



Rating Action: **Moody's places Leviathan Bond's Ba3 ratings on review for downgrade**

23 Oct 2023

London, October 23, 2023 -- Moody's Investors Service (Moody's) has today placed the Ba3 ratings on the senior secured notes issued by Leviathan Bond Ltd. (Leviathan Bond) on review for downgrade. Previously, the outlook was stable.

Leviathan Bond is a special purpose vehicle and the notes are secured on the 45.34% working interest of NewMed Energy Limited Partnership (NewMed Energy) in the Leviathan gas project, located off the coast of Israel, and associated assets.

RATINGS RATIONALE / FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Today's rating action is triggered by the unexpected and violent conflict between Israel and Hamas, which include the loss of life and increases Israel's already relatively high exposure to geopolitical risks. Moody's placed the A1 ratings of the Government of Israel on review for downgrade on 19 October 2023. For further information, please refer to the sovereign press release: "Moody's places Israel's A1 ratings on review for downgrade" (<https://ratings.moodys.com/ratings-news/410047>).

Leviathan Bond derives its cash flows entirely from the Leviathan field, which is located 130 km offshore, in the northern part of the country. The field is connected to the Leviathan platform some 10 km off the coast of Israel. Since the start of the military conflict, the Leviathan field has been operating at full capacity and there has been no disruption to its operations. Following the suspension of production at the Tamar field on 9 October, demand for gas from Leviathan in the domestic market has increased, with some shift in Leviathan's gas sales as permitted under the term of the long-term gas sale and purchase agreements. However, the rise in geopolitical risk, and in particular the military activity in the northern part of the country, increases the risk of asset damage, operational issues, and government intervention, all of which could have a material impact on the credit quality of Leviathan Bond.

As of end-June 2023, NewMed Energy had cash and short-term investments of around USD87 million. However, this amount would have increased, given the project's strong free cash flow generation. As a result, Moody's believes that the project company would be able to cover operating expenses and interest expenses for several months, if production was temporarily interrupted. Leviathan Bond does not have any immediate refinancing needs and its next debt maturity is related to the USD600 million bond due in June 2025.

Leviathan Bond could be adversely affected by physical damage to the Leviathan's assets or any associated infrastructure. There is also a risk of a pre-emptive suspension of production from the field. Moody's notes that NewMed Energy maintains a comprehensive insurance package for physical damage risk and business interruption. These insurance policies apply in an event of a political violence, and they are additional to the Property Tax and Compensation Fund, which is provided by the Government of Israel. However, as the situation is evolving, benefits of any insurance package are difficult to assess. Furthermore, insurance for business interruption would not cover a situation in which the Government of Israel were to order a suspension of the Leviathan field's production.

The review will consider the risks to Leviathan Bond's cash flows, its exposure to geopolitical risks, as well as any offsetting measures that may be available in the context of the evolving situation.

Moody's could confirm Leviathan Bond's ratings if (1) its review concluded that the current military conflict could be resolved without lasting damage to Leviathan's operations and the geopolitical risk could be accommodated at the current rating level; (2) there were no adverse changes to the company's off-take arrangements or its counterparties; and (3) there were no concerns about Leviathan Bond's liquidity.

The ratings could be downgraded if (1) Leviathan's assets or operations were adversely impacted by the military conflict and this was not offset by any mitigating measures from the government, shareholders or through the insurance coverage; (2) Moody's review concluded that geopolitical risk could not be accommodated at the current rating level; (3) there were adverse changes to the company's off-take arrangements or its counterparties; or (4) there were concerns about Leviathan Bond's liquidity.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Generic Project Finance Methodology published in January 2022 and available at <https://ratings.moodys.com/rmc-documents/361401>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

Leviathan Bond Ltd. is a special purpose vehicle established to issue bonds secured by a first priority fixed pledge of NewMed Energy's 45.34% working interest in the Leviathan gas project as well as certain associated assets. Recourse against NewMed Energy is limited to the collateral pledged by the sponsor.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Joanna Fic
Senior Vice President
Infrastructure Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London, E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Neil Griffiths-Lambeth
Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London, E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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