioner will act in this matter in accordance with his discretion.
  - C. Delek and Noble waive in advance any claim against the Trustee and the State of Israel and the parties operating on its behalf, as regards the manner in which the unsold rights transferred in Tamar are to be managed, including the compensation to be received, except for claims of fraud or malice;

- D. Delek and Noble will fully and wholly cooperate with the Trustee in order to sell the unsold rights transferred in Tamar, and for the purpose of transferring the rights under the Petroleum Law, to the extent that the Trustee shall require this. Delek and Noble will not take any action intended to or resulting in the delay or elimination of such transfer as above;
- E. Following the sale of the unsold rights transferred in Tamar, the consideration received from their sale will be transferred by the Trustee to Delek and Noble within fifteen business days from the date at which such consideration was actually received by the Trustee.
- F. The Trustee will act to sell all of the rights in Karish and Tanin as detailed above and in any event said rights will not be returned to the State before their transfer to a buyer in the framework of this arrangement.

### **Section 3 – Tax Aspects Related to the Development of Natural Gas Reservoirs**

In the context of this section, the Tax Authority establishes the tax aspects relevant to the development of gas reservoirs in the areas that will be detailed below. These determinations have been presented and discussed with the petroleum rights holders and they have accepted these determinations and undertaken to act accordingly.

1. **Section 3(a)** – this section is intended to clarify that in the definition of receipts from the sale of petroleum for use in Israel as such are defined by the Petroleum Profits Tax Law will include all receipts from such sale that relate to the delivery point in Israel (including for transportation and processing), including accompanying components. In parallel, the total investments and payments, as defined by said law, that are used for the purpose of creating such receipts will be taken into consideration for the purpose of calculating the tax.

This clarification, even though the law is clear in this regard, is intended to prevent any inappropriate interpretations of the law and to clarify that recognition of investments and payments as regards the tax also requires the inclusion of income generated by the payments in taxable receipts.

2. **Section 3(b) – Investments in Pipelines as regards the Petroleum Profits Taxation Law**

#### General

In accordance with the Petroleum Profits Tax Law, pipelines for transporting petroleum to Israel for the purpose of using such petroleum in Israel are recognized as regards the law as establishment investments (subject to all conditions stipulated in the law in this matter). When such investments are made up to the end of the commissioning period, they are added to the sums in the denominator of the tax coefficient, and thus postpone the date on which the tax coefficient will reach a level from which the receipts will be charged with Petroleum Profits Tax.

As regards the investment in pipelines and facilities used to transport and convey petroleum for the purpose of exporting it to another country ("an export pipeline"), then such are not recognized for the purposes of the law as establishment investments.

The practical significance of the above is that in the event that the point of sale of the petroleum is established on the date on which the petroleum enters an export pipeline, there is no need to make any adjustments in determination of the receipts (except for comparison to the ADP and adjustments to transmission prices in the event that the transaction is between associated parties). However, if the sale of the petroleum is made after the petroleum has already passed in the export pipeline, then it is necessary to make an adjustment for the purpose of determining the receipt. The reason for this is that this investment is not considered an establishment investment.

The main method for performing the adjustment in such a case is by deducting some of the receipts generated by transmission of petroleum in the export pipe from the receipts considered for the purpose of the Petroleum Profits Tax. This deduction can be made using the netback method or any other method. The disadvantage of this is the complexity involved in calculating the deduction.

Nevertheless, in appropriate cases, for the sake of simplicity and efficiency and when this does not lead to a reduction in tax, it is permitted to use another way to perform the adjustment, i.e., to recognize the pipeline as part of current payments, and in conjunction to recognize all receipts generated by that pipeline as receipts for the purpose of the law. It is hereby clarified that this method may only be adopted in the context of a taxation decision in which the Tax Authority director has been convinced that it will not lead to a reduction in tax.

Another central principle is that when investments or payments are taken into account for the purpose of calculating the tax, then the receipts generated by such investments or payments will also be taken into account for the purpose of calculating the tax.

The following sections implement these principles in regard to specific pipelines currently on the agenda.

(1) The gas transmission pipeline from the Tamar field to the Tamar platform, to be laid in the context of expanding the Tamar facilities

This pipeline will be laid from the wellhead to the platform (i.e., before the gas production process has ended). The pipeline will transfer the gas in its raw state before completion of its initial processing. In addition, this pipeline is intended to also serve for export purposes and for supplying the domestic economy and increasing redundancy within the domestic economy. For this reason, this pipeline does not fully serve as an export pipeline, but also not as a pipeline intended to fully convey gas to the domestic economy, rather constitutes a pipeline with mixed usage – both for export and for domestic use.

For this reason, it has been decided that 50% of the payments already made and that will be made in actual practice for planning, manufacture and construction of this pipeline ("the pipeline cost") will be considered as "establishment investments" that have been carried out during the commissioning period ("the coefficient denominator"), while the balance of the cost of the pipe will be considered as "current payments" ("the coefficient numerator"), all as defined in the Petroleum Profits Tax Law. All of this will only be applicable if the petroleum venture owners will act with appropriate speed and diligence to construct the pipeline. At the same time, in calculating the receipts under the law, account will be taken in accordance with the above principle of all receipts generated by the pipeline.

(2) The gas transmission pipeline from the Tamar platform up to the point at which the gas is delivered to the Union Fenosa Gas SA company ("UFG"), to be established at the offshore border between Israel and Egypt

This pipeline is intended for export and for this reason, in accordance with the above principle, it cannot be considered as part of the establishment investments as defined by the law. The point at which delivery is made to this customer is beyond the entry of the gas into the pipeline and thus it is necessary to adjust the receipts as detailed above.

For the purpose of simplicity and since this does not lead to any decrease in tax, the Director has determined that in regard to this pipeline, the investment will be recognized as part of the current payments, and all receipts generated by the pipeline will also be recognized as receipts for the purpose of the law.

(3) Pipelines from the Leviathan field to the processing facility and from the processing facility to the shore in Israel

These pipelines will convey gas from the Leviathan field to Israel and their construction is mainly intended for the purpose of connecting the Leviathan field to the shore in Israel to supply gas to Israel. For this reason, these pipelines subject to the time at which the investment is made and subject to the other conditions stipulated in the law, are considered to be establishment investments. Accordingly, any payments actually made for the purpose of the planning, manufacture and construction of these pipelines will be included in the definition of "establishment investments" and will be taken into consideration in either the coefficient numerator or the coefficient denominator in accordance with the actual time at which the investment is made, and as stipulated in the law.

In addition a principle has been clarified according to which when the investments or payments are taken into account for the purpose of calculating the tax, then the receipts generated by such investments or payments will also be taken into consideration for the purpose of calculating the tax. In accordance with the determination regarding the receipts when the gas is sold for use in Israel, the receipts arising from the income generated by accompanying components will also be taken into consideration in this regard.

3. **Section 3(c) – Swapping Assets** – Against the background of the expected sale of rights in Tamar, Karish and Tanin and the question if it will be possible to swap assets in accordance with the provisions of Section 96 of the Income Tax Ordinance, it has been clarified that the easement stipulated in Section 96 of the Ordinance on account of the swapping of assets in reservoirs shall not apply. Nevertheless, it will be possible to apply the provisions of Section 96 of the Ordinance in the matter of the physical swapping of an asset within a specific project (such as a platform, pipelines, drillings and equipment and machines)

with a physical asset in another project (Leviathan or Tamar). All this will be subject to the fulfillment of all of the provisions stipulated in the section.

4. **Section 3(d) – Date of the Tax Event and Payment of Tax Following the Sale of Rights in the Tamar, Tanin and Karish Fields** – As long as these transactions are in cash (or cash equivalent) it will not be possible to postpone the tax event date nor the tax payment, and such sales must be reported as above and the tax for them paid in accordance with the provisions of Section 91 of the Ordinance (except as regards the component that may be postponed under the provisions of Section 96 of the Ordinance, as stipulated above). In the event that these transactions are carried out by way of swapping the rights to a petroleum or natural gas field against the rights in another petroleum or natural gas field, it will be permitted to apply to the Tax Authority Director in order to examine the possibility of postponing the tax event or tax payment. Moreover, to the extent that such transactions shall include deferred or contingent payments, it will be permitted to apply to the Tax Authority Director with a request to defer the tax with consideration for the flow of payments.
5. **Section 3(e) – Compensation for Direct Damages Due to War and Terrorist Activities** – It is proposed to clarify that the 1961 Property Tax and Compensations Fund Law shall apply to the production facilities, including the processing facilities and pipelines of the petroleum ventures insofar as they are located within the area of the State of Israel, including Israel's EEZ. This clarification will also find expression in the context of the marine areas law to be legislated. Such a clarification has already been given in the past in regard to the Tamar reservoir facilities.
6. **Section 3(f) – Deduction of Tax at Source from Interest Payments of Foreign Residents** – Section 16(4) of the Ordinance stipulates that the Minister of Finance is entitled to determine that the interest paid by a body of persons that is a resident of Israel to a foreign resident on account of a loan received from the foreign resident under conditions stipulated in the section shall be exempt of tax in whole or in part. The purpose of this section is to encourage foreign investors to issue loans in Israel for purposes that are of national importance, as well as in order to vary the credit sources for such loans as above by giving a tax break payable to foreign residents. By virtue of this section, the 1988 Income Tax Ordinance (Exemption from Tax for Interest Paid by an Israeli Resident on Account of a Loan Issued by a Foreign Resident) ("the Ordinance") was published and the Tax Authority Director was vested with the authority to establish the criteria for loans that will receive a tax break on the basis of this section. In accordance with the general taxation policy in this area as expressed in the recommendations of the team that examined the subject under the direction of the Tax Authority Director, it is proposed that the interest for loans from foreign residents that conform to the criteria stipulated in Section 16(4) of the Ordinance and the Order, will be charged with a tax at a rate of 5%. This

rate will be deducted at source by the paying bodies from the interest that is paid to a foreign resident.

## Explanatory Remarks to Appendix A

### General

1. Article 52 of the Antitrust Law states that the Minister of Economy may, following consultation with the Knesset's Economic Affairs Committee, exempt a cartel from all or some of the provisions of this Law, if he believes that such action is necessary for reasons of foreign policy or national security.
2. The basic assumption is that if an exemption from the Antitrust Law is not granted, the development of Leviathan and the expansion of Tamar will be delayed by four to nine years. The position shared by the Ministry of Defense, the IDF, the Ministry of Foreign Affairs and the National Security Council is that the rapid development of the Leviathan field and the expansion of Tamar are of great importance to the State of Israel's security and to the country's foreign relations. It will be noted briefly that, in accordance with the understandings and negotiations currently underway, Leviathan will be exporting a significant quantity of natural gas to Jordan and Egypt. It is likewise understood that Tamar's expanded development depends solely on exports from Tamar. The development of Israeli natural gas for exports to said countries is of great importance for Israel's foreign relations and for state security. The concern is that delaying the development of Leviathan and the expansion of Tamar will hinder the export of gas to these countries. The fields' development is also necessary to increase redundancy in the gas sector, which currently relies on one reservoir, one platform, and one pipeline into Israel.
3. On 25.6.2014, the Political-Security Cabinet received studies from the Foreign Affairs and Defense ministries regarding the foreign-relations and security considerations relevant to the natural gas production sector. Pursuant to these studies, the Cabinet decided that a delay in the expansion of Tamar and in the rapid development of the Leviathan, Karish, Tanin and other Israeli natural gas fields, would have major negative consequences for the country's foreign relations and security. The Cabinet also decided to act to advance a Framework that would facilitate rapid development. At the first stage it was decided to hold a public hearing as is currently being done. All of the decisions were taken unanimous.
4. At the request of the Minister of Economy, the Government decided to assume the authority of the Minister of Economy in accordance with Section 52 of the Antitrust Law; however, at this stage no authorization has been granted by the Knesset to do so. By the time that the Framework has been ratified by the Government, a decision will have been made regarding the identity of the party to exercise this authority, to be subject

to all legally mandated authorizations. This, of course, presupposes an intention of exercising such authority.

5. According to the Framework, the authority to exempt a cartel from provisions of the Antitrust Law shall be exerted with regard to several restrictive trade practices in the activity of the companies that hold the Tamar and Leviathan licenses, pertaining to various provisions of the Antitrust Law and for varying periods of time.
6. Granting the exemption is conditional on the existence of structural conditions in the natural gas sector, primarily the sale of Delek and Noble's rights to the Karish and Tanin fields, the sale of Delek's rights and the dilution of Noble's rights in Tamar, within maximum periods specified in the Resolution. It should be noted that the exemption pertaining to the restrictive trade practice according to Article 1, with regard to Leviathan, is not conditional.
7. The aim of these structural conditions is to generate wide-ranging change in the Israeli natural gas sector's structure and to intervene in the cross-ownerships that have emerged between the natural gas fields in recent years, so as to encourage competition between all of the gas fields; to create an independent natural gas supplier at Karish and Tanin and thereby to introduce a new operator into the Israeli sector that will be capable to compete with other gas reservoirs in the domestic market; and to create a potential and incentives for a certain degree of competition between Tamar and Leviathan, the largest gas fields in the market.

#### Exemption provisions

8. Chapter 2 of the draft Resolution specifies the restrictive trade practices to which the exemption explicitly refers, as well as the individual provisions of the law from which each of these restrictive trade practices shall be exempt. It shall be clarified that this does not exclude activity that produces the exempt cartel from other categories of restrictive trade practice addressed by the Law.
9. In particular, the restrictive trade practices that, prima facie, were created according to the Antitrust Commissioner (hereinafter: **the Antitrust Commissioner**) as a result of the purchase of rights to Ratio-Yam (later: Leviathan) permits by Delek and Noble, and due to the joining of the sides as joint owner of the Ratio-Yam and Leviathan permit, shall be unconditionally exempt from all provisions of the Law.
10. Additionally, the exemption refers to a restrictive trade practice that constitutes a cartel that would likely emerge in a case where all or some of the Leviathan lease holders were to jointly market the gas produced from Leviathan to the domestic market. In accordance with the exemption, the

lease holders shall be exempt from the provisions of the Law until the beginning of 2025. However, should the Minister of National Infrastructure, Energy and Water Resources (hereinafter: **the Minister of Energy**) find that there are at least three natural gas reservoirs connected to the national transmission system, each of them, at the time, bound by a commitment to supply at least 30 BCM to the domestic market, with no party holding more than 25% of any right in more than one reservoir (for this purpose Karish and Tanin shall be considered as a single reservoir), the exemption period shall be extended until the beginning of 2030. At the same time, solely with regard to the marketing of said gas for export, the owners of the Leviathan license shall be exempt from the provisions of the Law with no time limitation, inasmuch as this does not undermine competition in the domestic market.

11. The exemption also applies to a restrictive trade practice that constitutes a cartel that is liable to emerge due to a specific sale of natural gas from Leviathan, which will also be exempt from the provisions of the Law should the agreement be signed before the beginning of 2025.
12. Finally, regarding a restrictive trade practice that constitutes a monopoly pertaining to Delek and Noble due to their monopoly ownership by virtue of the Antitrust Commissioner's declarations regarding their activity in Leviathan and Tamar, Delek and Noble shall be exempt from the provisions of the Law that regulate monopoly activities in terms of the giving of instructions, the sale of assets and the breaking up of monopolies (Sections 30, 30A and 31 of the Antitrust Law, respectively), until the beginning of 2025. However, should the Minister of Energy find that there are at least three natural gas reserves connected to the national transmission system, each of which, at that time, has a binding obligation to supply at least 30 BCM to the domestic market, with no party holding more than 25% of any right in more than one reservoir (for this purpose, again, Karish and Tanin shall be considered as a single reservoir), the exemption period shall be extended until the beginning of 2030.
13. It shall again be emphasized that, in accordance with the Framework, only those restrictive trade practices that have been enumerated above shall be exempt from the provisions of the Antitrust Law, and only to the specific degree determined in the Resolution.
14. Chapter C of the draft Resolution sets forth the terms on which the Minister of Economy is considering making conditional the exemption clauses pertaining to the joint marketing of gas from Leviathan, the purchase agreements for natural gas from Leviathan, and the monopoly status of Delek and Noble. These terms primarily relate to the formulation of a structural arrangement for the sale of Delek's and Noble's rights in the

Karish and Tanin fields, and the sale of all Delek rights and the dilution of Noble's rights in the Tamar field, within maximal time periods.

15. The purpose of the arrangement pertaining to Karish and Tanin is to create a competitor which, though small, has no connections of any kind to Delek and Noble. Additionally, this portion of the arrangement is expected to bring about the entry of a new gas reservoir operator into the Israeli natural gas industry, all of whose reservoirs at the time of writing are operated by Noble. For this purpose it shall be noted that, as per the arrangement, all gas at Karish and Tanin shall be made available to the Israeli market, and the export quota for these fields shall, in accordance with Government Resolution 442, be transferred to Leviathan. Moreover, the terms of new contracts for the sale of natural gas from Tamar and Leviathan to the domestic market shall be limited to an interim period, so as to ensure demand for gas over which the Karish and Tanin reservoirs will be able to compete once they have been sold, and in order to maximize the competitive impact on the gas sector.
16. The purpose of the arrangement pertaining to Tamar is to produce competitive tension between Tamar and Leviathan through the creation of a significant (even though not total) gap between the Tamar and Leviathan ownership structures. Additionally, Delek's exit from Tamar will have a positive impact on the degree of centralization in the sector as a whole, given Delek's status as a centralizing factor, in accordance with the De-Centralization Committee.
17. In accordance with the terms noted in the draft Resolution, Delek and Noble must sell all of their rights in the Karish and Tanin fields to a third party that is unconnected to either of them, within 14 months. Additionally, all of the gas to be produced from Karish and Tanin after the sale shall be sold to the domestic market. To avoid undermining competition between the Karish/Tanin buyers and the owners of the other fields, it has been decided that compensation for the sale of these rights shall not be linked to prices or quantities of the gas sold from Karish and Tanin. It was also decided that a minimal amount of the compensation shall be paid at the time the rights are transferred to the buyer, so as to ensure the buyer's seriousness about developing the field. A limit was also placed on the royalties that the sellers would be permitted to receive from the sale of natural gas – a limit that will be reduced after eight months, so as to incentivize Delek and Noble to sell Karish and Tanin as quickly as possible. Should all of the rights in Karish and Tanin not be sold within 14 months, the authority to sell the unsold rights shall be transferred to a trustee who will act to sell them within four months to the highest bid to be submitted during the four month period, whatever its value.

18. Delek is required to sell all of its rights in the Tamar reservoir to a third, unrelated party within 72 months. Similarly, within that same timeframe Noble is required to dilute its holdings in Tamar to a level of no more than 25% of any right in Tamar, and shall hold no veto right regarding the reservoir's management. In accordance with the opinion of the professional parties in the Ministry of National Infrastructures, Energy and Water Resources, given Noble's status as operator of the Tamar field, a reduction in its share of holdings in Tamar to below 25% is liable to compromise the field's operation. In light of the fact that at this point there is no other entity available with the skills necessary to operate Tamar in place of Noble, this arrangement was found to be the optimal solution in terms of reducing Noble's involvement in the reservoir. It should be added that removing Noble from one of the fields, even should a replacement for Noble be found, could delay the development process by another few years.
19. In order not to undermine competition between the buyers of Tamar and the owners of the other reservoirs, it was decided that the compensation for sale of the rights shall not be linked to the prices or quantities of the gas sold from Tamar, and that no revenues from the sale of natural gas shall be paid to the sellers. Should said rights in Tamar not be sold within the 72 month period, the right to sell the unsold rights shall be transferred to a trustee who shall act to sell them within 12 months, per the principles set forth above regarding the sale of Karish and Tanin.
20. To enable the Karish and Tanin natural gas fields to compete for the opportunity to supply gas to customers in the domestic market, and thereby to fund development of the fields, it is necessary to verify the existence of potential customers with whom the Karish and Tanin lease holders will be able to enter into contractual engagements. For this purpose, the professional echelon recommends requiring the Tamar and Leviathan lease holders to grant their new customers short-term contracts or points of exit from the agreements, such that once the Karish and Tanin lease holders become relevant competitors in the gas market, said customers will not be bound by an agreement with the developed fields. The Framework also takes into account the need to verify that development of Leviathan is proceeding at the fastest possible pace.
21. In accordance with said Framework, there are several alternatives for ensuring consumers for Karish and Tanin which are intended to ensure the gradual release of consumers:

Firstly, and in general, with respect to the agreements to be signed until the end of 4 years from the date of approval of the transfer of rights to the buyer of Karish and Tanin (hereinafter: the Date of the Opening of the Options), the Tamar and Leviathan lease holders are required to offer contracts to all

customers for periods at the customers' choice of up to 8 years (or longer, as agreed between the parties and the customer). Regarding Tamar contracts of more than 8 years' duration, the consumer will have a unilateral right to reduce the agreement period within a period of 3 years beginning on the Date of the Opening of the Options.

- a. Regarding Leviathan contracts, up to the estimated date on which the new Karish and Tanin lease holders are expected to begin signing contracts for the sale of natural gas, (which is set for a period of 6 months from the date of the transfer of rights to the buyer of Karish and Tanin), the following provisions shall apply:
  - i. Negotiations or renewed obligation of customers who were released from contracts with Tamar by virtue of exercising the option in contracts with Leviathan shall not be permitted.
  - ii. With regard to new contracts with large customers for periods of 4 to 8 years, the customer will have a unilateral right to reduce the agreement period within a period of 1 year, which will begin on the latter from among the following dates: (1) 31.12.2022, (2) The Date of the Opening of the Options, (3) If the date of the supply of gas from Leviathan is postponed with the Petroleum Commissioner's approval, 3 years from the time the gas begins to flow and this in order to avoid hurting the funding for the development of Leviathan. However, this stipulation is conditional on Leviathan having export contracts of at least 120 BCM, which is also meant to prevent any compromise of the funding for the development of Leviathan.
  - iii. Regarding contracts of more than 8 years' duration, an option shall be formulated for reducing the contract quantity by 50%, and this within a window of time of 3 years to begin at the latter date between the following dates: (1) the date of the Opening of the Option, (2) six years from the day the gas starts flowing from Leviathan.
- b. In order to prevent any harm to customers, it is clarified that realization of one of the aforementioned options shall not compromise the commercial terms set forth in the contract.

## Appendix B

### Notice of the Tax Authority

#### 1. Definitions

**"Delek"** – Delek Drilling Limited Partnership and Avner Oil Exploration Limited Partnership;

**"Petroleum Profits Tax Law"**– Petroleum Profits Tax Law, 5771–2011;

**"The Petroleum Law"** – The Petroleum Law , 5712-1952

**"Leviathan Lease Holdings"** – The Leviathan North Lease Holding and the Leviathan South Lease Holding";

**"Leviathan North Lease Holding"** – Lease holding I/15 "Leviathan North" issued under Section 26 of the Petroleum Law and held by the following parties: Noble – 39.66%; Avner Oil Exploration Limited Partnership – 22.67%; Delek Drilling Limited Partnership – 22.67%; Ratio Oil Exploration (1992) Limited Partnership – 15.0%;

**"Leviathan South Lease Holding"** – Lease holding I/14 "Leviathan South" issued under Section 26 of the Petroleum Law and held by the following parties: Noble – 39.66%; Avner Oil Exploration Limited Partnership – 22.67%; Delek Drilling Limited Partnership – 22.67%; Ratio Oil Exploration (1992) Limited Partnership – 15.0%;

**"Tamar Lease Holding"** – Lease holding I/12 "Tamar" issued under Section 26 of the Petroleum Law and held by the following parties: Noble – 36%; Isramco Negev - 2, Limited Partnership – 28.75%, Avner Oil Exploration Limited Partnership – 15.6250%; Delek Drilling Ltd. Limited Partnership – 15.6250% and Dor Gas Exploration Limited Partnership – 4.0%;

**"Karish"** – A natural gas field known as "Karish" located within License "366/Alon C";

**"Noble"** – Noble Energy Mediterranean Ltd.

**"Tanin"** – A natural gas field known as "Tanin" located within License "364/Alon A";

2. The Tax Authority hereby announces that in employing a comparison of the average local price to the export price, according to the Petroleum Profits Taxation Law, the following principles will apply. These principles are acceptable to the rights holders of the Tamar and Leviathan fields and they undertake to act in accordance with these principles:

#### **A. General**

The Petroleum Profits Tax Law stipulates that in any agreement for the sale of petroleum for export will be considered to be 'the receipt actually received' as understood in the Petroleum Profit Tax Law, the higher between: (1) the receipt from the export agreement and (2) the receipt calculated according to the Average Domestic Price (hereinafter: "The ADP") for the same type of petroleum, as in defined in the Law.

#### **B. Manner of calculating the ADP**

1. The ADP for a particular type of petroleum will be calculated for each tax year in accordance with data on petroleum sales transactions for the same type in Israel during the two years prior to the beginning of the tax year, divided by the amount of petroleum units for which said receipts were received, all as stated in the Petroleum Profits Tax Law (hereinafter, the yearly ADP), and will be compared to the actual receipt from the export agreement as detailed in Section (2) below.
2. The "actually received receipts" from the export agreement in the tax year will be calculated as follows: the higher amount of the two: the actually received receipts accumulated on account of the export contract up to the end of the tax year and the accumulated receipts calculated according to the annual ADP up to the end of the same tax year (the cumulative amount of the receipts calculated according to the annual ADP for each of the tax years up to the end of the tax year begin examined), and deducting therefrom the total accumulated receipts that were taken into consideration for the purpose of calculating the tax during previous years on account of the export agreement being examined.

In this regard, "accumulated receipts calculated according to the annual ADP up to the end of the same tax year" is a multiple of the annual ADP of that tax year and the quantity of petroleum units for which receipts were received on the basis of the export agreement during that tax year.

It should be clarified that in the event that the gas delivery point in the export agreement is not identical to the delivery point in Israel, the appropriate adjustment will be made in order to equalize the receipts from the export agreement with the receipts calculated according to the ADP, and this in accordance with the transmission fees tariff established by the manager according to principles to be instituted up to the Government Resolution.

#### **C. Advance confirmation that the export agreement is lower than the ADP**

1. The Tax Authority Director, as defined in the Income Tax Order (New Version) 5721-1961 (in this Section – the Director) is authorized to issue advance confirmation, as per a request by the

petroleum rights holder, that the price of a petroleum unit according to the export agreement is not lower than the ADP, and therefore the receipt from the export agreement as received by the rights holder shall be seen as an actual receipt.

2. Confirmation will be issued if the Director is convinced that anticipated receipts during the life of the project, on behalf of the sale of petroleum from the export agreement being checked, are clearly higher than anticipated receipts as calculated according to ADP.
3. In this case there will be no need for an annual examination of receipts from the export agreement as compared to ADP; furthermore, the receipt under the Law shall be in accordance with the actual receipt from the export agreement, as received by the petroleum rights holder.

**D. Proposed export agreement price formula for new customers in Israel of said venture**

1. An additional alternative to the determination that the price of a petroleum unit in the export agreement is not lower than the ADP, and that the contents of Section C (3) above, *mutatis mutandis*, shall be that the holder of the export contract will undertake to offer the export agreement price formula to new customers in Israel in the following manner and conditions. In this section, the term "price formula" includes the price and the linkage mechanism linked to it, including a floor price and a ceiling price.

The holder of the export contract must place the offer such that it includes a commitment for maximum supply, subject to the system's capacity, to any new customer interested in purchasing petroleum from said developer, and to act with appropriate diligence and good faith to assure that the export agreement shall constitute a real option to the domestic economy.

2. **Duration of the offer period** – The export contract will be offered to any customer interested in purchasing petroleum in Israel for a period of three years from the date of signing the export contract (hereinafter: "The Offer Period").

It should be clarified that in this matter a new customer will be considered as customers detailed in Sections A and B below.

- a. An existing customer, when such a customer wishes to purchase additional quantities of petroleum beyond the quantities already established in an existing

contract/contracts, or someone who was a past customer of the petroleum venture.

- b. A customer in Israel who has an existing contract that includes a mechanism for reducing/increasing quantities (a mechanism that allows the customer to purchase gas from another supplier) during the period that commences with the beginning of the supply date according to the export contract and ends up to six years after the signing of the export contract (all in proportion to the relevant petroleum quantities).

### **3. Offer terms**

1. Supply date – The customer will be entitled to request that supply shall begin during any period beginning from the supply date according to the export contract, and up to six years from the export agreement's signing date.
  2. Supply duration – at least five years, however, not more than the remainder of the period of the export contract.
  3. Price conditions – export price formula without any additional adjustments (for example quantity, 'take or pay' [TOP], quality of the customer or any other condition).
  4. In the event the transfer point of the gas to the customer is not identical in the export contract and the domestic contract, a transmission fee will be added/subtracted from the price offer to the domestic customer, as determined by the Director in accordance with principles to be determined until the Government's Resolution.
  5. TOP conditions for the domestic customer will be in accordance with the average in the domestic economy for this type of customer (i.e., electricity producer, cogeneration supplier, or industry).
  6. A mechanism will be determined for making all information concerning the signing of the export contract accessible to potential customers in Israel, including information regarding the offer period and terms.
3. The Tax Authority hereby announces that with respect to the development of the gas reservoirs regarding the following issues, the following tax aspects will apply, and all these are acceptable to the petroleum rights holders in the Tamar and Leviathan reservoirs, and they have undertaken to act in accordance thereto.

a. **Receipts from the sale of petroleum for use in Israel in accordance with the Petroleum Profits Tax Law** – It is hereby clarified that all receipts from the sale of petroleum and from all associated components up to the delivery of the petroleum to the delivery point in Israel (including for transportation and processing) are included within the receipts as defined by the Law. It is also clarified that at the same time, the total investments and payments, as defined by the Law, which serve to create such receipts, will be taken into account for the purpose of calculating the tax.

b. **Investments in pipelines insofar as the Petroleum Profits Tax Law**

1. The third pipeline for transmission of gas from the Tamar field to the Tamar platform, to be laid in the context of the expansion of the Tamar facilities (hereinafter: "**the Third Pipeline**") – 50% of the payments that have been paid and that will be paid in actual practice for planning, manufacturing and building the Third Pipeline (hereinafter: "**Pipeline Cost**") will be considered as "Establishment Investments" which were undertaken during the commissioning period ("the Coefficient Denominator"), while the balance of the Pipeline Cost will be considered as "Current Payments" ("the Coefficient Numerator") – and all as defined in the 2011 Petroleum Profits Tax Law on condition that the petroleum project owners shall act to establish the pipeline with due speed and diligence.

In conjunction, in calculating receipts according to the law, all receipts received from the Third Pipeline will be taken into consideration.

2. The gas transmission pipeline from the Tamar platform to the gas delivery point to Union Fenosa Gas Co. SA (hereinafter: "**UFG**"), to be established on the maritime border between Israel and Egypt (hereinafter: "**the UFG Pipeline**") it is clarified that–

1. This pipeline is intended for export, and therefore does not constitute an "Establishment Investment" as defined by law.
2. There is no Petroleum Levy charges to be applied on the revenues generated by the transmission of the gas in this pipeline. Nevertheless, under these circumstances this does not lead to a reduction in taxation, and for the sake of simplicity and efficiency it has been determined that the total payments made in practice for the planning, manufacturing and building of the UFG pipe will be taken into account as "current payments" ("the Coefficient's Numerator") as such are defined in the Petroleum Profits Tax Law, and at the same time the receipts from the UFG pipeline will be considered as receipts for the purpose of said Law.

3. Pipelines from the Leviathan field to the processing facility and from the processing facility to the Israeli coast ("the **Leviathan Pipelines**") – Payments that will be paid in actual practice for the planning, manufacturing and building of these pipelines will be included in the definition of "Establishment Investments" and will be taken into consideration in the Coefficient Denominator or the Coefficient Numerator, depending on the actual investment date, as stipulated in the Petroleum Profits Tax Law. In addition, in calculating the receipts according to said Law, all receipts received from Leviathan pipelines will be taken into account.
  4. It is clarified that the provisions of Section (1)-(3) above reflect the principle that when investments or payments are taken into account in order to calculate the tax, then the receipts generated by such investments or payments will also be taken into account for the purpose of calculating the tax rate, and all subject to the provisions of the Petroleum Profits Tax Law.
- c. **Assets replacement under the provisions of Section 96 of the Income Tax Ordinance (New Version) 5721-1961** (hereinafter: the Ordinance) – Based on the expected sale of the rights in Tamar, Karish and Tanin, it is hereby clarified that the exemption stipulated in Section 96 of the Ordinance in the matter of rights replacement in the reservoirs shall not apply. Nevertheless, it will be possible to apply the provisions of Section 96 of the Ordinance in the matter of the replacement of physical assets in a specific venture (e.g., platform, pipelines, drillings, equipment and machinery), with the physical assets of another venture (Leviathan or Tamar), pending compliance with all of the Section's provisions.
  - d. **The Tax Event date and the Tax Payments following the sale of rights in the Tamar, Tanin and Karish reservoirs** – it is hereby clarified that as far as cash (or cash equivalent) transactions are involved, it will not be possible to defer the Tax Event date or tax payment, and the sales must be reported as above and tax paid on their account in accordance with the provisions of Section 91 of the Income Tax Order (except for the deferrable component under the provisions of Section 96 of the Income Tax Order, as described in Section 3, above). In the event that the transactions are carried out through replacement of rights in the petroleum reservoir with rights in another petroleum reservoir, the Tax Authority Director should be contacted in order to consider the possibility of deferring the Tax Event/payment. Moreover, in the event that the transactions should include deferred or contingent payments, it will be possible to apply to the Tax Authority Director with a request that the tax be deferred with consideration for the cash flow of payment installments.

- e. **Compensation for direct damages sustained due to acts of war and terror** – it is hereby clarified that the Property Tax Law and the Compensations Fund – 5721-1961 shall apply to the production facilities and pipelines of petroleum ventures located within the territory of the State of Israel and including its EEZ. This clarification will also find expression in the Offshore Areas Law.
  
- f. **Withholding tax at source from interest payments to foreign residents** – in accordance with the authority per Section 16(4) of the Income Tax Ordinance and in accordance with general taxation policy in this area, as expressed in the recommendations of the team established to examine the subject, all funds raised from foreign residents that meet the criteria established in Section 16(4) and the Income Tax Ordinance (tax exemption on interest paid by Israeli citizens on loans of foreign residents) 5748-1988, will be charged with a 5% tax. This tax rate will be withheld at source from the interest paid to foreign residents by the paying parties. It should be clarified that the contents of this Section do not derogate from the applicability of the lower tax rate in this matter, in accordance with the treaties for the prevention of double taxation to which the State of Israel is a signatory.

## Explanatory Remarks for Appendix B

### General

In the context of a general inspection of the main tax issues arising from the signed export agreements, or those agreements that are about to be signed, by the rights holders in the Tamar and Leviathan fields as such mainly arise from the Petroleum Profits Tax Law of 2011 (in this section – "the Petroleum Profits Tax Law"), and from the Income Tax Ordinance (new version) of 1961 (in this section – "the Ordinance") and additional laws, a comprehensive tax Framework plan was established by the Tax Authority which regulates these issues. This Framework plan was presented to the rights holders in said fields and discussed with them, and they are acceptable by them and they have undertaken to act in accordance thereto.

### Section 2 – The Petroleum Profits Tax Law

1. **Section 2(a) – General** – the Petroleum Profits Tax Law stipulates that any sale for export will be seen as a receipt wherein the actual amount received was the amount that would have been received in a sale from a willing seller to a willing buyer, were the petroleum being sold at the time of transfer, in its form at the time of transfer, and no less than the average domestic price. The purpose of this section is to ensure that no petroleum for export is sold at a price that is less than the price at which petroleum is sold in Israel. And this, *inter alia*, in order to prevent subsidization of the gas price overseas by the domestic market.
2. **Section 2(b) – Calculation of the ADP** – the average domestic price ("ADP") is defined in the law as the "average price of petroleum of the type for which the market price is calculated in its form at the time of transfer in accordance with the data of petroleum sales transactions as above that were made in Israel during the two years that preceded the transfer date."

In order for the calculation to provide a full and true picture of the comparison between petroleum receipts from the export contract and the receipts calculated according to the ADP, it was established that the calculation of receipts according to the ADP and its comparison to the receipts from the export contract will be made cumulatively for the entire life of the export agreement, so that the comparison between the export contract and the ADP will ultimately lead to a comparison between the total receipts received for the export contract and the total receipts calculated according to the ADP.

The ADP and the actual receipts will be calculated as follows:

- (1) The ADP for a specific type of petroleum will be calculated for each tax year in accordance with the receipts from petroleum sales of the same type that were made in Israel during the two years that preceded the beginning of the tax year, divided by the quantity of petroleum units for

which said receipts were received ("Annual ADP"), all as stipulated in the Petroleum Profits Tax Law.

- (2) The Annual ADP will be calculated for the actual receipts received from the export agreement. The comparison will be made in cumulative fashion along the entire life of the export contract in the following way: comparison of all actual receipts accumulated against the export contract up to the end of the tax year, and the total accumulated receipts as calculated by the Annual ADP (the cumulative amount of the receipts calculated by the Annual ADP for each of the tax years up to the end of the tax year under consideration), and deducting the total receipts recognized for the purpose of calculating the tax in previous years under the export agreement under consideration.
- (3) The "receipt actually received" to which the tax will apply in each tax year under the Petroleum Profits Taxation Law will be the higher amount of the cumulative receipt according to the export agreement and the cumulative receipts as calculated in accordance with the ADP.

It is hereby clarified that in the event that the gas delivery point in the export contract is different than the gas delivery point in Israel, then the transmission fees as established by the Tax Authority Director, as defined in the Ordinance, will be added or subtracted from the price of the export agreement in accordance with the principles established until the Government Resolution is made, for the purpose of comparing the price to the ADP.

3. **Section 2(c) – Pre-approval that the Price of a Petroleum Unit in the Export Agreement is Not Lower than the ADP** – the Tax Authority Director will be entitled to pre-approve the request of a petroleum rights holder that the price of a petroleum unit under the export agreement will be no lower than the ADP, and for this purpose the "receipt actually received" will be seen as the receipt from the export agreement. Approval for this will only be given if the Director is convinced that according to the data available on the eve of making the decision, the receipts expected for the entire life of the project on account of the sale of petroleum under the export agreement being examined are typically higher than the receipts expected as calculated in accordance with the ADP.

In such a case the export agreement will receive advance approval according to which the "receipt actually received" as regards the law will be in accordance with the actual receipts received from the export agreement and it will not be necessary to annually examine the receipts from the export agreement as compared with the ADP.

4. **Section 2(d) – Offering the Export Agreement Price Equation to New Customers of the Same Venture in Israel** – another alternative for making sure that the price of a petroleum unit in the export agreement is no lower than the ADP will be provided if the holder of the export contract will undertake to

offer the export agreement price equation to new customers in Israel. By doing so the export contract holder in fact undertakes to offer the Israeli economy the same price equation that he offers in his export contracts and ensures that the gas prices offered domestic customers will be no higher than those offered for export. In this way the purpose of the law that the price of export contracts will be no higher than the price of domestic contracts is assured, and the domestic economy will enjoy the same price that is offered in export contracts.

The holder of the export contract will have to undertake to offer the export contract to each new Israeli customer interested in purchasing petroleum or natural gas, and this for a period of three years from the date on which the export contract is signed. As clarified below, the supply date which the customer will be able to choose, will be up to six years from the date on which the export contract is signed. Thus in practice, any Israeli customer interested in purchasing petroleum in the six years that begin with the signing of the export contract will be able to purchase the petroleum in accordance with the export contract price equation.

The export contract holder must submit the proposal, including an undertaking to provide maximum supply, and subject to the capacity of the system, to any new Israeli customer who is interested in contracting the purchase of petroleum or natural gas from the same venture, and must work with due diligence and in good faith to make the export contract a realistic option for the domestic economy.

In this regard, "a new customer in Israel" is any of the following: (1) the holder of an existing contract interested in purchasing an additional quantity beyond the quantity stipulated in the existing contract; (2) a customer whose contract with the petroleum project has ended; (3) an Israeli customer whose contract with the petroleum contract includes a mechanism for increasing or decreasing the quantity, and this relative to the relevant quantity.

In order for the offer to be realistic and fair for the domestic economy, it has been established that the offer must meet the following conditions:

- (1) **Supply Date** – the customer will be entitled to request that the delivery date will commence at any time, beginning from such time as delivery begins according to the export contract and up to six years from the date on which the export contract was signed. This condition increases the number of Israeli customers who will be able to obtain the export contract condition also to customers who only require that the gas be delivered to them commencing from up to six years from the date on which the export contract was signed.
- (2) **Supply Duration** – at least five years and no longer than the balance of the export agreement's term.

- (3) **Price Condition** – the price equation (price, the linkage mechanism linked to it, including a floor and ceiling price) without any additional adjustments. This condition is intended to realize the purpose of the law and ensure that the price offered the Israeli economy will indeed be identical to the export price, and adjusted to the prevailing Israeli market conditions. Thus for example, the export contract holder will not be entitled to request that the price for the Israeli customer be raised, even if his credit rating is lower than that of a customer who has signed an export contract, or if he has undertaken to supply a significantly lower quantity of gas than the quantity of gas stipulated in the export contract.

As stated above, in the event that the point at which the gas is delivered to the customer will not be identical in the export contract and a domestic contract, then the transmission fees established by the Tax Authority Director will be added or deducted from the price offered to the domestic customer in accordance with the principles established up to the Government Resolution.

It was also established that the TOP (Take Or Pay) conditions for the domestic customer will be in accordance with the average in the domestic market for this type of customer (such as an electricity generator, co-generator or industrial consumer).

In addition, in order to ensure that Israeli customers are aware of the signing of an export agreement and the price equation included in it, a mechanism for making the offer accessible to potential customers in Israel will be established, including information regarding the offer period and the offer conditions.

## **Explanatory Remarks**

### **General**

1. This Government Resolution is intended to approve the Framework, which includes various measures for increasing the quantity of natural gas produced from the Tamar natural gas field, and for the rapid development of the Leviathan, Karish, Tanin, and other natural gas fields. The Government Resolution is subject to an exemption being granted under Article 52 of the Antitrust Law, which is part of the overall Framework.
2. The past decade has witnessed significant change in Israel's energy sector. Within the space of just a few years natural gas became a major and preferred source of energy for power production and industrial use. During the period 2004-2014 the transition to natural gas saved the economy some NIS 35 billion and meaningfully contributed to reduced particulate matter emissions, due to a decline in the use of high-polluting fuels.

3. The impressive scope of the natural gas reserves that have been found in Israel's exclusive economic zone are sufficient to significantly reduce the country's dependence on external energy sources. Moreover, Israel's natural gas reserves embody considerable potential that could be leveraged so as to improve the country's geopolitical status.
4. The Israeli economy has been receiving natural gas from Israeli fields since 2004, when the Mari B reservoir was connected to the shore. Since 2008 two natural gas suppliers have been active in Israel; in addition to Mari B which supplied 60% of the gas, an Egyptian company, East Mediterranean Gas S.A.E., supplied gas exported from Egypt.
5. In 2009 the Tamar natural gas field was discovered. Israeli Government ministry estimates indicate that the Tamar gas field could supply a major portion of Israel's domestic needs, for the coming decade at least. Transmission of natural gas from Tamar to Israel began in 2013. Recently, Tamar received authorization to export small amounts of natural gas to Jordan. Additionally, the owners of the Tamar license are working to enable the sale of gas to Egypt. As of this writing, Israel's natural gas supply is based on Tamar and on a floating liquefied natural gas facility.
6. In 2010 the Leviathan natural gas field was discovered. The partners with rights in the Leviathan field received a lease to the field in early 2014. In accordance with the timetables derived from the lease, transmission of gas from Leviathan to Israel should commence in 2018. It should be noted that Leviathan's development is supposed to be funded largely by export contracts.
7. In April 2012 natural gas was found at the Tanin field, and in May 2013 at the Karish field. The estimated quantity of natural gas in these two fields is moderate, and they are much smaller than the Leviathan and Tamar fields.
8. It should be noted that Noble and the Delek and Avner partnerships hold rights to all of the significant fields that have been discovered to date in Israel's Exclusive Economic Zone, some of them with additional corporations. It should also be noted that Noble serves as "operator" at the Tamar and Leviathan fields, as well as in the Karish and Tanin fields. The operator is the party responsible for carrying out all of the professional activities involved in searching for natural gas and oil, developing, managing and supervising fields, and producing natural gas and oil from them.
9. In September 2011 the Antitrust Authority announced that it had undertaken an investigation due to concerns that the owners of the rights in Leviathan had entered into a cartel. In the wake of the Antitrust Authority's announcement, and after lengthy negotiations, a draft of the agreed Order was formulated in March 2014, in accordance with Section 50 of the Antitrust Law, 5748-1988 (hereinafter: the **Antitrust Law**), between the Antitrust Authority and the holders of rights in Leviathan – the intention being that the Antitrust

Commissioner and the holders of rights in Leviathan would reach a consensual resolution rather than the Antitrust Commissioner declaring the existence of a cartel. The draft arrangement was disseminated for public comment before being submitted for approval by the Antitrust Tribunal, as required by law.

10. On December 23, 2014 the Antitrust Commissioner announced that, after having heard the public comments, he had decided that the Agreed Order should not be submitted to the Antitrust Tribunal, since it would not lead to a competitive solution in the natural gas market. Instead, the Commissioner announced that he was considering issuing a ruling that a cartel had been established at Leviathan.
11. In effect, the Antitrust Commissioner's decision not to submit the Agreed Order to the Antitrust Tribunal created real difficulty in terms of developing Leviathan, and postponed the provision of natural gas from this reservoir to the Israeli market. Beyond that, this decision has significant broad implications in connection with the willingness of other international companies and investors to be active in Israel's oil and gas exploration and production sector. The Commissioner's decision has also impeded the signing of gas export contracts with Egypt and Jordan, and even raised the specter of their cancellation.
12. Subsequent to these developments, and in recognition of the natural gas industry's complexity, its great importance to the Israeli economy and the critical stage that it has reached, the relevant Government ministries undertook comprehensive and in-depth staff work in cooperation with the Antitrust Authority. The staff work attempted to arrive at an improved framework for modifying the structure of the natural gas sector in relation to the draft of the Agreed Order. The aim was to enable development of the Leviathan field, expanded development of Tamar, and rapid development of other natural gas fields, so as to ensure energy security and to create a competitive market. The framework was meant to strike a balance between all existing considerations, including but not limited to considerations of competition. The considerations of competition are important in and of themselves, but in the present context there are essential considerations of state security and foreign relations at stake.
13. The Government ministries aspired to reach a solution that would be acceptable to Delek and Noble, out of an understanding that proceedings under the Antitrust Law, followed by an effort to recruit other operators, would significantly delay the development of Leviathan and the expansion of Tamar; it was also understood that such proceedings could potentially harm additional investment in natural gas exploration and production, upstream sector which could result in increased competition in the future. Other central considerations were the need for redundancy in the natural gas system, and for energy security. It should be noted that the staff work got underway at the

same time as hearings held at the Antitrust Commissioner's discretion, to determine whether to issue a ruling with regard to the existence of a restrictive trade practice.

14. After several months of comprehensive, professional staff work and discussions with Delek and Noble, the Government ministries formulated a framework which, in their professional judgment, strikes the right balance between the various important goals that the Government ministries are responsible for advancing: the rapid development of existing and new natural gas fields, both for energy-market reasons and for reasons of security/foreign relations; achieving competition in the medium-long term; and ensuring a balanced price level until the emergence of said competition. It should be noted that this framework is not acceptable to the Antitrust Commissioner, who feels that the interest of competition is not optimally represented in this context.
15. On June 25, 2015, the Ministerial Committee for National Security (the Political-Security Cabinet) resolved:
  - "1. To determine that at the present time, delaying the expansion of the Tamar field and the rapid development of the Leviathan, Karish, and Tanin natural gas fields and other gas fields of the State of Israel has significant negative implications for the country's foreign relations and security.
  2. [...]
  3. To appoint a team of ministers, headed by the Prime Minister, and with the participation of the Minister of National Infrastructures, Energy and Water Resources, the Minister of Finance, and the Minister of the Economy, to examine the possibilities for promoting the Framework in formation, including its contribution to expanding the Tamar field and the rapid development of the Leviathan, Karish, and Tanin natural gas fields and other gas fields. To this end, the team of ministers, through a professional team as detailed below, will hold a public hearing on all matters relating to the Framework in formation, including with regard to use of the authority under Article 52 of the Antitrust Law, as said, and will submit its recommendations to the government by July 22, 2015.
  4. To hold a public hearing before a professional team to include the following entities or their representatives: the director general of the Ministry of National Infrastructures, Energy and Water Resources, the chair of the National Economic Council, the Supervisor of Budgets in the Ministry of Finance, the Antitrust Commissioner, and the Petroleum Commissioner in the Ministry of National Infrastructures, Energy and Water Resources."

16. On July 1, 2015 the draft Framework was published on the Ministry of Energy website. The public was invited to submit its comments on the draft Framework within 21 days.
17. On July 22, 2015 and July 23, 2015 two days of frontal hearings were held, during which all interested parties were given the possibility of presenting their position verbally to the professional committee. The frontal hearings were broadcast live on the Ministry of Energy website.
18. During the public hearing, 76 written comments were received, and during the frontal hearings 36 entities from the public appeared before the professional committee.
19. It should be noted that an appeal to the High Court of Justice for an extension of the period of time given for submitting public comments on the Framework to 45 days – was rejected.<sup>2</sup>
20. In addition, it should be noted that on June 23, 2015 the Movement for Quality Government petitioned the High Court of Justice<sup>3</sup> requesting that state entities stop negotiating with the gas companies on all matters relating to issues in the field of antitrust law, and avoid taking steps and decisions dealing with the manner of enforcing antitrust laws on the gas companies.
21. The State submitted a preliminary response to the petition, arguing that petition is preliminary. The petition was passed on for discussion before the panel. The court refrained from giving an interim injunction preventing progress continuing with regard to the Framework.
22. The Framework is made up of a number of parts intended to produce an overall arrangement that will extricate the natural gas production sector from its state of deadlock. A major part of the Framework is the exemption from application of the Antitrust Law. This exemption is given under the provisions of Article 52 of the Antitrust Law, which states:
 

"The Minister, after consultation with the Knesset Economic Committee, may exempt a cartel from the provisions of this law, in whole or in part, if he feels that it is required for reasons of foreign policy or state security."
23. **The exemption under Article 52 of the Antitrust Law has not yet been granted, and requires consultation with the Economic Committee. Accordingly, the validity of the Government Resolution is subject to granting this exemption.**
24. Attached to the proposed resolution is an economic opinion and an opinion from the Ministry of Defense, Ministry of Foreign Affairs, and the National

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<sup>2</sup> HCJ 4994/15 The Israeli Energy Forum et al v. The Prime Minister of Israel et al

<sup>3</sup>HCJ 4374/15 The Movement for Quality Government v. The Prime Minister of Israel et al

Security Council. The Ministry of Defense opinion can be found in the Government Secretariat, for the ministers to study.

### **Components of the framework**

#### **Section B – Exemption in accordance with Section 52 of the Antitrust Law**

1. It is proposed to declare that the government feels that as part of the overall arrangement with regard to the natural gas sector, there is room to grant an exemption from part of the provisions of the Antitrust Law for the restrictive agreements detailed in Appendix A, on the scale and under the conditions detailed in said appendix. The exemption will be granted under Article 52 of the Antitrust Law, and subject to consultation with the Finance Committee. It is emphasized that there may be changes in the provisions of the exemption following this consultation.

The explanation of the components of the exemption are detailed below.

#### **Section C – Timetables for development of the Leviathan natural gas field**

1. As part of this framework, owners of rights in the Leviathan and Tamar fields are obligated to bring about the rapid development of the Leviathan field and the expansion of the Tamar field, as well as an increase in the quantity of natural gas produced from it. The holders of rights in the Leviathan and Tamar leases have announced that they will act immediately to continue the investments and other operations required for the development of said reservoirs.
2. However, the timetables for developing Leviathan need to be updated in accordance with the mechanism specified in the lease so that they can be adjusted for the delay that ensued following the Antitrust Commissioner's decision. For this purpose it should be noted that the field to be developed lies in deep water, which naturally entails a lengthy development period. The Antitrust Commissioner's decision caused development to halt and forced the lease holders to end contracts with suppliers. Moreover, all processes related to formulating export agreements on the scale needed to fund the field's development were delayed.
3. Therefore, the Petroleum Commissioner informs the Government of his intention to postpone the start of commercial production and the flow of natural gas to the domestic market until 48 months from the Determining Date (the date of granting the exemption under Article 52 of the Antitrust Law), in accordance with the mechanisms specified in the leases.
4. Furthermore, it is proposed to resolve that for the sake of rapid progress in developing the Leviathan field, all the government entities will take steps to

provide the authorizations needed for taking an investment decision within a reasonable period of time. In order to provide said response, the applicants must submit their applications for authorization as early as possible, and in a manner that will enable the government ministries to complete the proceedings in a reasonable timeframe. This decision has implications for the decision in the matter of regulatory stability, as detailed in the explanations to Article 10 of the Resolution.

5. In this framework, it is also proposed to define a milestone for development of the Leviathan field, such that by the end of 2017 engagements will be in place in binding agreements for the purchase of equipment and services for development of the field, in an overall amount of \$1.5 billion. This amount is in addition to the \$1 billion invested up to the date of this Government Resolution.

#### **Section D – Prices**

1. The draft Resolution includes regulation of the issue of natural gas prices (basic price and linkage components) to apply in the case of sale and marketing of the natural gas to be sold in accordance with agreements to be signed after the date of the Government Resolution.
2. It is proposed that for a limited period, to extend from the date of the Government Resolution to the date on which the rights of the Karish, Tanin and Tamar lease holders shall be transferred (in this section – the **transition period**), the lease holders shall offer potential customers with whom they will be entering into negotiations the two price and natural gas linkage options set forth below:
  - (1) **Weighted average of the existing market prices** – In this option, each calendar quarter a base price shall be calculated that reflects a weighted average of all of the gas prices in the existing agreements between the lease holders and their customers. The base price shall be derived from the results of the calculation obtained when all of the natural gas sales carried out by the lease holders during a given period are divided by the cumulative quantity of natural gas supplied to customers during that same period. This calculation shall be based on data of the calendar quarter that preceded the calendar quarter in which the agreement will be signed. For example, the price and updating method in an agreement to be signed in August 2016 shall be based on data from the first quarter of 2016.

The base price shall be updated at the start of each calendar quarter in accordance with the weighted average of the prices, via the aforementioned calculation method. It should be noted that the present base price, as per data of the first quarter of 2015, is \$5.4 per MMBTU.

- (2) **Optimal Brent contract** – In this option, the gas companies shall offer potential customers the optimal contract from among those contracts for the supply of natural gas from the Tamar reservoir that are linked to the oil price index (the Brent index). For this purpose, the **optimal contract** is the contract that includes the price and linkage method that result in the lowest price.
- (3) The natural gas prices are a major component in the expenses of electricity producers. Currently, in most of the agreements with the private electricity producers, the natural gas prices are linked to the weighted production rate published by the Electricity Authority. In this way, the electricity producers guarantee that their expenses will be in line to a considerable degree with their income.

In light of the above, it is proposed that potential consumers who are private electricity producers with a production license for an installed capacity of 20 MW or above per site also be offered the price and linkage option detailed below, in addition to the two options in Section 1.1 and 1.2 of the Resolution:

- (a) Conventional electricity producers - a simple average of the prices set out in the contracts of the three large conventional electricity producers, and linkage according to the same contracts.
- (b) Cogeneration electricity producers - a simple average of the prices on the date of the government resolution in cogeneration contracts linked to the weighted production rate, and linkage according to the same contracts.

In accordance with this option, and given the electricity prices as of the date of the resolution, the gas price for private conventional electricity producers is expected to be \$5 per MMBTU until March 2016, and on that date the price is expected to decrease to \$4.7 per MMBTU. In addition, in accordance with that stated, the price of gas for private cogeneration electricity producers is expected to be \$5.10 per MMBTU until March 2016, when the price is expected to decrease to \$4.80 per MMBTU.

3. The lease holders shall be obligated to provide the Natural Gas Authority with all of the data required for purposes of calculating the price and updating method in accordance with the option detailed in Articles 1.1 – 1.3 of the Resolution (data regarding the total income from all natural gas sales that took place during the calendar quarter that preceded the calendar quarter prior to the date on which the agreement was signed and the quantities of natural gas that were supplied to the customers during that period, and the average prices set out in the contract of the conventional electricity producers and cogeneration electricity producers as detailed in the resolution). It is clarified that, from the lease holders' point of view, the provision of said data is

conditional on their confidentiality. It is therefore proposed to determine that the Natural Gas Authority shall be authorized to publish only the base price, which is the weighted average of all of the prices in the sector, as noted, or the simple average, as relevant.

4. Another option for a ceiling price that the lease holders will be obligated to offer potential customers is the price and linkage set out in an export contract with a mechanism as detailed in section 2(d) of Appendix B to the Resolution (the Taxation Appendix). This mechanism is meant to enable Israeli customers to obtain the gas prices offered to foreign customers if the export price is lower than the Israeli price. Accordingly, it is proposed to clarify that nothing that stated with regard to the prices and updating method shall derogate from the obligation of the rights holders in the leases to offer the gas price set out in the export contract in a mechanism as detailed in Section 2(d) of the Taxation Appendix.
5. The lease holders may offer potential customers a discount on the prices resulting from the options set forth in this section. It is also suggested allowing the companies and customers to choose any other method for updating the base price, on condition that it is reasonable and commonly used in Israeli or foreign natural gas contracts. It is clarified that, even in an instance where another linkage method is chosen, it shall apply to the base price on the day the agreement was signed, and this price shall not exceed the base price obtained by calculating the weighted average as noted above.
6. The lease holders are obligated to offer the price options set forth above during the transition period. Therefore, regarding agreements signed prior to the date of the Government Resolution, they shall be subject to the price and price-updating methods specified in them.
7. Given the measures to encourage competition in Section 1, and given the proposal that export contract prices be offered to Israeli customers, as detailed in Section 2(d) of the Taxation Appendix, the Government representatives recommend to the Government that it recognize the prices and linkage method set forth above.
8. On April 22, 2013 the Minister of Energy and the Minister of Finance (in this section – **the Ministers**) issued a Commodities and Services Supervision Order (Application of the Law to Natural Gas and Determination of a Supervision Level), 5773-2013 (hereinafter: **the Order**), in the framework of which it was determined that the Commodities and Services Price (Control) Law, 5756-1996 (hereinafter: **the Price Control Law**) would apply to natural gas. According to the Order, the level of natural gas supervision shall be reporting on profitability and prices as per Section G of the Price Control Law.

9. It is proposed to determine that, so long as the lease holders comply with all of the terms of the Framework, including the price and updating method noted above, the Government position is that the Ministers' decision regarding the application of Section G of the Price Control Law to natural gas prices shall remain unchanged throughout the transition period.
10. Guaranteeing an agreed-upon ceiling price for the transition period will provide certainty to the entities active in the sector, including customers and investors in the upstream sector of Israel's natural gas industry, while maintaining the existing incentive to develop the fields.
11. What is at issue is a limit on natural gas prices, constituting a "soft" form of price control. The State is not imposing a specific price – but rather making the non-imposition of a price conditional on the lease holders' compliance with a set of terms leading to an outcome very similar to that of actual price control. This price reflects a policy decision that weighs all of the interests at stake.
12. It is proposed to ask the Price Committee that acts in accordance with the Price Control Law to examine retention of the natural gas price control per Section G of the Law during the transition period. It is proposed that the Price Committee formulate its position on the matter as soon as possible.

## **Section E– Gas exporting**

### **Section 1 – Amendment to Government Resolution 442**

1. It is proposed to amend Government Resolution 442 of June 23, 2013 on the matter of adopting the main recommendations of the Committee for Examining Government Policy on the Gas Sector in Israel (the Zemach Committee Report) (hereinafter: **Resolution 442**).
2. **Sub-section (a)** – Resolution 442 specified the assurance of a quantity of BCM 540 for the domestic market. It was also specified that the quantity of gas, pertaining to discoveries recognized by the Petroleum Commissioner for which leases have been granted and the connection of whose leases to the shore have been completed in a manner that enables their supply to the Israeli market, shall be assigned to the 2P category of the Petroleum Resources Management System (PRMS). PRMS is a system of accepted international rules for defining natural gas reserves and resources. Classification into the appropriate categories is done by international companies that specialize in this area, whose services are employed by the Commissioner.

The current formulation creates a problematic "circularity" that hampers the development of Leviathan. This is because classifying a reserve as 2P, as it is today, entails, among other things, signing contracts for natural gas sales, or a high level of certainty that a market exists for the sale of natural gas from the

reservoir, at least in the amount needed to fund development of the field, in the professional judgment of the assessing companies. In the current formulation, export permits may not be granted prior to connection of the lease to shore in cumulative amounts of BCM 540, per category 2P (which entails a level of certainty regarding sale of the gas that does not exist prior to granting the export permits), for the domestic market. The circular situation that is created does not allow export permits to be granted before connection of the amount as stated in accordance with category 2P, on the one hand, while on the other hand it is only possible to recognize this category after contracts are signed and export permits granted. It should be emphasized that no change is involved in the quantities made available to the domestic market under Resolution 442, merely a change in the category by which the quantities are examined.

Thus, in order for export permits to be granted to the Leviathan lease holders, it is proposed that the method of calculating the gas reserves also be based on category 2C, which does not require the level of commercial certainty entailed by category 2P.

3. **Sub-section (b)**– Resolution 442 states that exporting gas from Israel will be possible on condition that the total quantity to be made available to the domestic market be not less than BCM 540. Resolution 442 also specifies a minimal supply requirement for the domestic market for each gas lease, in accordance with the amount of gas it contains. The total amount of gas available for export from all of the leases, given the current export limit on each lease, in accordance with its size, is liable to exceed the quantity of gas available for export relative to the total quantity required for the domestic market (BCM 540). It is therefore proposed that the amount of gas available for export be in accordance with the relative share of the quantities allowed for export in the reservoirs during the period in question (pro rata).
4. **Sub-section (c)** – Correction of a clerical error in Resolution 442. A clarification is proposed, namely, that the quantity be determined by the Commissioner, as noted in sub-sections 1(H)(1)-(3) of Resolution 442.
5. **Sub-section (d)** – In accordance with the proposed Framework and in order to increase competition in the domestic market, Delek and Noble shall be required to sell all of their rights in the Karish and Tanin fields within 14 months to a third party unconnected to either of them, and should a sale not take place, responsibility for the sale shall be transferred to a trustee who will be obligated to complete the sale within four months. Starting from the date of authorization of the transfer of all rights in Karish and Tanin by the Petroleum Commissioner, the export quota for Karish and Tanin shall be replaced by the

“obligation of supply to the domestic market” that applies to the Leviathan lease holders. Accordingly, the Tanin and Karish reservoirs, once developed, shall serve the domestic market exclusively. Moreover, the linkage between replacing the export quotas and the sale of Karish and Tanin will constitute an incentive to expedite their sale.

6. **Sub-section (e)** – In accordance with Resolution 442, exporting natural gas from Tamar will be possible only after connection of BCM 540 to the shore. The practical meaning of this requirement is that exporting depends on Leviathan’s connection to the shore. It is of great geopolitical importance that Israel export natural gas to Jordan and Egypt as soon as possible. To make this export possible, it is proposed that the prerequisite of awaiting Leviathan’s connection to the shore be waived.

Resolution 442 also states that the quantity of gas that will be available for exporting from the Tamar reservoir is 50% of the quantity to which the lease holders had yet to commit themselves for the domestic market on the date of Resolution 442. A clarification is proposed, namely, that in a situation where a customer has realized a quantity-reduction option granted to it per an agreement with the lease holder that was signed in accordance with Resolution 442, the quantity of gas for which the quantity-reduction option was realized shall be considered as part of the quantity of natural gas that the lease holders have yet to commit themselves to supplying to the domestic market. That is: it will be possible to export 50% of the amount for which the quantity-reduction option was realized. This is because the quantity in question is, in essence, not being utilized for domestic-market purposes. It should be clarified that this proposal refers solely to the quantity available for exporting from the Tamar field, and does not change or reduce the amount of natural gas that, per Resolution 442, is required for the domestic market – BCM 540.

Moreover, in light of the fact that Tamar has a lower export quota than any other field of its size, amounting to 50% of the quantity that the lease holders had yet to commit themselves to supplying to the domestic market on the date of Resolution 442, the pro rata proposed in the amendment to Section 1(B) of Resolution 442 shall not apply to it.

**Section D(1)(F)** –Section 1(H)(11) of Resolution 442 stipulates an assessment of the need to set rules for determining that a natural gas sale to domestic customers for the production of goods intended for export, of which natural gas is a major component, shall be considered as an export. That is, if it is decided to set out such rules, then a plant manufacturing a different product where natural gas is a substantive component in the manufacture of the material (by breaking down and assembling materials), and this product is intended for export, with regard to this Resolution it will be considered as if it is export. Pursuant to Government Resolution 766, in whose Framework it was decided to close the ammonia tank at

the Port of Haifa, the Ministry of Environmental Protection published a tender for construction of an ammonia production plant at Mishor Rotem.

Israeli industry uses ammonia as an important production component. In order for the ammonia plant to be constructed in Israel to serve as a substitute for the import of ammonia, as exists today, it must produce ammonia at prices that are competitive by comparison with the import price. In order for ammonia to be produced at competitive prices, the plant will apparently also produce other products, making use of economies of scale of the manufacturing line. It is likely that there will not be sufficient demand in the local market for these products, based on natural gas as essential component in their production, and they will be intended for export.

In order to forward the plant's construction it is proposed that the quantities of natural gas that will serve the envisioned plant pursuant to the aforementioned tender, including the quantities to serve in the production of additional goods at the plant in which natural gas is a major component, not be considered in the export quota framework as quantities of natural gas for export, even if the products are exported.

7. **Sub-section (g)** – Resolution 442 states that the Mari B field shall serve as a reservoir for the storage of natural gas, and that for this purpose a storage license shall be granted to the Ashkelon license holders with regard to said field. Additionally, granting of the storage license was made conditional on the Tamar lease holders laying a natural gas transmission pipeline from the Tamar field to the Ashkelon area, including a treatment facility. The purpose of the storage reservoir and the pipeline was to ensure redundancy in the Israeli system.

It has now become clear that, for geopolitical and engineering reasons, Mari B cannot be used as an active storage facility. Moreover, as noted, the pipeline to Ashkelon is intended to ensure redundancy in the domestic market, but its construction will take a long time. On the assumption that development of Leviathan will go forward at a rapid pace, it is becoming doubtful whether building an additional pipeline to the Ashkelon area is feasible.

It is therefore proposed that the provision in Resolution 442 pertaining to storage at Mari B be deleted.

It is also proposed that the Minister of National Infrastructure, Energy and Water Resources be required to examine various options for creating redundancy in the local supply chain, including the utilization and adaptation of existing infrastructure and the construction of an additional pipeline from the Mari B platform to the national transmission system in the Ashkelon area, including a treatment facility.

It is proposed to stipulate that, should it be decided to build a pipeline, the Tamar lease holders shall enable its connection to the Mari B platform and, on

instruction of the director of the Natural Gas Authority, shall transmit to the additional pipeline the quantity specified by the director, on condition that it not exceed MMBTU 600,000 of natural gas per day, at the treatment quality present at the Tamar platform, instead of transmitting it to the Ashdod receiving station. This quantity is approximately half of the quantity that can be supplied per day from the Tamar platform to the domestic market.

#### Section (2) – Use of the Mari B platform

1. Pursuant to the replacement of Section 2 in Resolution 442 as noted above, it is proposed that the Tamar lease holders be permitted to use the Mari B platform throughout the Tamar lease period, for purposes of exporting natural gas or supplying it to the domestic market from the Tamar field, subject to compliance with the provisions of the section.
2. For purposes of expanding development of the Tamar field, so as to increase the export supply, including exports to Egypt, and to increase the supply to the domestic market, the Tamar lease holders are required to build additional infrastructure for gas treatment. Construction of this infrastructure at the Tamar platform would entail a reduction or even a complete cessation of the supply to the domestic market for an extended period. At the same time, the Mari-B platform is located near the Tamar platform, and it would be inefficient to dismantle the Mari-B platform and build a new treatment platform for exports from the Tamar lease while utilization of the adjacent Mari-B platform is declining. It is therefore proposed that terms be stipulated with which the Tamar lease holders shall have to comply, so that they can utilize the Mari-B platform for exports from the Tamar field. Among other things, the Tamar lease holders shall be expected to adjust the guarantees deposited with the Ministry of Energy to ensure fulfillment of the obligations associated with the Tamar lease, so that they may also guarantee fulfillment of the obligations associated with the use of the Mari B platform.

It should be noted that the section regarding construction of a natural gas pipeline by the purchaser of gas for export who is not a leaseholder included in the draft Framework presented for public comment is not included in this version of the Government Resolution because the subject has been regulated in the framework of the Social-Economic Cabinet resolution validated as a Government Resolution on August 5, 2015 in the framework of approval of the state budget and the Arrangements Law for the years 2015 - 2016.

#### Section F– Taxation

1. **Section 1** - The announcement by the Tax Authority with regard to the taxation framework determined by the Tax Authority, with which the leaseholders in Tamar and Leviathan have undertaken to comply, is attached as Appendix B.

The tax framework regulates the main tax issues arising from the export agreements that have been or are about to be signed by the Tamar and Leviathan leaseholders, arising mainly from the Petroleum Profits Taxation Law and the Income Tax Ordinance, as well as other laws.

2. **Section 2** - Further to the Memorandum Amendment to the Petroleum Profits Taxation Law circulated in the past, and amended since then by the Tax Authority, a Memorandum Amendment to the Petroleum Profits Law will be circulated for public comment, containing various amendments intended to close tax loopholes, various clarifications, and the application of tax collection assessment proceedings.

In the framework of said amendment to the law, among other things the definition of "special relations" existing in the law will be expanded. This expansion will relate to, among other things, to the definition of control such as to apply also to a holding, direct or indirect, of more than 20% in one of the means of control.

### **Section G– Awarding a Lease Deed for Karish and Tanin**

The Government notes the intention of the Petroleum Commissioner to award lease deeds for the Alon A and Alon C licenses in which the Karish and Tanin fields are situated, and which the present rights holders are required to sell at the dates set out in accordance with the exemption under the Antitrust Law. These lease deeds will be amended after transfer of the rights and no later than four months after the transfer of rights has been approved. The awarding of the leases is in accordance with Article 26 of the Petroleum Law, since the existing license holders have proved that petroleum discoveries are present in the areas covered by these licenses. At the same time, the Petroleum Commissioner intends to change the conditions of the leases after their purchase, according to circumstances and according to the issues that the Commissioner sees fit to regulate, among other things in light of the identity of the buyers and the characteristics of the development plan for the field, providing an option for the buyers to present their needs regarding rapid development of the holdings.

### **Section H– Development of the Tamar Southwest Field**

1. The Tamar Southwest field lies mostly within the area of the Tamar lease, while a small part of it (about one-fifth to one-quarter) lies within the area that was included within the area of the former 353/Eran License ("Eran License").
2. On December 16, 2008 the Petroleum Commissioner granted the Eran Lease to Noble, Delek Drilling Limited Partnership, Avner Oil Exploration Limited Partnership, and Ratio Petroleum Exploration (1992) Limited Partnership. On September 3, 2013 the Commissioner informed the license holders holding the Eran license that the license they held expired on June 14, 2013. This, after the

said license holders had not performed any exploratory drilling, and further to previous correspondence on the matter.

3. An appeal was submitted to the Minister against the Commissioner's decision regarding expiration of the Eran Lease and his decision not to extend it. On August 10, 2014 the Minister rejected the appeal by the partnerships holding the Eran License.
4. The Minister's decision regarding the appeal against expiration of the Eran Lease and the decision not to extend it was appealed to the Supreme Court in Case 7776/14, Noble Energy Mediterranean Ltd. et al vs. the Minister of National Infrastructures, Energy and Water Resources et al, and the final verdict has not yet been given in this case. It should be noted that as of May 31, 2015 a decision was issued in the context of this Supreme Court appeal in which it was determined, *inter alia*, that "it seems that on this background, the chances of the motion to be accepted are not very good. In view of this, it is proposed to the appellants, with due regard for the cost of litigation, to reconsider their future actions in the context of this motion." The Supreme Court proceeding is pending, and a date for hearing has been set in February 2016.
5. The Government's position is that the rights granted under the Petroleum Law in the Eran License area have returned to the State. This means that there is currently no license holder in the Eran license area, and the State owns all the rights to gas in this area. This is in light of the legal starting point under Article 1(2) of the State Assets Law 5711-1951, whereby the natural gas is the property of the State.
6. Pumping gas from the Tamar Southwest field will also lead to the flow of the gas that is in the part of the reservoir that is located within the former Eran license area, which will flow into the part of the reservoir located within the Tamar lease area. This action is liable to deplete the part of the reservoir located within the Eran license area, as it leaks from the part of the reservoir located within the Eran license area into the part of the reservoir located within the Tamar lease.
7. For this reason, an agreement is required between the Government and the Tamar lease holders for the purpose of settling accounts for investment in development of the field and the production of gas from it, and for the Government take in the profits from the gas sales. On July 1, 2015 a negotiating team was appointed headed, by the Accountant General and with the participation of representatives from the Ministry of National Infrastructures, Energy and Water Resources, the Tax Authority, and the Ministry of Justice. It is proposed to instruct the inter-ministerial team to conclude negotiations with the Tamar lease holders in order to arrive at an agreement on this subject of development of the Tamar Southwest field.

8. At the same time, in order to enable development of the Tamar Southwest field to begin, while at the same time retaining the Government's rights to part of the reservoir (so long as the Supreme Court does not decide otherwise), it is proposed to limit production from this field until production of a quantity of natural gas whose sale will yield income amounting to a sum that will not exceed \$575 million (the cost of producing the gas as audited by the Accountant General at the Ministry of Finance). Income from the field will be calculated in accordance with the quantity leaving the field multiplied by the average price of the gas sold from the field during the sale year.
9. Beyond the production of a quantity that will allow for a return of the investment in development of the reservoir, no further production will be allowed until the mechanism for settling accounts between the rights holders and the Accountant General has been arranged in a way that will ensure that the Government secures its rights to the gas located within the area of the former Eran license. This is a balanced mechanism allowing production of the gas from the Tamar Southwest reservoir and increasing redundancy for the Israeli economy, alongside guaranteeing the State's economic rights in this area.

### **Section I – Local Content**

There is a great opportunity for leveraging the natural gas finds off the coast of Israel in favor of developing local industry in the field of gas and petroleum, and increasing purchases from local suppliers in Israel. The undertaking by the Leviathan and Tamar lease holders to invest in local content will accelerate the integration of local industry in significant gas and petroleum production projects in Israel and worldwide.

Leveraging the finds will also help in training specialist professional personnel in the gas professions, and the introduction of Israeli high-tech industry into the developing branch of drilling technologies.

The undertaking given by the rights holders includes a wide range of local content, including sections on the direct purchase of goods and services, indirect purchase by subcontractors, direct investments and investment in Israeli research and development, professional training, and direct employment. Over and above the direct implications of implementation of this undertaking, it is estimated that the measure will improve the competitive value of Israeli industry in these fields, and develop new global markets for it.

### **Section J – Establishing a Stable Regulatory Environment**

1. One of the means intended to enable and promote investments for the production of the natural gas resource is to create a stable regulatory environment that provides investors with certainty, to the extent that this is legally permissible.

2. This stability is also required against the background of the material steps taken by the Government during recent years.
3. For this reason, and out of a recognition of the importance of developing the natural gas reservoirs for the benefit of the State of Israel, the Government wishes to define a framework in which it can act with discretion when making decisions regarding regulatory changes pertaining to the natural gas production sector (this does not refer to other sectors in the natural gas economy).
4. For the purpose of establishing regulatory certainty and stability, it is proposed that the Government define a framework within which it may exert discretion on two levels:
  - A. The Government will carefully consider changes in regulation that are liable to impact the feasibility of investment in development of the leases, and attempt to adjust regulation as far as possible to the accepted practice in OECD countries that have a gas and petroleum industry. The Government ascribes importance to learning lessons from the experience of OECD countries where the gas and petroleum sector is more developed than in the State of Israel. Reference to these countries also helps on the level of assuring certainty, for these regulatory frameworks are well known to both investors and operators.
  - B. The Government will refrain from making any material changes in the areas detailed below which have undergone material changes in recent times that were intended to secure public interest. The Government will not initiate any such changes as above and will also oppose any bill proposed by private parties that wish to promote changes as above in the sector.

In recent years the Government has made a number of material changes in the regulation of the natural gas production sector. Thus, the tax rate that lease holders are obliged to pay the Government for gas profits has been increased significantly in the context of the Petroleum Profits Tax Law 5771-2011. In addition, the Government has imposed limits on the export of gas with the purpose of ensuring appropriate reserves for the Israeli economy. Finally, in the context of a resolution made by the present Government, the Government requires that the present rights holders in the Tamar and Leviathan leases carry out certain structural changes.

The three aforementioned areas – the fiscal arrangements that define the public share in the profits of the lease holders from the natural gas resource, the securing of gas for the domestic economy, and the structural arrangements – all involved material changes that were made in recent years in order to ensure that the public interest is maintained.

For this reason, the Government does not consider that any additional material changes are required in the structural arrangements and the area of limitations on export as far as such changes relate to the production of gas

alone and not to system-wide changes or other steps involved in enforcement of existing arrangements.

As regards the fiscal area, it is emphasized that the Government is not deciding not to make any changes at all, but only not to make any changes that in the eyes of a reasonable investor would appear to be material. In addition, the Government reinforces its commitment to the principles underlying the Petroleum Profits Taxation Law and the Petroleum Law (in which the duty of lease holders to pay royalties is anchored).

The Government ascribes importance to changes in the fiscal regime, including changes in legislation aimed at realizing the principles underlying the Petroleum Profits Taxation Law and the Petroleum Law, as well as changes intended to protect the public's appropriate share as it is currently anchored in these laws. In the context of this obligation, the Government will act to make any changes in law or to implement any collection and enforcement measures aimed at protecting the public's due share as it is currently anchored in these laws.

5. Government policy on this subject will remain in force for a period of 10 years from the date on which the Government Resolution is passed (unless different timetables have been established in a specific context within the Framework). At the end of this period the Government's policy will be reconsidered in accordance with the circumstances prevailing at such time.
6. Following comments made at the public hearing and further examination, it was decided to make a number of changes to this section.
7. The first change is the addition of milestones for the development of the Leviathan field. One of the main purposes of the Government declaration is to bring about the rapid development of the Leviathan field. Therefore, two new milestones have been introduced, intended to allow an examination of Government policy on the subject of stability in light of the development of this field - one at the end of 2017, and the second five years after passage of the Government Resolution. The first milestone relates to signing binding contracts on a scale of \$1.5 billion (in addition to the \$1 billion invested so far), and the second to the flow of gas or the investment of the significant amount of \$4 billion as of the date of receiving the license (this relates to the 349/Rachel and 350/Amit licenses). This amount includes the investment of around \$1 billion that has already been made.
8. The addition of these milestones is intended to allow the State to add an additional tier of supervision and control to the law as existing today, and also to set two points for examination of the long-term stability policy.
9. As noted, alongside this amendment another section has been added to the Framework as part of the timetables for development of the Leviathan field, instructing State representatives to take steps to provide the necessary permits

for taking investment decisions within a reasonable period of time. Providing this response will first require the permit applicants to submit applications at the earliest possible opportunity, and in a manner that will enable the Government to complete the processes in a reasonable timeframe. Examination of the stability policy at the end of 2017 will also take into account the way in which this section of the Framework has been implemented.

10. The second amendment relates to private members' bills. The Framework deals entirely with resolutions by the Government and the State entities that are subordinate to it. There is no intention of constraining the discretion of the Knesset to enact laws, or to harm its legal ability to enact laws that are in contradiction to the Framework.
11. In order to clarify this point, the Government Resolution also relates to a situation in which, despite the Government's objections, a private member's bill has been passed that conflicts with the Framework. In such a case, the legislation will not be considered an action in contradiction to the Framework, but the Government gives notice that at the same time, it will advance Government legislation to revoke the change.
12. The Government Resolution relates to the present rights holders in Tamar and Leviathan. The Resolution is taken against the background of the obligation and undertaking of said rights holders to develop the leases with appropriate speed and diligence. In addition, it is based on the undertaking of the present rights holders in the leases to conform to all conditions of the Framework as specified in this Government Resolution.
13. It should be emphasized that this is not a contract between the Government and the lease holders, rather an action that is appropriately classified as part of administrative law.
14. In addition, it is proposed to anchor a number of additional instructions regarding the present rights holders in Tamar and Leviathan in the Government Resolution, for the purpose of increasing the certainty in this sector.
15. First, it is proposed to establish that from this point henceforth, any change in the lease conditions will only be made under exceptional circumstances and in accordance with the conditions stipulated in the lease document of the Leviathan lease, as follows:

**"32. Changes in the Conditions of the Lease Document**

...

32.2 Under exceptional circumstances, the Commissioner is entitled to change, add or deduct from conditions in the lease document and the approval documents ("change"), if there is a vital

need for such change in order to attain their goals or in order to uphold relevant laws that were added or amended since they were legislated, or the existence of a relevant international treaty to which Israel is a party, or on account of a material change in circumstances, and all only after the Commissioner has given the lease holder a fair chance to make his claims heard, subject to the rules of administrative law; a change that is not required by such laws or treaties as above will only be made after the Commissioner has examined, *inter alia*, the weight of public interest in the change versus the interests of the lease holder; to the extent that the change will cause the lease holder material economic damage, such change may not be made except with the approval of the Minister, and with appropriate reference to such a damage as above, including, where required, by way of an economic response."

16. In addition, it is proposed to reinforce the certainty relating to the conditions for approval of the transfer of rights of lease holders and their encumbrance in favor of others, and to establish that such will be approved in accordance with the provisions of the law. It should be noted that in accordance with Section 76(a) of the 1952 Petroleum Law: "A preliminary permit, license and lease are personal and neither they nor any benefit accruing from them may be encumbered or transferred in any way whatsoever – except for inheritance – unless the director permits this; nor will the director allow an encumbrance or transfer of a license or a lease before consulting with the council."

It should be recalled, as stated in Section G(3) of the draft Framework published for public hearing, that the Petroleum Commissioner has announced that "it is the intention of the Ministry of National Infrastructures, Energy and Water Resources to publish, no later than July 10, 2015, a draft of the regulations pertaining to the conditions to which the operator of an offshore petroleum right must conform, and to the principles of offshore petroleum exploration, and a draft of instructions in the matter of the transfer of petroleum rights." The draft regulations on this matter have recently been published.

17. Finally, on the basis of an understanding that rapid development also requires that the needs that arise be met within reasonable timetables, it is proposed to instruct the various regulators to discuss the issues that require the exercising of authorities related to natural gas field development within a reasonable time.

## **Section L – Monitoring of Application of the Framework, Removal of Obstacles and Encouragement of Small and Medium-sized Reservoirs**

1. It is proposed to establish a professional, inter-ministerial team, whose members will be representatives of the relevant Government entities, in order to guarantee implementation of the Framework, support the rapid development of the natural gas sector, and assist the Minister of National Infrastructures, Energy and Water Resources in developing and implementing government policy in the natural gas sector. Establishment of this team does not change the authorities of any Government entity.
2. It is proposed that the team accompany implementation of the Framework, including ensuring compliance with the conditions set out therein. It is also proposed that the team take steps to support development of the Leviathan, Tamar (expansion), Karish and Tanin fields by means of inter-ministerial coordination and the removal of obstacles.
3. The head of the team will report to the Minister and the Government once a quarter on the state of progress in implementation of the Framework.
4. Small and medium-sized natural gas fields are liable to create decentralization of gas suppliers and provide significant promotion of competition in the local economy. Accordingly, there is considerable value to developing these reservoirs. At the same time, the development of small and medium-sized reservoirs has unique challenges. It is therefore proposed to charge the Minister and the Minister of Finance with examining the use of incentives, including economic incentives, to support the promotion of exploration and development of small petroleum or natural gas fields, within no more than 100 days of the date of passage of this Resolution.

Explanatory remarks for the appendices are presented after the appendices.

### Budget

Not relevant.

### Effect of the proposal on the personnel payroll

Not relevant.

### The position of other ministers whose area of authority is affected by the proposal

### Previous government resolutions on the subject

Government Resolution no. 442 on the subject of "Adoption of the main recommendations of the Committee Examining Government Policy on the Natural Gas Sector in Israel (Zemach Committee Report)", of June 23, 2013.

Political - Security Cabinet Resolution no. B/6 of June 25, 2015.

Government Resolution No. 142 of June 28, 2015.