



OIL REFINERIES LTD

Condensed Consolidated Interim Financial Statements as at March 31, 2020

(Unaudited)

This translation of the financial statement is for convenience purposes only.

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Directors' Report on the State of the Company's Affairs for the Period ended March 31, 2020

The Board of Directors is pleased to present the Directors' Report on the State of the Company's Affairs for the period ended March 31, 2020 ("the Reporting Period"). This report is presented under the assumption that the entire interim report and the entire 2019 Periodic Report, including the description of the Corporation's business for 2019, are also available to the reader.

Chapter 1 - Description of the Company and its Business Environment

A. General

Bazan Ltd. ("the Company" or "Bazan") and its subsidiaries ("Bazan Group" or "the Group") are industrial companies involved in four primary synergistic segments of operation: Fuels (through the Company), Polymers - Carmel Olefins (through Carmel Olefins), Polymers - Ducor (through Ducor) and Aromatics (through Gadiv). In addition, Group companies also engage in operations that are not material: primarily the Trade segment (through Trading and Shipping).

The subsidiaries' plants (with the exclusion of Ducor, which is located in the Netherlands) are downstream facilities of the Company and they receive most or all of the required feedstock from the Company on an ongoing basis through pipelines, and return all or part of the products of their facilities to the Company, as well as the feedstock not used in their operations. This allows synergy in many segments, increasing operating efficiency and lowering costs.

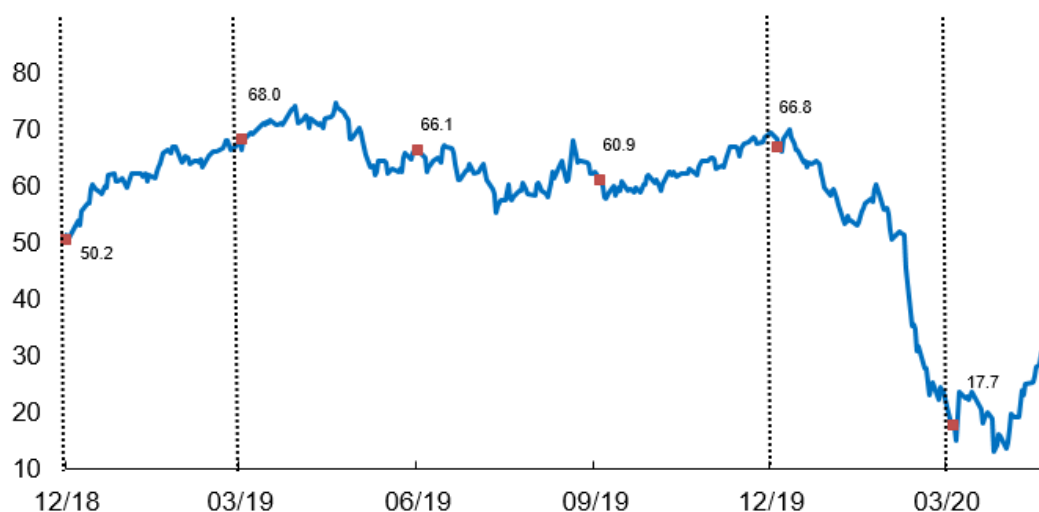
B. Business environment and Bazan Group profitability

Fuels Segment

During the Reporting Period, the Covid-19 coronavirus pandemic broke out, which has significantly impacted the Group's business environment and results of operations. For further information, see Note 10B below.

The price of crude oil

Brent crude oil prices in 2019-2020 (USD/barrel)



Source: Reuters
Dated Brent 1

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Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

Fuels Segment - contd.

The price of crude oil – contd.

Brent (USD per barrel)

1-3.2020	1-3.2019	Change
50.1	63.1	- 21%

In the Reporting Period the Brent price fell sharply from USD 67 to USD 18 per barrel.

The main reasons for the drop in the Brent price are the sharp drop in demand for crude oil due to the outbreak of the Covid-19 coronavirus pandemic and the corresponding steep increase in crude oil supply due to the record production rates resulting from the oil war that broke out between Saudi Arabia and Russia in the wake of disputes regarding significant cuts by OPEC+ to balance the global supply of oil in view of the Covid-19 pandemic.

Subsequent to the Reporting Date the Brent price rose in anticipation of the signing of an agreement between the large oil producers, Russia and Saudi Arabia, and the OPEC+ regarding oil production cuts. After signing of the agreement, which was in proportion to the decline in demand, due to the continuing spread of Covid-19 the Brent price continued to fall. Close to date of publication of the Report, the Brent price rallied in view of certain recovery in demand for oil due to the easing of the Covid-19 travel restrictions worldwide and was set at USD 34 per barrel.

In the Reporting Period, the crude oil futures market curve was in contango at average of USD 0.2 per barrel per month compared to the flat market curve in the corresponding period last year.

Subsequent to Reporting Date, the futures market curve continued to be contango with a sharp downward curve, reaching a record low of USD 4 per barrel, mainly due to the sharp fall in demand and shortage of crude oil storage space, to an average of USD 2.0 per barrel. Close to Reporting Date, the futures market curve flattened somewhat and was set at USD 0.3 per barrel.

Refining margin

Reuters Average Ural and Bloomberg Average Ural Margin in 2019-2020 (USD per barrel)



Source: Reuters; Bloomberg.

Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

Fuels Segment - contd.

Refining margins - contd.

Bloomberg Average Ural Margin and Bloomberg Average Azeri Margin in 2019-2020 (USD per barrel)



Source: Bloomberg

Average Benchmark Margins (USD/barrel)

	1-3.2020	1-3.2019	Difference
Reuters Ural	1.9	3.6	-1.7
Bloomberg Average Ural	3.1	4.5	-1.4
Bloomberg Average Azeri	3.6		

- In the Reporting Period, the average Ural margins (Reuters and Bloomberg average) were volatile and decreased sharply compared to the average in the corresponding period last year. The decrease is mainly due to weakening demand for distillates, mainly diesel fuel and jet fuel, because of the relatively warm winter in Europe and in North America, and the sharp fall in consumption towards the end of the quarter due to the breakout of the Covid-19 pandemic.
- Towards the end of the quarter, the decline in the Ural margins was mainly due to the weakening of the Ural compared to Brent and the recovery of the diesel fuel and sulfur-rich fuel oil margins and due to a relative drop in the Dated Brent price.
- In the Reporting Period, the Bloomberg Average Azeri margin weakened somewhat mainly due to the weakening of the low sulfur fuel oil margin because of the decline in demand following the Covid-19 coronavirus outbreak, and in spite of the drop in the price of Ural crude compared with Brent.
- Subsequent to Reporting Date and through to close to publication of the report, the Reuters and Bloomberg Ural margins were an average price of USD 2.1 and minus USD 2.0 per barrel, respectively. The Bloomberg Average Azeri margin amounted to an average of USD 0.7 per barrel.

For further information regarding the Company's refining margin see Chapter 2, section A2b below.

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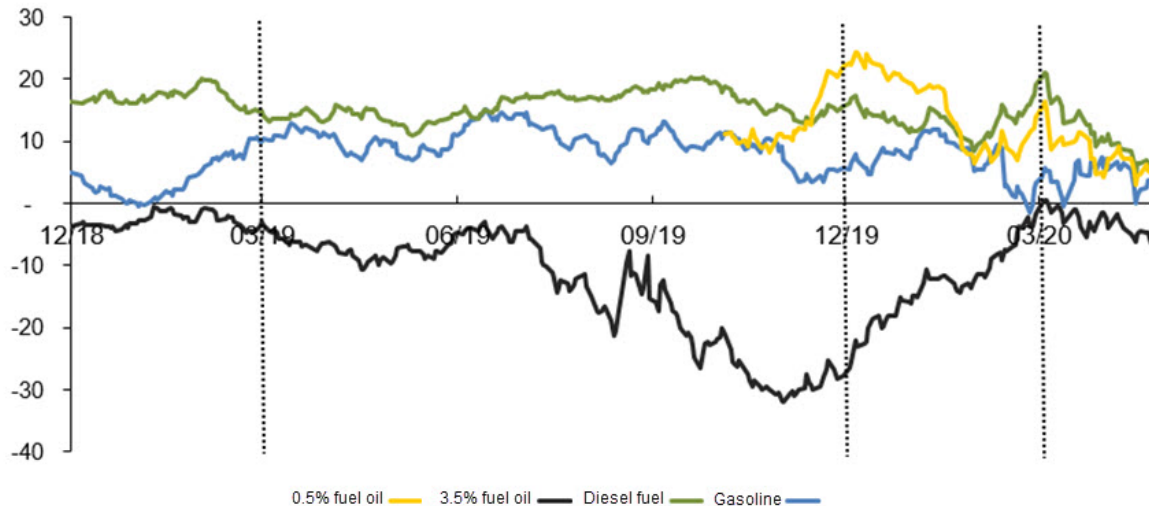
Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

Fuels Segment - contd.

Refining margins - contd.

Mediterranean transport diesel fuel ⁽¹⁾, gasoline ⁽²⁾, 3.5% fuel oil ⁽³⁾ and 0.5% fuel oil ⁽⁴⁾ compared with Brent crude oil ⁽⁵⁾ (USD/barrel)



Source: Reuters

- (1) ULSD CIF Med
- (2) Prem Unl CIF Med
- (3) Fuel Oil 3.5% CIF Med
- (4) Fuel Oil 0.5 % CIF Med (Due to partial availability of quotes for Mediterranean low sulfur fuel oil in the 2019, the quote refers to the period from November 1, 2019).
- (5) Brent (Dated)

Average transportation diesel, gasoline and fuel oil margins compared to Brent crude oil (USD per barrel)

	1-3.2020	1-3.2019	Difference
Diesel fuel ⁽¹⁾	13.5	17.0	-3.5
Gasoline ⁽²⁾	7.0	4.0	3.0
3.5% Fuel oil ⁽³⁾	-12.3	- 2.7	-9.6
0.5% Fuel oil	15.1	-	-

- (1) The decline was mainly due to a decrease in demand in view of the relatively warm winter in Europe and North America, and a sharp drop in consumption towards the end of the quarter due to the breakout of the Covid-19 pandemic.
- (2) The increase is mainly due to significant weakening in the corresponding quarter last year. Towards the end of the quarter there was a decline in the margin due to the decrease in demand resulting from a drop in consumption due to the spread of Covid-19.
- (3) The decline is mainly due to IMO 2020 taking effect.

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Chapter 1 - Description of the Company and its Business Environment - contd.**B. Business environment and Bazan Group profitability - contd.****Fuels Segment - contd.****Domestic market consumption of distillates ⁽¹⁾****Ton thousands**

	1-3.2020	10-12.2019	7-9.2019	4-6.2019	1-3.2019
Transportation fuels	1700	1,885	2,106	1,969	1,872
Other distillates	727	566	628	645	708
Total	2,427	2,541	2,734	2,614	2,580

Source: Ministry of National Infrastructure

- (1) Domestic consumption of distillates (transportation, and other fuels for industry and heating) fell by 6% compared to the corresponding period last year, mainly due to the spread of Covid-19.
- (2) Consumption of transportation fuels (gasoline, diesel and kerosene) dropped by 9% in the Reporting Period compared to the corresponding period last year, mainly due to the spread of the Covid-19 pandemic.

Refining volume

Breakdown of crude oil refining volume, and processing of diesel fuel and HVGO in the fuels sector (thousands of tons)

	1-3.2020	1-3.2019	Difference
Utilization of refining plants	91%	95%	-4%
Refining volume	2,244	2,299	-55
Volume of heavy vacuum diesel processed	190	281	-91
Total	2,434	2,580	-146

The decrease in utilization of the refining facilities in the Reporting Period compared with the corresponding period last year was mainly a result of production adjustment due to the drop in demand for distillates towards the end of the quarter, in view of the Covid-19 pandemic crisis. For further information, see Note 10B below.

Breakdown of the Company's output by main product groups in the Fuels segment (in thousands of tons)

	1-3.2020	% of total	1-3.2019	% of total
Diesel fuel	967	41%	1,042	42%
Gasoline	337	14%	333	13%
Kerosene	163	7%	158	6%
0.5% Fuel oil	389	16%	-	-
3.5% Fuel oil	21	1%	465	18%
Petrochemical products ⁽¹⁾	347	14%	360	14%
Others ⁽²⁾	163	7%	177	7%
Total	2,387	100%	2,535	100%

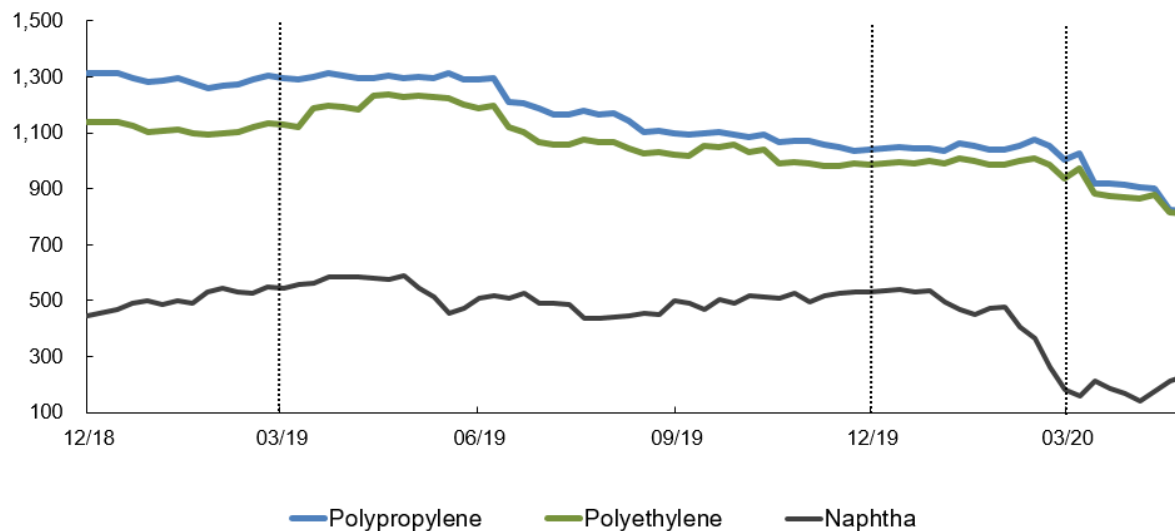
- (1) Primarily includes: raw materials for production of polymers and aromatics.
- (2) Primarily includes: LPG and bitumen.

Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

Polymers Segment - Carmel Olefins

Polymer ⁽¹⁾ and naphtha ⁽²⁾ prices in 2019-2020 (USD per ton)



Source: ICIS

- (1) Polyethylene - LDPE FD NEW Spot
- (2) Polypropylene - PP FD NEW Spot
- (3) Naphtha CIF NEW

Average polymer and naphtha prices (USD / ton)

	1-3.2020	1-3.2019	Change
Naphtha	411	517	-21%
Polypropylene	1045	1,288	-19%
Polyethylene	989	1,115	-11%

Raw material prices

The price of naphtha fell sharply in the Reporting Period compared with the corresponding period last year, parallel to the decrease in crude oil prices.

Polymer prices

The prices of the polymer products (polypropylene and polyethylene) decreased in the Reporting Period compared with the corresponding period last year, mainly due to the drop in raw material and energy prices.

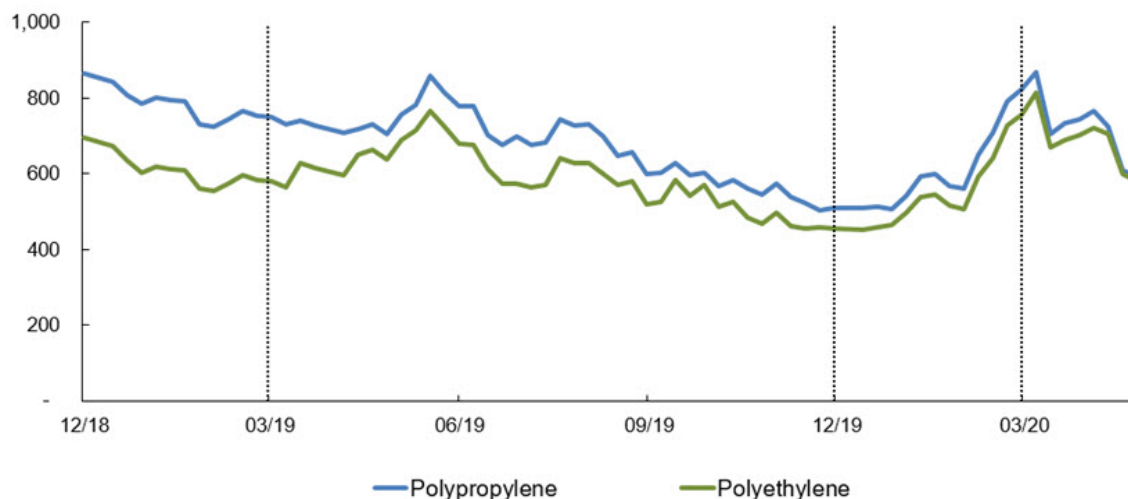
Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

Polymers Segment - Carmel Olefins - contd.

Margins

Difference between polymer and naphtha prices in 2019-2020 (USD /ton)



Source: ICIS

Change in the average difference between the polymer and naphtha prices (USD / ton)

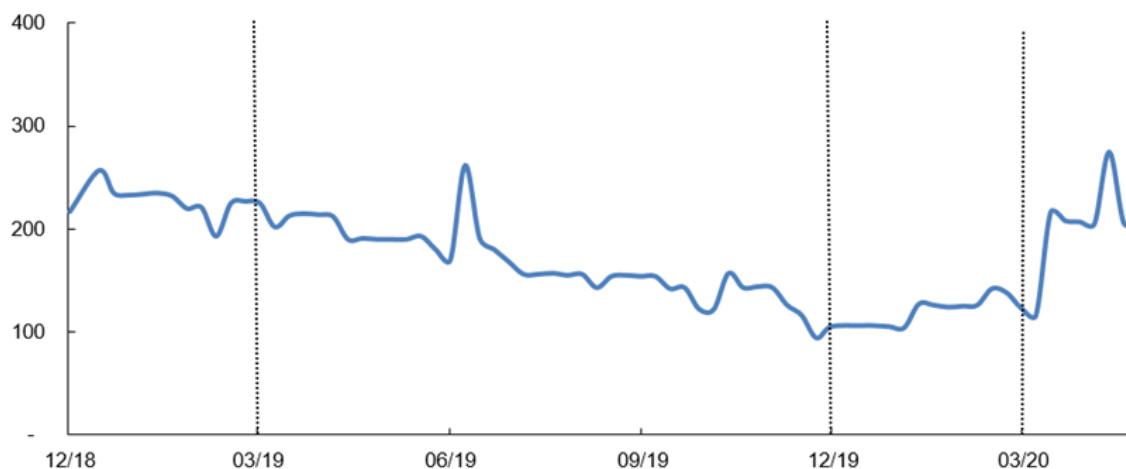
	1-3.2020	1-3.2019	Difference
Polypropylene	634	771	-137
Polyethylene	578	598	-20

- In the Reporting Period there was a decrease in the difference between the average price of polypropylene and the average price of naphtha compared with the corresponding period last year, that derived mainly from surplus supply due to the establishment of new production facilities, mainly in the East and an increase in the import of polypropylene into Europe.
- In the Reporting Period, there was a decrease in the difference between the average price of polyethylene and the average price of naphtha compared with the corresponding period last year, mainly due to surplus supply and increase in production of polyethylene from shale oil and natural gas which cost less.
- Towards the end of the quarter, the differences between the average prices of polypropylene and polyethylene compared with the average price of naphtha rose sharply, mainly due to the decline in the price of naphtha, which was affected by the decrease in the Brent price, and the decrease in global supply of polymers due to postponement of new facilities becoming operational, the closure of facilities and reduction in production output.

Polymer output volume (thousand tons)

	1-3.2020	1-3.2019	Difference
Polymers	135	139	-4

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Chapter 1 - Description of the Company and its Business Environment - contd.**B. Business environment and Bazan Group profitability - contd.****Polymers Segment - Ducor****Margins****Difference between polypropylene and propylene prices in 2019-2020 (USD /ton)**

Source: ICIS

Change in the average difference between propylene and polypropylene prices (USD / ton)

	1-3.2020	1-3.2019	Difference
Difference in price	121	229	-108

In the Reporting Period, the difference between the average price of polypropylene and the average price of propylene decreased compared with the corresponding period last year, mainly as a result of the drop in the prices of polypropylene due to an increase in import supply. Subsequent to Reporting Date, the difference between the average price of polypropylene and average price of propylene increased sharply due to a decrease in the propylene price as a result of the drop in oil prices.

Polypropylene output volume (thousand tons)

	1-3.2020	1-3.2019	Difference
Polypropylene	35	38	-3

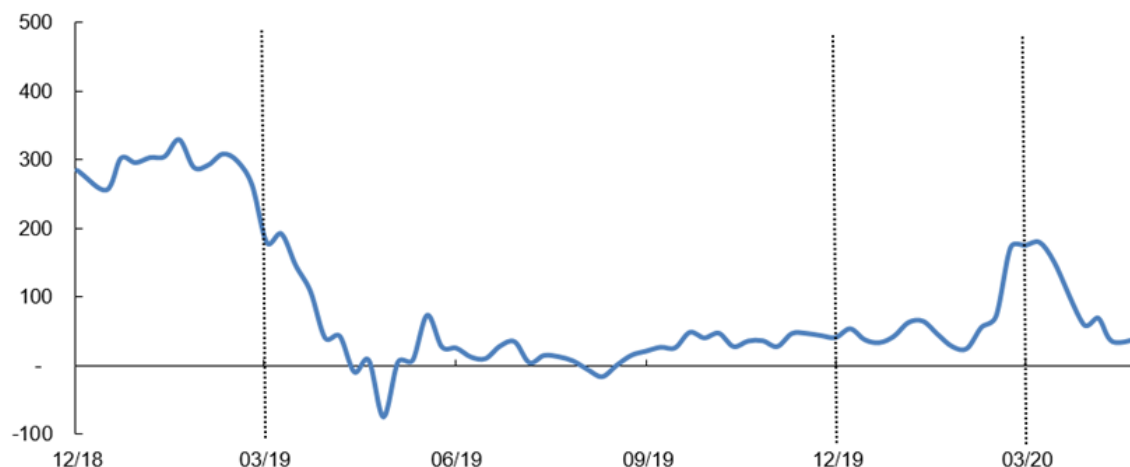
Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

Aromatics Segment - Gadiv - contd.

Margins

Difference between paraxylene and xylene prices in 2019-2020 (USD /ton)



Source: Reuters

Change in the average difference between the paraxylene and xylene prices (USD / ton)

	1-3.2020	1-3.2019	Difference
Difference in price	77	278	-201

In the Reporting Period, the difference between the average price of paraxylene and the average price of xylene declined compared to corresponding period last year, due to an increase in supply of paraxylene with the establishment of new production facilities in the East and the United States. Towards the end of the quarter, the difference between the average price of paraxylene and of xylene increased due to a sharp decrease in supply resulting from the shutdown of production in the East due to the spread of the Covid-19 coronavirus and an increase in demand from pharmaceutical and packaging manufacturers.

Aromatics output volume (thousand tons)

	1-3.2019	1-3.2018	Difference
Aromatics	114	142	-28

The decrease in the aromatics output in the Reporting Period is mainly due to, among other things, planned maintenance work that was carried out on Gadiv plants in the fourth quarter of 2019.

Chapter 2 - Results of Bazan Group operations in the first quarter

A. Results of Bazan Group operations

To present the results of the Fuels segment financially and for comparison with the various benchmark margins, the accounting effects in the fuel segment only are adjusted and presented in a way that will allow better understanding of the Company's performance in the Fuels segment. Consequently, the term “consolidated adjusted EBITDA” refers to the adjusted EBITDA in the Fuels segment together with the EBITDA reported in the Group's other operating segments.

Selected figures from the reported consolidated statements of income and after adjustment for accounting effect for the three months ended (USD million):

	1-3.2020	1-3.2019	Change
Revenue	1,416	1,574	(10%)
Reported EBITDA ⁽¹⁾	(108)	148	(173%)
Depreciation	(49)	(42)	17%
Other expenses, net ⁽²⁾	(6)	(4)	50%
Operating profit (loss)	(163)	102	(260%)
Financing expenses, net ⁽³⁾	(8)	(29)	(72%)
Income tax revenue (expenses) ⁽⁴⁾	25	(10)	(350%)
Net income (loss)	(146)	63	(332%)
Fuel segment adjustments (*)	108	5	
Adjusted EBITDA	–	153	(100%)
Adjusted operating profit (loss)	(55)	107	(151%)
Adjusted net income (loss)	(38)	68	(156%)

(*) For further information with regard to the adjustment components, see section B3 below.

(1) For further information concerning the provision for impairment of inventory, see Note 8E to the financial statements.

(2) Including amortization of excess cost

(3) Breakdown of the main changes in financing expenses, based on financial analysis (USD millions):

	1-3.2020 compared to 1-3.2019
Financing expenses, net 1-3.2019	29
Interest on borrowings, net (*)	(2)
Financing for working capital items, net (*)	(2)
Exchange differences	(19)
Others	2
Total change	(21)
Financing expenses, net 1-3.2020	8

(*) It should be noted that the Group is exposed to changes in the LIBOR interest, as set out in Note 30D to the annual financial statements.

(4) The decrease is mainly due to a decrease in pre-tax profit in the period.

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Chapter 2 - Results of Bazan Group operations in the first quarter (contd.)**Breakdown of the consolidated adjusted EBITDA by operating segments (USD millions):**

	1-3.2020	1-3.2019	Change
Fuels (adjusted)	(42)	93	(135)
Polymers (Carmel Olefins and Ducor)	20	50	(30)
Aromatics (Gadiv)	11	9	2
Others and adjustments	11	1	10
Total	–	153	(153)

	1-3.2020	10-12.2019	7-9.2019	4-6.2019	1-3.2019
Fuels (adjusted)	(42)	37	69	20	93
Polymers (Carmel Olefins and Ducor)	20	23	35	44	50
Aromatics (Gadiv)	11	(2)	7	7	9
Others and adjustments	11	11	3	9	1
Total	–	69	114	80	153

Refining margin (USD/barrel)

	1-3.2020	10-12.2019	7-9.2019	4-6.2019	1-3.2019
Bazan's adjusted refining margin	0.5*	4.8**	6.3	3.8	7.7
Bloomberg Average Ural Margin	3.1	1.2	4.6	3.4	4.5
Reuters Ural Margin	1.9	(1.8)	3.3	1.7	3.6
Bloomberg Average Azeri Margin	3.6	4.1			

(*) For further information with regard to the adjustment components in the Reporting Period, see section B3 below.

(**) The Bazan adjusted proforma refining margin was USD 5.1 per barrel.

B. Analysis of first quarter results

It should be noted that in the refining and petrochemical industry, the main factor affecting the operating results is not the sales turnover, but rather the refining and petrochemical margins, which is the difference between the revenues from the sale of a mix of products and the cost of the raw materials purchased for their production. In addition, the results are affected by the availability of production facilities.

1. Turnover of sales to external customers, by operating segment

	Sales turnover USD million		Distribution of sales		Average product mix prices (USD / ton)	
	1-3.2020	1-3.2019	1-3.2020	1-3.2019	1-3.2020	1-3.2019
Fuels ⁽¹⁾	1,116	1,201	79%	76%	501	527
Carmel Olefins ⁽²⁾	152	189	11%	12%	1,084	1,237
Ducor	50	59	3%	4%	1,169	1,367
Gadiv ⁽³⁾	80	112	6%	7%	687	744
Others	18	13	1%	1%		
Total	1,416	1,574	100%	100%		

(1) Mainly due to a decrease in the price of distillates parallel to the decrease in the price of crude oil.

(2) Mainly due to a decrease in polymer prices parallel to the decrease in the price of crude oil.

(3) The decrease in sales volume is mainly due to the completion of planned maintenance work that began in the fourth quarter of 2019.

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Chapter 2- Results of Bazan Group operations in the first quarter (contd.)

B. Analysis of first quarter results (contd.)

2. Consolidated adjusted EBITDA by operating segments

Main reasons for the change in the adjusted consolidated EBITDA - by operating segments (USD millions):

Increase (decrease)	Fuels	Polymers			Aromatics	Others and adjustments	Consolidated
		Carmel Olefins	Ducor	Total			
Adjusted EBITDA January-March 2019	93	48	2	50	9	1	153
Margin/contribution ⁽¹⁾	(125)	(22)	(5)	(27)	5	9	(138)
Sales volume	(11)	(6)	–	(6)	(4)	–	(21)
Operating expenses ⁽²⁾	1	3	–	3	1	1	6
Total change	(135)	(25)	(5)	(30)	2	10	(153)
Adjusted EBITDA January-March 2020	(42)	23	(3)	20	11	11	–

(1) For analyzing the EBITDA, the change in marketing and sales expenses (transportation, storage and etc.) were included in the contribution analysis.

(2) Includes fixed, production, general and administrative.

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Chapter 2 - Results of Bazan Group operations in the first quarter (contd.)

B. Analysis of first quarter results - contd.

3. Adjustment components in the fuels segment

Breakdown of adjustment components in the Fuels segment and their effect on the EBITDA (USD millions):

		1-3.2020	1-3.2019
Reported EBITDA in the Fuels segment		(150)	88
Effects of timing differences ⁽¹⁾		83	(5)
Effect of adjusting value of inventory to market value, net		16	10
Effect of changes in fair value of derivatives and disposals		9	–
Total adjustments ⁽²⁾		108	5
Adjusted EBITDA in the Fuels segment		(42)	93
Company's refining margin	Adjusted margin (USD/barrel)	0.5	7.7
Benchmark margins	Reuters Ural margin (USD/barrel)	1.9	3.6
	Bloomberg Average Ural (USD/barrel)	3.1	4.5
	Bloomberg Average Azeri (USD/barrel)	3.6	

(1) As at reporting date, the volume of inventory that is not hedged with contracts is 480 thousand tons.

(2) As defined in the Company's Board of Directors' Report for 2019.

Due to the spread of the Covid-19 pandemic during the Reporting Period and its significant impact on economic activity around the world and in Israel in general, and in the refining industry in particular, as described in Chapter 1B above, in the first quarter of 2020 the markets experienced extreme volatility and extraordinary changes that were, among other things, caused by the following: (a) sharp fall in the DTD Brent price by USD 50 per barrel; (b) extreme difference between the DTD Brent price (the price on which actual trading is based) and the first line ICE Brent price as traded on the stock exchange at minus USD 5 per barrel at March 31, 2020, compared with a multi-annual average difference that was less than minus USD 1 per barrel, due to the significant global surplus in oil supply and shortage of storage facilities created as a result; and (c) extreme volatility of the distillate margins (the gap between the prices of various distillates such as diesel fuel, gasoline, etc. over the DTD Brent) mainly due to the decline in demand and drop in the DTT Brent price. For its reported adjusted EBITDA, the Company routinely adjusts the following: (a) the effects of changes in crude oil prices on the value of unhedged inventory; (b) timing differences arising from discrepancies between the method of measuring hedged inventory and the how the futures transactions are measured; and (c) changes in the fair value of other derivatives that do not relate to the hedged inventory (such as hedging of refining margin) (the "Adjustment Components"). For further information, see the Company's 2019 Board of Directors Report. The purpose of presenting the adjusted EBITDA is to provide the reader of the Report: proximate information regarding the cash-based profit of the fuels segment; to enable better analysis compared with various benchmarks (such as: Reuters Ural, Bloomberg Average Ural and Bloomberg Average Azeri), which are calculated on the assumption that there are no inventory balances and accordingly no hedging transactions for it (i.e. purchase of crude oil and immediate sale of distillates); and to allow better understanding of the business performance over time "Economic Basis Presentation".

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Chapter 2 - Results of Bazan Group operations in the first quarter (contd.)

B. Analysis of first quarter results - contd.

3. Adjustment components in the fuels segment - contd.

For this purpose, the adjustment model is applied using a coherent method based on simplified, objective and consistent assumptions, and therefore, for the most part, provides a good economic basis approximation for the results of the fuels segment. As a result of the volatility and extreme forces of the market changes in the first quarter as described above, and due to the foregoing adjustment model assumptions, the adjustment model in this quarter does not provide a good economic basis approximation for presenting the results of the fuels segment (adjusted refining margin and adjusted EBITDA). The data presented in the foregoing table is the outcome of consistent application of the adjustment model for previous periods. The Company estimates that, under the extraordinary circumstances of the first quarter as described above, the application of individual assumptions for the key components (instead of consistent application of the simplified assumptions as described above) would have provided results closer to the economic basis presentation of the results of the fuels segment, as follows: the Company's adjusted refining margin would have been USD 2 per barrel and accordingly with consolidated adjusted EBITDA would have amounted to USD 27 million. It should be noted that the cash flows from ongoing operations (net of change in discounting rates and interest-bearing payables) for the quarter amounted to USD 75 million.

For further information, see Chapter 5 below.

4. Net income (loss)

Main reasons for the change in the consolidated net income (loss) (USD millions)

Net profit for the period 1-3.2019	63
Decrease in adjusted EBITDA	(153)
Change in adjustments	(103)
Increase in depreciation expenses	(7)
Decrease in net financing expenses	21
Decrease in tax expenses	35
Other	(2)
Net loss for the period 1-3.2020	(146)

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Chapter 3 - Analysis of Financial Position (Balance Sheet)

USD Millions

	Mar 31, 2020	Dec 31, 2019	Change	Explanation
Trade and other receivables	528	461	15%	Mainly due to an increase in receivables resulting from a decrease in discounting in the amount of USD 100 million.
Inventories	321	780	(59%)	Mainly due to a sharp drop in price and decrease in quantity. In addition, a loss was recorded in the Reporting Period for the impairment of inventories in the amount of USD 106 million. For further information, see Note 8E to the financial statement.
Fixed assets	2,325	2,345	(0.9%)	
Trade, other payables and provisions	788	1,057	(25%)	Mainly due to a drop in payables in the amount of USD 265 million resulting from a decrease in price and in quantity. For further information, see Note 10B below.
Long term bank loans and debentures (including current maturities)	1,374	1,361	1%	Mainly due to the expansion of Debentures (Series J) in the amount of USD 84 million, less repayments of the principal of debentures and loans in the amount of USD 49 million and exchange rate and linkage differentials* in the amount of USD 18 million.
Equity	1,198	1,381	(13%)	Mainly due to net loss for the Period in the amount of USD 146 million and other comprehensive loss for the Period in the amount of USD 37 million.
Shareholders equity to balance sheet ratio	30%	33%		

(*) Against the issue of NIS debentures, principal and interest swap transactions were executed and accordingly, the effect of debenture exchange rate and linkage differentials were substantially offset.

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Chapter 4 - Liquidity Analysis

Working capital

Total current assets less total current liabilities (USD millions)

Mar 31, 2020	Dec 31, 2019	Sept 30, 2019	Jun 30, 2019	Mar 31, 2019
333	468	558	451	513

Current ratio

The current ratio at March 31, 2020 is 1.26 and as at December 31, 2019 it was 1.36.

Accounting Cash Flows* for the First Quarter

	1-3.2020
	USD million
Cash and deposits as at December 31, 2019	512
Loss after adjustments that do not involve cash flow ⁽¹⁾	(18)
Decrease in working capital ⁽²⁾	8
Interest paid, net	(14)
Acquisition of property, plant & equipment	(29)
Repayment of debentures	(42)
Repayment of long-term loans	(7)
Issue of debentures less capital raising costs ⁽³⁾	84
Change in short-term borrowings, net ⁽⁴⁾	243
Other ⁽⁵⁾	(18)
Cash and deposits as at March 31, 2020	719

(*) Based on the presentation in the financial statements.

(1) Loss after adjustments that do not involve cash flow, plus net interest paid for the Reporting Period amounts to USD 32 million.

(2) Primarily a decrease in inventory of USD 351 million offsetting a decrease in payables of USD 256 million and decrease in trade receivables in the amount of USD 78 million (resulting from a decrease in discounting in an amount of USD 100 million).

(3) For further information, see Note 8B to the financial statements.

(4) For further information, see Note 6B to the financial statements.

(5) Mainly a decrease in customer deposits.

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Chapter 5 - Total credit from financial institutions

Breakdown of Bazan Group's net consolidated debt to financial institutions and Bazan Group debenture holders (USD million):

Total net financial debt

	Mar 31, 2020	Dec. 31, 2019	Sept 30, 2019	Jun 30, 2019	Mar 31, 2019
Short-term borrowings ⁽¹⁾	254	10	16	13	8
Bank loans ⁽²⁾	364	371	404	417	439
Debentures ⁽²⁾	1,035	1,013	1,089	960	1,012
Liquid financial assets ⁽³⁾	(718)	(512)	(622)	(487)	(511)
Hedging transactions on debentures ⁽⁴⁾	(16)	(27)	(28)	(21)	(11)
Total net financial debt	919	855	859	882	937

(1) For further information, see Note 6B to the financial statements.

(2) Including current maturities. Displayed in accordance with adjusted par value (without interest payable).

(3) Including cash and cash equivalents and short-term deposits.

(4) Based on the Group's hedging policy, principal and interest swap transactions were carried out against the issuance of NIS bonds. The transactions are presented concurrently with the presentation of the debentures, at their adjusted par value (without interest receivable/payable), less or plus the related deposits.

For further information regarding the Group's secured short-term credit facilities for 2020, see Note 6B to the financial statements.

Movement in financial debt, net

	1-3.2020
	USD million
Net debt at December 31, 2019	855
Cash flows from ongoing operations (net of changes in discounting rates and interest-bearing payables)	(75)
Change in discounting rates and interest-bearing payables	85
Interest paid, net	14
Acquisition of property, plant & equipment	29
Other	11
Net debt at March 31, 2020	919

Financial leverage

	Mar 31, 2020	Dec 31, 2019
Financial leverage (*)	3.5	2.1

(*) Net financial debt as defined above divided by adjusted EBITDA in the last four quarters.

Average volume of sources of finance in the Reporting Period

Long term loans and debentures (including current maturities, based on the method of presenting them according to the accounting standards in the financial statements and without the costs of capital raising) of USD 1,401 million, net operating capital of USD 128 million (of which the average for trade receivables is USD 456 million and the average for trade payables is USD 778 million).

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Chapter 6 - Exposure to market risk and risk management methods

In the Reporting Period there were no significant changes in market risks to which the Company is exposed, in the policies for managing these risks and in those charged with managing them compared with the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2019.

Chapter 7 - Corporate governance

There was no change in the minimum required number of directors with accounting and financial expertise, the minimum number of independent directors required by law and disclosure regarding the internal auditor of a reporting corporation, with regard to the description in the Board of Directors' Report on the state of the Company's business affairs for the period ended December 31, 2019.

Chapter 8 - Disclosure of financial reporting

A. Additional information contained in the auditors' report to shareholders

Without qualifying our above opinion, we draw attention to the following:

The provisions of Notes 5A(1) and 5C(1) to the financial statements (including by way of reference to Notes 20A(2), (4), and 20C(3) to the annual financial statements) with regard to legal, administrative and other proceedings, other contingencies and laws and regulations relating to environmental protection which, based on the opinions of their legal counsels, the managements of the Company and its subsidiaries believe that it is not possible at this stage to assess the foregoing impact on the results of operations and on the financial position, if any, and therefore no provision regarding this matter was included in the financial statements.

B. Use of estimates and judgments

For information concerning the use of estimates and discretion, see Note 2B to the Consolidated Financial Statements.

C. Definition of insignificant transactions in the Company's financial statements

In the Reporting Period there were no changes with regard to the disclosure given in this regard in the 2019 Periodic Report.

Chapter 9 - Details of outstanding debentures

In the Reporting Period, there were no changes in the details of the existing series of debentures issued by the Company and offered to the public under a prospectus, in the details of the debenture trustees, in the conditions for call for immediate redemption of the debentures, in the Company's compliance with these conditions, and in the collateral for the debentures as described in the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2019 and in the notes to the financial statements for that year, excluding the downgrading of the Company's rating by Maalot (S&P) to i1A with negative outlook and the expansion of Debentures (Series J), as set out in Notes 8D and 8B to the financial statements.

For further information concerning the financial covenants, see Note 6A to the financial statements.

In the Reporting Period the company complied with its liabilities towards the financiers and debenture holders to refrain from creating a charge on the Company's assets, unless in accordance with the provisions of the agreements with them and/or the relevant deeds of trust.

On March 31, 2020 the Company's Debentures (Series G) were redeemed in full. As of this date, Carmel Olefins' guarantees to the holders of the debentures expired, as set out in Note 14A to the annual financial statements. In addition, as of this date, the company's reporting duty to attach the consolidated financial statements of Carmel Olefins to its Board of Directors Report came to an end.

Chapter 10 – Significant subsequent events

A. For further information, see Note 8 to the consolidated financial statements.

B. Effect of the Covid-19 coronavirus pandemic on the Group's business operations

In January 2020, the Corona virus outbreak in China, as of the date of approval of the Report, is continuing to spread throughout the world, causing considerable uncertainty. During this period, markets were discernibly volatile and high uncertainty.

In view of the outbreak of the Covid-19 pandemic, there has been a decline in financial market activity in many regions around the world, including in Israel, and there are concerns about further slowing of global and domestic economic activities for the long haul. As part of tackling the outbreak of the virus and in an attempt to curb its spread, many areas worldwide, including in Israel, have adopted measures that significantly restrict mobility of people and gatherings.

It should be noted that several weeks before the date of approval of the Report, many countries worldwide, including Israel, began to implement certain relief in order to gradually stimulate economic activity. However, the pace of implementation of the relief and their effect on recovery from the economic crisis cannot be estimated at this time.

Business Environment

Crude oil prices

In March and at the beginning of April 2020 there was a steep increase in the global inventory of crude oil as a result of continued high production rates by the three major producers: Saudi Arabia, Russia and the US. As a result, during this period, the price of oil fell sharply and unusually. This sharp drop was the result of market surplus of crude oil supply, as aforesaid, maximum utilization of available storage facilities on one hand and a decline in refinery output due to the sharp drop in demand for transportation fuels on the other.

In April 2020, representatives of OPEC+ member states reached agreement to cut back output volume extremely compared to in the past, although this extreme cut did not compensate the sharp drop in demand due to the Covid-19 pandemic. From May 2020, due to the foregoing production cuts and gradual increase in demand for transportation fuels following the gradual lifting of the transport and social distancing restrictions in many countries, there has been an increase and certain stabilization of crude oil prices.

Global demand for transportation fuels¹

Since the beginning of the pandemic outbreak, there has been a drop, among other things, in the scope of global aviation, maritime and land transportation.

The sharp drop in global demand for transportation fuels peaked in April 2020, with forecasted average decrease of 17 million barrels per day in demand in the second quarter of 2020 and of 8 million barrels per day for 2020 as a whole. According to forecasts, demand in 2021 will continue to recover and return to pre-outbreak of Covid-19 in 2022. However, the forecasts will be affected in the event of further waves of virus outbreak, depending on their force, location and the capacity to cope with them.

A fall in demand is evident for all types of transportation fuels, with jet fuel experiencing the greatest drop due to the steep fall in international aviation (90% as of April 2020). According to the forecasts, the rate of recovery of demand for jet fuel is expected to be linked to the aviation industry recovery rate, which is likely to be slow compared to other transportation fuels.

Gasoline demand also dropped significantly in April 2020, but unlike jet fuel, the forecasts expect a quick recovery in gasoline demand, which has already begun to rise, given the changes in transport habits of some commuters who may prefer, at least in the short term, to travel in their private vehicles (that allows for social distancing) over public transportation.

¹ The macroeconomic data set out in this section are based on various forecasts, including the IHS Markit forecast of May 2020.

Demand for diesel fuel also decline, but to a lesser extent than gasoline, due to the partial continuation in industrial operations. According to the forecasts, the demand for diesel fuel is expected to bounce back to pre-pandemic breakout levels at a more moderate rate compared to gasoline demand.

Utilization of refineries worldwide¹

In view of the decline in demand for transportation fuels as described above, refinery utilization worldwide was adjusted to demand and on average decreased to approximately 65% utilization in the second quarter of 2020, compared with the usual 85% utilization rate. According to forecasts, utilization is expected to bounce back to pre-Covid-19 crisis rates by early 2021.

Polymers

The year 2019 end with lower polymer margins compared to previous years, mainly due to excess supply of polypropylene and polyethylene resulting from new production capacity in the US and the East, as well as low production costs in the US (shale oil production) which led to a decrease in the price of polyethylene.

During the first quarter of 2020, following the outbreak of the Covid-19 pandemic, market conditions changed, mainly due to (1) a sharp drop in the naphtha price as a result of a sharp decline in the demand for naphtha. In view of the steep drop in the naphtha price, which is mainly due to the steep drop in the price of crude oil, the relative advantage of polymer production from shale oil, especially in the US, was eroded leaving an advantage for naphtha-based polymer producers; (2) a sharp decline in demand for automotive and furniture polymers on the one hand against a rise in demand for polymers in the food packaging, medical equipment and hygiene supplies on the other; (3) a decrease in the forecast polymer supply globally due to postponement of new facilities becoming operational, shutting down of other facilities and reduced production output; and (4) a drop in the economic value of using recycled materials because of the drop in prices of original (non-recycled) materials.

In view of the new market conditions that were created compared to the pre-Covid-19 outbreak period, in March and April 2020 an increase was noted in the polymer margins for manufacturers affiliated by a vertical production chain with a refinery

Impact of the Covid-19 coronavirus crisis on the Group's business operations in the first quarter and close to date of approval of the Report:

1. Demand for the Group's products

Compared to the corresponding quarter last year, in the first quarter of 2020, and especially in March, there was no significant decrease in sales of the Company's products in Israel other than jet fuel sales, where there was a significant drop. Usually jet fuel output accounted for, on average, 8% of the total fuels segment output in recent periods, and the Company has considerable flexibility in adjusting its product mix.

Compared to the corresponding period last year, in April 2020, there was a significant drop in sales of the Company's products, mainly in Israel (including in the PA), especially in the sale of jet fuel (80%), gasoline (30%) and diesel fuel (30%) (gasoline output usually accounts for 14% of the total fuel sector output).

Based on orders and volume of transactions in May 2020, compared to April 2020, there is a significant increase in sales of the Company's products in Israel (including in the PA), particularly in diesel fuel and gasoline sales (an increase of 30%), and compared to the corresponding period last year, the drop in diesel fuel and gasoline sales in Israel is estimated at 17%..

It should be noted that, as at date of approval of the report, in general there has not been a discernible decline in the scope of demand for other products of the Group companies in Israel and/or in the export markets in which the Group operates.

2. Production volumes

In view of the foregoing concerning the demand for transportation fuels, the Company routinely assesses the need to adjust production volumes to the demand and to the market margins. Utilization of the refinery facilities in the first quarter of 2020 was 91% and in April was estimated to be 85%, and for May through to date of approval of the Report it was estimated at 85%. Furthermore, the Company is reducing the volume of gasoline imports, redirecting certain local market sales to its export markets, if necessary, and adjusting its inventories.

3. Refining and petrochemical margins

The Reuters Average Ural and Bloomberg Average Ural and Average Azeri margins for the first quarter of 2020 are USD 1.9, USD 3.1 and USD 3.6 per barrel, respectively. In addition, the average polypropylene and polyethylene margins above naphtha (for the same period) are USD 634 and USD 578 per ton, respectively. For further information regarding market margins during the Reporting Period, see Chapter 1 above.

In the period since the beginning of the second quarter of 2020 through to date of approval of the Report, the Reuters Average Ural and Bloomberg Average Ural and Average Azeri margins are USD 2.1, minus USD 0.2 and USD 0.7 per barrel, respectively. In addition, the average polypropylene and polyethylene margins above naphtha (for the same period) are USD 696 and USD 667 per ton, respectively.

4. Costs and investments

Crude oil

In the first quarter of 2020, the Brent price dropped sharply and its price at March 31, 2020 was set at USD 18 per barrel, and close to date of approval of the Report, was trading at USD 34 per barrel. In view of the foregoing, an inventory impairment loss was recognized in the Reporting Period, including as set out in Note 8E to the consolidated financial statements. It should be noted that a low crude oil price over a prolonged period usually has a positive effect on the Group, in the form of a decrease in certain operating costs (including losses) and reduced working capital costs.

It should be noted that, to date the Company has not encountered any impairment in the availability of crude oil and intermediate products.

Fixed costs and investments

Due to the Covid-19 crisis, the Company adopted and is continuing to adopt measures for reducing its costs, including: a freeze and/or reduction in fixed asset investments; postponement of timetables for regulatory projects in collaboration with the applicable regulatory bodies, including with regard to environmental issues. At the same time, the Company is reviewing the timing and scope of its planned periodic maintenance work on some of the Company's facilities and Carmel Olefins' facilities in 2021.

The Company is also acting to lower fixed costs that are not essential at this time.

5. Availability of human resources

As the Group companies are considered to be essential enterprises, the companies take measures to adjust their working format at any given time, in a way that will allow, if possible, availability of the workforce required to sustain their operations. To date, there has been no problems in the availability of local workforce for the routine operating of the Group's plants.

6. Liquidity and financial robustness

- A. As at date of approval of the Report, the Group has substantial cash and deposit balances of USD 490 million, including utilization of secured credit facilities amounting to USD 293 million. Furthermore, the Company has unutilized secured and unsecured credit facilities of USD 18 million and USD 245 million, respectively, as set out in Note 6B to the consolidated financial statements. In addition, as a rule the Group does not have liens on assets (other than Ducor's assets as described in Note 13A to the financial statements), in accordance with its negative charge undertakings towards its credit providers.
- B. The Company has acted in recent years to significantly reduce the scope of its net financial debt and the duration of its long term liabilities repayment schedules are appropriate for its needs. At March 31, 2020, the Group's net financial debt is USD 919 million. For further information concerning long-term bank loans, particularly the extension of the long term syndication agreement, and with respect to the Company's debentures, including debentures issued in 2019 and in the Reporting Period, see Notes 13 and 14 to the annual financial statements.

Group's estimates for the period from date of approval of the Report through to end of second quarter of 2020:

1. Demand for the Group's products

Given the significant uncertainty regarding further spreading of the Covid-19 virus, the measures that may be required because of it and the consequences of the economic crisis, it is difficult to assess the short-term demand for transportation fuels in the local market. However, the Company estimates, based on orders received for June 2020, domestic market demand for gasoline and diesel fuel is expected to grow compared to May 2020, and to reach almost 90% compared with the corresponding period last year. With regard to jet fuel, the Company estimates that there will be no significant change in jet fuel consumption in May 2020. With regard to polymer and aromatic products, the Company estimates that local market demand will not be affected.

With regard to export, the Group estimates that it will not encounter any difficulty in selling the Company's fuel products or polymer and aromatic products to the export markets in which the Group operates.

2. Margins and refining volume

Close to date of approval of the Report, the Reuters Average Ural and Bloomberg Average Ural and Average Azeri margins are minus USD 3.2, minus USD 3.4 and minus USD 0.9 per barrel, respectively. In addition, the average polypropylene and polyethylene margins above naphtha are USD 593 and USD 582 per ton, respectively.

There is considerable difficulty in estimating refining margins for the quarter, as these are affected by frequent global changes in crude oil prices, as well as in distillates margins, which are particularly affected at this time by the volume of demand globally. If the benchmark margins remain at their current levels until the end of the second quarter of 2020, the Company is expected to record negative EBITDA in its fuels segment.

If refining margins remain at their current levels in June, the Company's refinery facilities utilization rate in the second quarter of 2020 may range from 80% to 85%. With regard to the quantities of polymer and aromatic products sold, no significant change is expected compared with the first quarter of 2020.

3. Liquidity

- 3.1 Rescheduling of long-term debt - the Group intends to reschedule long-term debts of up to USD 150 million later in 2020.
- 3.2 Credit facilities - the Group intends to act later in 2020 to renew its short-term secured credit facilities for 2021, for at least their current amounts (as of December 31, 2020 - USD 311 million).
- 3.3 Working capital - due to the sharp drop in the price of crude oil in the first quarter of 2020, as aforesaid, the Company's balance of receivables, inventory and payables decreased in part in the first quarter of 2020 and is expected to decrease in part in the second quarter. It should be noted that a low crude oil price over a prolonged period usually has a positive effect on the Group, among other things, due to reduced working capital costs. However, in the second quarter of 2020, a net negative cash flow is expected in working capital, due to gaps between customer credit days and inventory days to supplier credit days. The trade payables balance (mainly to crude oil suppliers) includes the extension of credit days, which is usually 30 days at market interest rates, as described in Note 20B7 to the annual financial statements. As at March 31, 2020, the balance of interest-bearing payables is estimated at USD 330 million (as at December 31, 2019, at USD 315 million).
- 3.4 Financial covenants - the Company is subject to financial covenants under its financing agreements with banks and deeds of trust vis-à-vis the holders of its debentures, as described in Notes 13 and 14 to the annual reports. In view of the sharp decline in adjusted EBITDA in the first quarter of 2020 compared to the corresponding period last year, as set out in Chapter 2 above, and in view of the uncertainty surrounding the Company's adjusted refining margin for the coming quarters and the consolidated adjusted EBITDA, among others, there may be a breach of the net financial debt to EBITDA ratio as set in the financing agreements with the banks. If this covenant is breached, the Company will take measures required to obtain relief from the banks and, it believes, based on its initial and non-binding negotiations with them, it is expected to obtain it.
- 3.5 Based on the Group's forecast of cash flows for the coming quarters, which are based on various profitability scenarios and the assumptions set out above, the Company estimates that it has the financial resources needed to finance all of its needs, including for meeting its existing and anticipated liabilities.

The foregoing reference regarding the Company's assessments of the effects of future developments in the global and local economic environments on the Company's financial position and liquidity and its assessment that it has the financial resources needed to finance all of its needs, including the Company's assessment for obtaining relief from the banks, constitute forward-looking information as defined in the section 32A of the Securities Law. These developments and implications are not in the Company's exclusive control, are uncertain and are based on information that the Company has as at the date of approval of the Report and on various scenarios and assumptions as described above. If the global crisis intensifies and continues for a prolonged period and if there will be a material deviation from the assumptions underlying the Company's estimates, including the with regard to receiving relief from the bank as set out above, this will result in a significant deterioration in the results of the Company's operations, and including its financial capacity to cope with the crisis.

Group's estimates for the second half of 2020 and thereafter

Given the significant uncertainty regarding further spreading of the Covid-19 virus and the measures that may be required because of it, and given the financial crisis, it is difficult to assess the projected local market demand for diesel fuel, gasoline and jet fuel. However, the Company estimates that without another wave breaking out which could have a material adverse effect on the demand forecast, local market demand for gasoline and diesel fuel in the second half of 2020 is likely to continue rising gradually.

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With regard to the refining margin forecast for the second half of 2020, the Company estimates that, based on IHS crude oil and distillates price forecasts (for more information see the Appendix to the Board of Directors' Report on the impairment of fuel sector assets), the Company's adjusted refining margin in the second half of 2020 is expected to be USD 5.7 per barrel.

If there will be a decline in local market demand for diesel fuel, gasoline and jet fuel, the Company will review the need to divert its sales to export markets and/or to decrease its gasoline imports if relevant, however there is no certainty with regard to the demand for the Company's products in its export markets.

Moreover, if the spread of the Covid-19 pandemic worldwide and/or in Israel continues and stricter measures will be reinstated so that the decline in economic activities will continue and/or intensify, the adverse effect on demand for fuel and/or petrochemicals will increase, and thus, the adverse effect on refining and/or petrochemical margins will increase.

The Group's companies are preparing to adopt measures for adjusting inventory and production volumes, including to reduce output in the event that the foregoing decline in the scope of economic activity continues and/or intensifies, and/or if demand and/or market margins decrease. It should be noted that a reduction in the Company's production output may also affect the production output of the subsidiaries.

As the Group companies are considered to be essential enterprises, the companies take measures to adjust their working format at any given time, in a way that will allow, if possible, availability of the workforce required to sustain their operations. Nonetheless, the supply chain and availability of equipment and experts may lead to delays, which could delay completion of certain projects, including with regard to environmental issues. If necessary, in light of the circumstances, the Company will continue to act in order to receive postponement of the project completion timetables from the Ministry of the Environment.

If the foregoing adverse effects materialize, they may further significantly impair the Group's operating results and cash flows from its ongoing operations, erode its equity and adversely affect (and under certain circumstances to even breach) certain financial covenants applicable to the Company under its financing agreements with the banks and its debentures.

As of the date of approval of the Report, the Company is unable to estimate the duration and/or possible effects of the outbreak of another wave of Covid-19 on the results of the Group's activities.

The reference in this section to the Company's assessments of future developments in the global and local economic environment, as well as to the possible implications of these developments on the Group's operations, is forward-looking information as defined in section 32A of the Securities Law. Such developments and implications are not under the Company's control, are uncertain and are based on information that the Company has as at the date of approval of the Report. If the global crisis deepens and continues over time, this can lead to a significant deterioration in the results of the Company's operations, including its financial ability to cope with the event.

The Board of Directors thanks the employees and management of the Company for their efforts in the Reporting Period.

Ovadia Eli
Chairman of the Board of Directors

Shlomi Basson
Acting CEO (interim)

May 25, 2020

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**Revision of the Description of the Company's Businesses in the Periodic Report
as at December 31, 2019**

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970

During and subsequent to the Reporting Period, there were no significant changes or material new events in the Company's business that do not appear in other chapters of the interim consolidated financial statements or in the Board of Directors' Report as of March 31, 2020.

Regulation 8B(d) of the Securities Regulations (Periodic and Immediate Reports), 1970 - Information with regard to the valuation attached to the Periodic Report

Attached to the Company's periodic report as at March 31, 2020 is an opinion, as requested by the Company's management, for the purpose of assessing the recoverable amount of the Group's Fuels Segment assets (the "Valuation") pursuant to the provisions of IAS 36. The results of the Valuation did not affect the value of the Company's Fuels Segment assets.

Reasons for requesting the Valuation:

Due to the spread of the Covid-19 pandemic and its consequences, as set out in Chapter 10 of the Board of Directors' report and Note 8H to the consolidated financial statements, and which is reflected, among other things, in a sharp drop in the Company's share price, a decrease in refining volume and decline in refining margins in the first quarter of 2020, this paper was prepared to assess the recoverable amount of the Fuels Segment assets at March 31, 2020, based on the valuation by an independent expert valuator in the sector, Ernst Young (Israel) Ltd. The Valuation is hereby attached to the Board of Directors' Report.

Particulars of the Valuation:

Valuation topic	Determination of the recoverable amount of the Fuels Segment assets pursuant to the provisions of IAS 36
Date of Valuation	Effective date of Valuation: March 31, 2020 Date of contract: April 2020 Date of signing of the Valuation: May 25, 2020
Book value attributed to the Fuels Segment assets pursuant to the provisions of IAS 36	USD 1.4 billion
Recoverable amount as determined in the Valuation	USD 1.7 billion The recoverable amount exceeds the book value of the Fuels Segment assets, and therefore no impairment loss was recognized.
Valuator	<ul style="list-style-type: none"> • The Valuation was prepared by Yaron Har-Zvi, CPA, a senior partner and Director of the Economic Department and Prof. Hadas Gelander, CPA, a partner and Manager of Valuation & Economic Modeling, on behalf of Ernst Young (Israel) Ltd. The Valuation is signed by Yaron Har-Zvi (the "Valuator"). • Yaron holds a Bachelor Degree in Business Administration and Accounting from the College of Management School of Business Administration, Rishon Le-Zion; and MA in Philosophy from Tel Aviv University; and is a Certified Public Accountant in Israel. • In his position, Yaron Har-Zvi provides services for clients in Israel and worldwide on issues of due diligence, valuation and business models, strategic advice and mergers and acquisitions. • Hadas holds a Bachelor Degree in Accounting from the College of Management School of Business Administration, Rishon Le-Zion; MBA from the Hebrew University of Jerusalem; and Ph.D. Summa Cum Laude from the Ben Gurion University, Beer Sheva; and is a Certified Public Accountant in Israel.

	<ul style="list-style-type: none"> • In her position, Prof. Hadas Gelandier oversees projects of leading companies in Israel and worldwide, in various sectors such as: technology, finance, pharmaceuticals, energy, infrastructures, real-estate and industry. In her position she assists and advises companies in preparation of assessments for business purposes (fair valuation and opinions) and for accounting purposes (purchase price allocation, evaluation of intangible assets, valuation of employee options, etc.), and provides professional financial opinions as expert court witness. • There is no dependency between the Company, and there were no conditions set regarding the fee. • The Valuator gave his consent for the valuation to be attached to the financial statements. • The Valuator was given an undertaking for indemnification as follows: “To the maximum extent permitted under applicable professional laws or regulations, you (the Company) will indemnify us, the other EY firms and EY staff for any third party claim (including your controlling parties, your affiliates and/or investees), with regard to claims that arise due to this agreement or otherwise connected with the services, attorney fees, liabilities, losses, damages, costs and expenses (including reasonable internal and external legal costs) arising from such claim”. It was further agreed: “Your [the Company] undertaking to indemnify us and/or EY firms and/or the shareholders and/or directors and/or partners and/or employees as set out in section 21 of the general terms and conditions appendix attached to this agreement [as quoted above], will only apply with respect to indemnification for an amount exceeding 3 times the actual amount you paid to us, other than in the event of erroneous assessment or fraud on our part”; as well as other terms and conditions, which are immaterial to this Report.
Valuation Model used by the Valuator	The recoverable amount was determined based on the value in use using the discounted cash flow (DCF) model.
Key assumptions used in preparing the Valuation	<p>Key assumptions used by the Valuator for preparing the Valuation:</p> <ul style="list-style-type: none"> • Refining margins based on IHS Global SAS forecasts regarding developments in raw material prices (in particular crude oil) and forecasts for the coming years; • Projection of investments in fixed assets; • Discounting rate after tax at 9%; • Long term growth rate of 0%;
Sensitivity analysis	<ul style="list-style-type: none"> • An increase of 0.5% in the discounting rate will decrease the value in use by USD 100 million. • A decrease in refining margins in the representative year of USD 0.5 per barrel will decrease the value in use by USD 221 million.

For further information, see the opinion attached to the interim report.



Somekh Chaikin

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**[Auditors Report to the Shareholders of
Bazan Ltd.**

Introduction

We have audited the accompanying financial information of Bazan Limited ("the Company" and its subsidiaries ("the Group"), including the condensed consolidated statement of financial position as at March 31, 2020 and the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months then ended. The Board of Directors and the management are responsible for preparation and presentation of the financial information for this interim period in accordance with IAS 34 - Interim Financial Reporting, and are also responsible for preparation of the interim financial information for this interim period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express an opinion on the financial information for this interim period based on our review.

Review scope

We conducted our review in accordance with Israel Accounting Standard No. 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, established by the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted accounting principles in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that this financial information is not prepared, in all material respects, in accordance with IAS 34.

Additionally, based on our review, nothing has come to our attention that causes us to believe that this financial information is not prepared, in all material respects, in accordance with the disclosure provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Emphasis of matter (drawing attention)

Without qualifying our conclusion, we draw attention to Note 5A(1) and 5C(1) to the financial statements (including by way of reference to Note 20A(2), (4), and 20C(3) to the annual financial statements) regarding legal, administrative and other proceedings, other contingencies, and laws and regulations relating to environmental quality. Based on the opinion of the legal counsel of the Company and its subsidiaries, the managements of the Company and the subsidiaries believe that, at this stage, it is not possible to assess the effect of the aforesaid on the operating results and the financial position, in any, and therefore no provisions for the aforesaid were included in the financial statements.

Somekh Chaikin
Certified Public Accountants

May 25, 2020

Somekh Chaikin, an Israeli partnership and member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity

This translation of the financial statement is for convenience purposes only.
The only binding version of this financial statement is the Hebrew version..



Somekh Chaikin

7 Nahum Het Street,
PO Box 15142
Haifa 3190500
04-861 4800

Attn.

The Board of Directors of Bazan Ltd. ("the Company")

To whom it may concern,

**Re: Letter of consent in connection with the shelf prospectus of Bazan Ltd.
dated November 2018**

We hereby inform you that we agree to the inclusion (including by way of reference) of our statements set out below in connection with the shelf prospectus of November 2018.

- (1) Review report of the auditor of May 25, 2020 on the Company's condensed consolidated financial information as at March 31, 2020 and for the three months then ended.
- (2) Review report of the auditor of May 25, 2020, on the Company's condensed separate financial information as at March 31, 2020 and for the three months then ended in accordance with Regulation 38D of the Israel Securities Regulations (Periodic and Immediate Reports), 1970.

Yours sincerely,

Somekh Chaikin
Certified Public Accountants

Haifa, May 25, 2020

Somekh Chaikin, an Israeli partnership and member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity

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Bazan Ltd - Condensed Consolidated Interim Statements of Financial Position, in USD

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)	December 31, 2019 (Audited)
Current assets			
Cash and cash equivalents	707,062	412,946	425,367
Deposits	12,301	98,004	87,333
Trade receivables	495,028	372,740	417,002
Other receivables	32,710	70,326	43,925
Financial derivatives	23,973	17,034	14,458
Inventory	321,159	677,067	780,458
Total current assets	1,592,233	1,648,117	1,768,543
Non-current assets			
Loan to Haifa Early Pension Ltd.	34,163	39,005	41,071
Long term loans and receivables	14,738	5,633	6,463
Financial derivatives	19,258	19,715	34,486
Fixed assets, net	2,143,504	2,189,921	2,165,441
Right-of-use assets, net	156,234	142,616	150,907
Intangible assets and deferred expenses, net	24,691	27,851	28,769
Total non-current assets	2,392,588	2,424,741	2,427,137
Total assets	3,984,821	4,072,858	4,195,680

Ovadia Eli
Chairman of the Board of Directors

Shlomo Basson
Acting CEO

Ana Berenshtein
CFO

Approval date of the condensed consolidated interim financial statements: May 25, 2020

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

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Bazan Ltd - Condensed Consolidated Interim Statements of Financial Position, in USD

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)	December 31, 2019 (Audited)
Current liabilities			
Loans and borrowings (including current maturities) (see Note 6B)	458,474	263,121	239,238
Trade payables	644,951	690,554	910,210
Other payables	137,302	167,686	139,514
Financial derivatives	13,042	7,668	4,422
Provisions	5,591	6,014	6,797
Total current liabilities	1,259,360	1,135,043	1,300,181
Non-current liabilities			
Liabilities to banks, net	284,151	349,182	289,349
Debentures, net (see Note 8B)	884,163	846,462	842,290
Other long-term liabilities	111,853	93,979	111,845
Financial derivatives	20,188	5,309	2,444
Employee benefits, net	53,095	53,821	61,692
Deferred tax liabilities, net	174,123	190,427	207,138
Total non-current liabilities	1,527,573	1,539,180	1,514,758
Total liabilities	2,786,933	2,674,223	2,814,939
Equity			
Share capital	807,604	807,356	807,604
Share premium	32,761	32,663	32,761
Capital reserves	(3,140)	38,724	38,983
Retained earnings	360,663	519,892	501,393
Total capital	1,197,888	1,398,635	1,380,741
Total liabilities and capital	3,984,821	4,072,858	4,195,680

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

This translation of the financial statement is for convenience purposes only.
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Bazan Ltd - Condensed Consolidated Interim Statements of Income and Other Comprehensive Income

	Three months ended		Year ended
	March 31, 2020	March 31, 2019	December 31, 2019
	(Unaudited)		(Audited)
Revenue	1,416,450	1,574,215	6,423,011
Cost of sales (see Note 8E)	(1,544,170)	(1,431,746)	(6,030,752)
Gross profit (loss)	(127,720)	142,469	392,259
Selling and marketing expenses	(22,379)	(27,610)	(105,502)
General and administrative expenses	(9,554)	(12,428)	(51,140)
Other expenses, net	(3,020)	(441)	(14,236)
Operating profit (loss)	(162,673)	101,990	221,381
Financing income	18,698	2,532	26,711
Financing expenses	(26,828)	(31,895)	(120,579)
Financing expenses, net	(8,130)	(29,363)	(93,868)
Profit (loss) before taxes on income	(170,803)	72,627	127,513
Income tax income (expenses)	25,065	(9,979)	(28,173)
Net income (loss) for the period	(145,738)	62,648	99,340
Items of other comprehensive income (loss) transferred to profit or loss:			
Foreign currency translation differences for foreign operations	(52)	(172)	(180)
Effective share of the change in fair value of cash flow hedging, net of tax	(43,150)	19,601	16,963
Change in fair value hedging costs, net of tax	520	(886)	677
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	(42,682)	18,543	17,460
Items of other comprehensive income (loss) not transferred to profit or loss:			
Remeasurement of a defined benefit plan, net of tax	5,008	(2,080)	(7,271)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	410	(281)	1,810
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	5,418	(2,361)	(5,461)
Total other comprehensive income (loss) for the period, net of tax	(37,264)	16,182	11,999
Comprehensive income(loss) for the period	(183,002)	78,830	111,339
Earnings (loss) per share (USD)			
Basic and diluted earnings (loss) per 1 ordinary share	(0.045)	0.020	0.031

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

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Bazan Ltd - Condensed Consolidated Interim Statements of Changes in Equity, in USD

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial assets at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
Three months ended March 31, 2020 (unaudited)										
Balance as at January 1, 2020 (audited)	807,604	32,761	644	5,973	(6,801)	28,478	11,371	(682)	501,393	1,380,741
Loss for the period	–	–	–	–	–	–	–	–	(145,738)	(145,738)
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(52)	–	–	–	–	–	(52)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	520	–	–	520
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	(43,150)	–	–	(43,150)
Remeasurement of a defined benefit plan, net of tax	–	–	–	–	–	–	–	–	5,008	5,008
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	410	–	410
Total other comprehensive income (loss) for the period, net of tax	–	–	–	(52)	–	–	(42,630)	410	5,008	(37,264)
Total comprehensive income (loss) for the period	–	–	–	(52)	–	–	(42,630)	410	(140,730)	(183,002)
Share-based payment	–	–	149	–	–	–	–	–	–	149
Balance as at March 31, 2020	807,604	32,761	793	5,921	(6,801)	28,478	(31,259)	(272)	360,663	1,197,888

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

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Bazan Ltd - Condensed Consolidated Interim Statements of Changes in Equity (contd.), in USD

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial assets at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
Three months ended March 31, 2019 (unaudited)										
Balance as at January 1, 2019 (audited)	807,081	32,652	1,712	6,153	(6,801)	28,478	(6,269)	(2,492)	459,238	1,319,752
Net profit for the period	–	–	–	–	–	–	–	–	62,648	62,648
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(172)	–	–	–	–	–	(172)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	(886)	–	–	(886)
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	19,601	–	–	19,601
Remeasurement of a defined benefit plan, net of tax	–	–	–	–	–	–	–	–	(2,080)	(2,080)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	(281)	–	(281)
Total other comprehensive income (loss) for the period, net of tax	–	–	–	(172)	–	–	18,715	(281)	(2,080)	16,182
Total comprehensive income (loss) for the period	–	–	–	(172)	–	–	18,715	(281)	60,568	78,830
Share-based payment	–	–	53	–	–	–	–	–	–	53
Exercised share options	275	11	(286)	–	–	–	–	–	–	–
Expired share options	–	–	(86)	–	–	–	–	–	86	–
Balance as at March 31, 2019	807,356	32,663	1,393	5,981	(6,801)	28,478	12,446	(2,773)	519,892	1,398,635

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

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Bazan Ltd - Condensed Consolidated Interim Statements of Changes in Equity (contd.), in USD

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial assets at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
Year ended December 31, 2019 (audited)										
Balance as at January 1, 2019	807,081	32,652	1,712	6,153	(6,801)	28,478	(6,269)	(2,492)	459,238	1,319,752
Net profit for the year	–	–	–	–	–	–	–	–	99,340	99,340
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(180)	–	–	–	–	–	(180)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	677	–	–	677
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	16,963	–	–	16,963
Remeasurement of a defined benefit plan, net of tax	–	–	–	–	–	–	–	–	(7,271)	(7,271)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	1,810	–	1,810
Total other comprehensive income (loss) for the year, net of tax	–	–	–	(180)	–	–	17,640	1,810	(7,271)	11,999
Total comprehensive income (loss) for the year	–	–	–	(180)	–	–	17,640	1,810	92,069	111,339
Share-based payment	–	–	(350)	–	–	–	–	–	–	(350)
Exercised share options	523	109	(632)	–	–	–	–	–	–	–
Expired share options	–	–	(86)	–	–	–	–	–	86	–
Dividend declared and paid	–	–	–	–	–	–	–	–	(50,000)	(50,000)
Balance as at December 31, 2019	807,604	32,761	644	5,973	(6,801)	28,478	11,371	(682)	501,393	1,380,741

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

This translation of the financial statement is for convenience purposes only.
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Bazan Ltd - Condensed Consolidated Interim Statements of Cash Flows, in USD

	Three months ended		Year ended
	March 31, 2020	March 31, 2019	December 31, 2019
	(Unaudited)		(Audited)
Cash flows from operating activities			
Net income (loss) for the period	(145,738)	62,648	99,340
Adjustments to cash flows from operating activities:			
Income and expenses not included in cash flows: (Appendix A – section A)	127,488	112,235	339,611
	(18,250)	174,883	438,951
Changes in assets and liabilities (Appendix A – section B)	7,574	(98,273)	(14,925)
Income tax received, net	803	1,476	192
Net cash from (used in) operating activities	(9,873)	78,086	424,218
Cash flow from investing activities			
Interest received	1,743	1,531	6,147
Change in deposits, net	76,047	(54,653)	(40,245)
Repayment of a loan from Haifa Early Pension	4,233	–	4,118
Acquisition of fixed assets including periodic maintenance ⁽¹⁾	(28,787)	(30,858)	(150,551)
Other	–	242	242
Net cash from (used in) investment activities	53,236	(83,738)	(180,289)
Cash flow from financing activities			
Change in short-term credit, net (see Note 6B below)	243,306	(102)	1,797
Change in deposits from customers and others, net	(21,577)	12,695	19,249
Interest paid ⁽¹⁾	(15,516)	(16,672)	(106,356)
Derivative transactions, net	2,379	979	8,071
Receipt of long-term bank loans	–	100,000	100,000
Repayment of long-term bank loans, including early repayment ⁽²⁾	(6,667)	(13,094)	(81,371)
Repayment of debentures	(41,801)	(42,537)	(185,254)
Issue of debentures, net of raising costs (see Note 8B)	83,957	–	116,259
Payment of liabilities for lease	(6,454)	(6,080)	(22,322)
Dividend paid	–	–	(50,000)
Net cash from (used for) financing activities	237,627	35,189	(199,927)
Net increase in cash and cash equivalents	280,990	29,537	44,002
Effect of exchange rate fluctuations on cash and cash equivalents	705	(964)	(3,008)
Cash and cash equivalents at beginning of period	425,367	384,373	384,373
Cash and cash equivalents at the end of the period	707,062	412,946	425,367

(1) For the year ended December 31, 2019, including principal payments, interest, and linkage differentials for levies in the amount of USD 19 million and USD 4 million, respectively.

(2) For the year ended December 31, 2019, including early repayment in the amount of USD 12 million

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

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Bazan Ltd - Condensed Consolidated Interim Statements of Cash Flows, in USD

Appendix A: Adjustments required to present cash flows from operating activities

	Three months ended		Year ended
	March 31, 2020	March 31, 2019	December 31, 2019
	(Unaudited)		(Audited)
A. Income and expenses not included in cash flows:			
Depreciation and amortization	51,522	45,386	183,038
Other expenses, net	3,020	441	14,236
Inventory impairment loss, (see Note 8E)	105,837	—	—
Financing expenses, net	17,441	28,347	91,871
Changes in fair value and movement in deposits for inventory derivatives and margins	(26,334)	29,028	24,762
Changes in fair value the of the loan to Haifa Early Pension	918	(999)	(2,119)
Share-based payments	149	53	(350)
Income tax expenses (income)	(25,065)	9,979	28,173
	127,488	112,235	339,611
B. Changes in assets and liabilities			
Change in trade receivables	(78,462)	(16,158)	(60,419)
Change in other receivables	4,345	(45,645)	(22,490)
Change in inventory (without inventory impairment loss)	351,399	(112,450)	(215,865)
Change in trade payables	(255,672)	67,965	278,609
Change in other payables and provisions	(11,875)	6,701	2,197
Change in employee benefits, net	(2,161)	1,314	3,043
	7,574	(98,273)	(14,925)

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

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NOTE 1 – GENERAL

A. Reporting entity

Bazan Ltd. (“the Company” or “Bazan”) is a company domiciled and incorporated in Israel. The Company is located in Haifa Bay and its official address is POB 4, Haifa 3100001. The Company’s shares are traded on the Tel Aviv Stock Exchange (“the TASE”). The Company and its subsidiaries are industrial companies operating mainly in Israel and Holland, and are engaged primarily in the production of oil products, feedstock for the petrochemical industry, raw materials for the plastics industry, and byproducts. The facilities of the subsidiaries and the industries in Israel are integrated with those of the Company. The Company also provides water treatment and power generation services (primarily steam) to a number of industries near the Haifa refinery. The controlling shareholders in the Company are Israel Corporation Ltd. and Israel Petrochemical Enterprises Ltd.

- B.** The condensed consolidated interim financial statements as at March 31, 2020 include the statements of the Company and its subsidiaries (jointly: “the Group”).

NOTE 2 - BASIS OF PREPARATION

A. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required in the full annual financial statements. These statements should be read together with the financial statements as at December 31, 2019 and for the year then ended (“the Annual Financial Statements”). Additionally, these statements have been prepared in accordance with the provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed consolidated interim financial statements were approved by the Company’s Board of Directors on May 25, 2020.

B. Use of estimates and judgments

The preparation of these condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. Management’s judgment when applying the Group’s accounting policy and the principal assumptions underlying assessments that involve uncertainty, are consistent with those used in the Annual Financial Statements. As a result of the Covid-19 pandemic, there is significant uncertainty in the markets as set out in Note 8H below. For information about the inventory impairment loss recognized in the reporting period and the review of impairment of fuel sector assets, see Note 8E and Note 8F, respectively.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The Group’s accounting policy in these condensed consolidated interim statements is the same policy applied in the Annual Financial Statements.

Bazan Ltd - Condensed Consolidated Interim Statements of Financial Position, in USD

NOTE 4 – SEGMENT REPORTING

Further to Note 28 to the Annual Financial Statements, as at March 31, 2020, there was no change in the composition of the Group’s reportable segments or in the measurement method of segment results by the chief operating decision maker.

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Bazan Ltd. - Notes to the Condensed Consolidated Interim Financial Statements, in USD

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Polymers - Ducor	Total polymers	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
Three months ended March 31, 2020 (unaudited)									
Revenue from external sources - Israel	730,360	65,027	–	65,027	14,421	809,808	189	–	809,997
Revenue from external sources - other countries	386,137	87,008	49,552	136,560	65,625	588,322	18,131	–	606,453
Total revenue from external sources	1,116,497	152,035	49,552	201,587	80,046	1,398,130	18,320	–	1,416,450
Revenue from inter-segment sales ⁽¹⁾	117,913	3,651	–	3,651	8,780	130,344	740	(131,084)	–
Segment revenue	1,234,410	155,686	49,552	205,238	88,826	1,528,474	19,060	(131,084)	1,416,450
Reported EBITDA	(149,610)⁽²⁾	23,032	(2,661)	20,371	10,580	(118,659)	10,528	–	(108,131)
Depreciation and amortization	(27,412)	(10,451)	(1,229)	(11,680)	(3,149)	(42,241)	(6,437)	–	(48,678)
Reported EBITDA less amortization and depreciation									(156,809)
Amortization of excess cost arising on acquisition of subsidiaries									(2,844)
Other expenses, net									(3,020)
Operating loss									(162,673)
Financing expenses, net									(8,130)
Loss before taxes on income									(170,803)

(1) Mainly in Israel

(2) Negative adjusted EBITDA in the fuel segment for the three months ended March 31, 2020: USD (42,041) thousand.

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Bazan Ltd. - Notes to the Condensed Consolidated Interim Financial Statements, in USD

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Polymers - Ducor	Total polymers	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
Three months ended March 31, 2019 (unaudited)									
Revenue from external sources - Israel	702,509	80,420	–	80,420	10,280	793,209	3,815	–	797,024
Revenue from external sources - other countries	498,419	108,526	59,051	167,577	101,405	767,401	9,790	–	777,191
Total revenue from external sources	1,200,928	188,946	59,051	247,997	111,685	1,560,610	13,605	–	1,574,215
Revenue from inter-segment sales ⁽¹⁾	163,703	3,970	–	3,970	9,126	176,799	4,946	(181,745)	–
Segment revenue	1,364,631	192,916	59,051	251,967	120,811	1,737,409	18,551	(181,745)	1,574,215
Reported EBITDA	88,045⁽²⁾	47,714	1,530	49,244	8,874	146,163	7,013	(5,359)	147,817
Depreciation and amortization	(21,899)	(10,577)	(936)	(11,513)	(2,829)	(36,241)	(6,005)	–	(42,246)
Reported EBITDA less amortization and depreciation									105,571
Amortization of excess cost arising on acquisition of subsidiaries									(3,140)
Other expenses, net									(441)
Operating profit									101,990
Financing expenses, net									(29,363)
Profit before taxes on income									72,627

(1) Mainly in Israel

(2) Adjusted EBITDA in the fuel segment for the three months ended March 31, 2019: USD 93,517 thousand.

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Bazan Ltd. - Notes to the Condensed Consolidated Interim Financial Statements, in USD

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Polymers - Ducor	Total polymers	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
Year ended December 31, 2019 (unaudited)									
Revenue from external sources - Israel	3,106,848	281,086	–	281,086	47,363	3,435,297	5,249	–	3,440,546
Revenue from external sources - other countries	1,997,328	372,343	221,288	593,631	351,992	2,942,951	39,514	–	2,982,465
Total revenue from external sources	5,104,176	653,429	221,288	874,717	399,355	6,378,248	44,763	–	6,423,011
Revenue from inter-segment sales ⁽¹⁾	587,047	15,448	–	15,448	37,381	639,876	9,414	(649,290)	–
Segment revenue	5,691,223	668,877	221,288	890,165	436,736	7,018,124	54,177	(649,290)	6,423,011
Reported EBITDA	222,308⁽²⁾	153,076	(1,064)	152,012	20,765	395,085	23,538	32	418,655
Depreciation and amortization	(91,777)	(42,542)	(3,718)	(46,260)	(11,312)	(149,349)	(22,050)	–	(171,399)
Reported EBITDA less amortization and depreciation									247,256
Amortization of excess cost arising on acquisition of subsidiaries									(11,639)
Other expenses, net									(14,236)
Operating profit									221,381
Financing expenses, net									(93,868)
Profit before taxes on income									127,513

(1) Mainly in Israel

(2) Adjusted EBITDA in the fuel segment in 2019: USD 219,754 thousand

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NOTE 5 – CONTINGENT LIABILITIES, AGREEMENTS, GUARANTEES, AND LIENS

A. Contingent liabilities

Further to Note 20A to the Annual Financial Statements, and in particular, to that set out below, in and subsequent to the reporting period, there were no significant changes in lawsuits, other contingent liabilities, and administrative procedures of Bazan Group, other than the following:

1. Liabilities relating to environmental quality

As set out in Note 20A2 to the Annual Financial Statements, there are legal, administrative and other proceedings, including civil claims and warnings against the Group companies and an indictment was filed against the Company and four managers following a fire in an intermediate materials storage tank on the Company's premises in 2016, for which the parties agreed to mediation concurrently with the court proceedings.

In addition, as set out in Note 20A4 to the Annual Financial Statements, the Group companies operate routinely to comply with applicable environmental laws and regulations. As at the reporting date, the Group companies are in compliance with the emission permits and with other environmental laws, other than deviations for which the Group companies are working with the Ministry of Environmental Protection to adjust the provisions and/or revise the schedules for their implementation.

The Company, Carmel Olefins, and Gadiv received various warnings and summons to hearings from the Ministry of Environmental Protection for alleged violations of the emission permits, poisons permits, the permit for emission to the sea, and personal orders issued to them relating to air quality. The companies submit their responses to the Ministry for any warning and/or summons to a hearing received, as relevant.

The Ministry of Environmental Protection is investigating a number of issues against the Company, Carmel Olefins and Gadiv, and in some of the investigations, also against managers who served at the dates relevant to the investigation of the companies, including for alleged violations of the personal orders, provisions of environmental laws, including emission permits issued to the companies at the dates on which they were valid, and/or due to malfunctions in their facilities. In addition, sanctions and/or fines in immaterial amounts were imposed on the Group companies.

For some of these proceedings, the managements of the Company and its subsidiaries believe, based on the opinion of their legal counsel, that, at this stage, it is not possible to assess their effect, if any, on the financial statements as at March 31, 2020. Accordingly, the Company includes provisions in immaterial amounts in its financial statements, which it believes adequately reflect the amounts that will more likely than not be paid, and for proceedings whose effect cannot be estimated, no provisions were included in the financial statements.

NOTE 5 – CONTINGENT LIABILITIES, AGREEMENTS, GUARANTEES, AND LIENS (CONTD.)

B. Agreements

Further to Note 20B to the Annual Financial Statements, and in particular, to that set out below, there were no significant changes in the agreements of the Bazan Group in the reporting period, other than the following:

1. Further to Note 20B4 of the Annual Financial Statements regarding a judgment handed down by the Supreme Court in July 2019, according to which the construction of new production facilities (or structures) having a significant impact on the environment, in categories to be determined by the National Council, is subject to the preparation of a detailed plan for the facility (or structure), in the reporting period, Ministry of Environmental Protection submitted its proposal for defining a facility having a significant impact on the environment to the National Council and the Company, and a meeting on the matter at the National Council was scheduled for April 2020. In the reporting period, the Company was informed that the meeting on the matter was postponed to after the approval date of the financial statements.
2. Further to Note 20B6 to the Annual Financial Statements regarding the inventory availability agreement, in the reporting period, the current inventory availability agreement came to an end, and on March 1, 2020, the new inventory availability agreement came into effect.
3. Further to Note 20B2 of the Annual Financial Statements, in the reporting period, condensate started to flow under the agreement with the Leviathan partnership.
4. Further to Note 20B1(d) to the Annual Financial Statements, regarding the agreement for the supply of natural gas from Energean and its announcement in February 2020 that it was exercising the force majeure clause for potential delays in the date of commercial operation due to the Covid-19 pandemic, as at the approval date of the report, to the best of the Company's knowledge, Energean believes that natural gas will start to flow in the first half of 2021.

C. Other developments and events

Further to Note 20C to the Annual Financial Statements, there were no significant changes in and subsequent to the reporting period in the developments and other events of the Bazan Group, other than the following:

1. Further to Note 20C3 to the Annual Financial Statements, regarding the administrative order for the prevention or reduction of air pollution that the Ministry of Environmental Protection presented to the Company and Gadiv, according to which the companies were required to install means to reduce emission in the storage tanks that significantly contribute to benzene emissions, and to replace equipment components in which benzene flows with equipment components that comply with the best available technique in the time schedules set out in the administrative order, some of which do not correspond with the shutdown dates scheduled by the Company, including their replacement in the crude distillation unit CDU 4, the isomerization unit, and the continuous catalytic reformer (CCR), no later than August 31, 2020, as at the approval date of the report, due to the significant reduction in benzene emissions in 2019 compared with prior years, the companies are working with the Ministry of Environmental Protection to reduce or cancel some of its requirements. If the companies fail to reach agreements with the Ministry, they will make preparations to comply with the provisions of the order, and the companies believe that they will be able to comply with the provisions subject to the postponement of some of the deadlines.

NOTE 5 – CONTINGENT LIABILITIES, AGREEMENTS AND DEVELOPMENTS AND OTHER EVENTS, GUARANTEES AND LIENS (CONTD.)

C. Developments and other events (contd.)

2. Further to Note 20C4 to the Annual Financial Statements regarding an order issued by the Ministry of Environmental Protection under section 45 of the Clean Air Law, 2008, in which the Ministry ordered the Company to suspend the production, storage, and distribution of bitumen at its plant no later than April 16, 2020, until it complies with the levels set out in the provisions of the emission permit, subsequent to the reporting period, on completion of installation of the temporary system, the results of emission sampling from the bitumen unit demonstrated compliance with the emission levels. Accordingly, the Ministry of Environmental Protection informed the Company that as long as there are no deviations from the permitted emission levels and subject to the provisions of the order, the Company may continue the production, storage, and distribution of bitumen. In view of the Ministry's notice, the Company believes that the temporary permit granted by Haifa Municipality to the Company will continue to be applicable to the bitumen unit after April 16, 2020 as well.
3. Further to Note 20C5 to the Annual Financial Statements regarding the requirement for regulatory approvals from Haifa Municipality for maintenance works on the pipelines of the Company and Gadiv, and due to the Ministry of the Environmental Protection's instructions to the Company at the hearing that was held for the Company and Gadiv in December 2019 due to allegations of violation of the terms of their poison permits, in the reporting period, the Court handed down provisional rulings for the petitions filed by the Company against Haifa Municipality, permitting the performance of most of the maintenance works. For other works that do not have a material effect on the operating activities of the Group companies, the legal proceeding between the parties is still underway.
4. Further to Note 20C6 to the Annual Financial Statements regarding the notice received by Gadiv from Haifa Municipality, according to which the Municipality decided not to renew the temporary permit under the Business Licensing Law for the transport of hazardous materials in the underground pipeline between Gadiv and the port ("the Permit" and "the Pipeline", respectively), in the reporting period, the court handed down a provisional ruling according to which Haifa Municipality must renew the temporary permit, if Gadiv complies with the conditions established by the Ministry of Environmental Protection for renewal of the flow in the Pipeline. It should be noted that the Ministry of Environmental Protection established conditions for flow through the Pipeline in February 2020 and Gadiv has complied with these conditions and continues to comply with them, and accordingly, operation of the Pipeline and flow through it is continuing. Subsequent to the reporting period, the temporary permit was received from Haifa Municipality.

D. Guarantees and liens

Further to Note 19 to the Annual Financial Statements, there were no significant changes in the Group's guarantees and liens in and subsequent to the reporting period, other than changes in the normal course of business in the amount of open short-term documentary letters of credit to suppliers.

NOTE 6 - BORROWINGS FROM BANKS AND OTHERS AND DEBENTURES

A. Financial covenants - the Company

Further to Note 13C1 to the Annual Financial Statements, below are the financial covenants, as defined in the Note, that are applicable to the Company by virtue of the new syndication agreement, and referring to most of its financing agreements with the banks (including long-term loans and secured short-term credit facilities). Below are the actual amounts and/or ratios as at March 31, 2020:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated adjusted equity (USD million)	≥	750	1,305.2
Consolidated adjusted equity to total consolidated statement of financial position, net	≥	20.0%	37.7%
Consolidated ratio (net financial debt + factoring receivables) to consolidated adjusted EBITDA	≥	5.0	3.6
Consolidated principal and interest cover ratio	≥	1.1	2.9
Cash flows plus the unused balance of binding credit facilities in the separate statement (USD millions)	≥	75	697.3

As at March 31, 2020, the Company is in compliance with the financial covenants.

In addition, as set out in Note 13C2 and 14C to the Annual Financial Statements, as at March 31, 2020, the Company is subject to financial covenants under a long-term loan agreement with a foreign bank that provided financing for establishment of the Hydrocracker and deeds of trust of the public Debentures (Series D, E, F, I, and J). Definitions and calculation of the covenants for the loan and for the debentures are similar to the definitions and calculation of the covenants set out above. Taking this into consideration, the Company estimates that it is unlikely that it will violate covenants with the foreign bank or with the debenture holders without violating the covenants set out above.

Below are the financial covenants of Debentures (Series E, F, I, and J) as defined in the deed of trust, and the actual amounts and/or ratios as at March 31, 2020:

	Required	Required ratio/amount	Actual ratio/amount
Adjusted equity (USD million) (*)	≥	630	1,516.5
Adjusted equity plus shareholders' loans to total consolidated statement of financial position ⁽²⁾	≥	15%	45.2%
Net debt divided by the average consolidated annual adjusted EBITDA	≥	8	3.6
Consolidated cash and cash equivalents (USD millions)	≥	50	707.1

(*) For Debentures (Series E and F), adjusted required equity - USD 600 million

As at March 31, 2020, the Company is in compliance with the financial covenants.

NOTE 6 - BORROWINGS FROM BANKS AND OTHERS AND DEBENTURES (CONTD.)**B. Short-term borrowings**

Below is information about the short-term credit facilities of the Group companies, from the banks (USD million)

	Shortly before the approval date of the report (*)	March 31, 2020
Consolidated secured facilities		
Scope of facility ⁽¹⁾	311	311
Actual utilization ⁽²⁾	293	293
Consolidated unsecured facilities		
Scope of facility (Company only) ⁽³⁾	256	256
Scope of facility (Ducor)	22	22
Actual utilization ⁽⁴⁾	23	62

(*) As at May 21, 2020

(1) As at March 31, 2020 and shortly before the approval date of the financial statements, valid until December 31, 2020

(2) Of which, USD 53 million and USD million were used as at March 31, 2020 and shortly before the approval date of the financial statements, respectively, for letters of credit and bank guarantees

(3) In addition, as at the report date, the Company has other unsecured credit facilities that are not backed by credit documents.

(4) Utilized for letters of credit and bank guarantees only, other than at Ducor

NOTE 7 - FINANCIAL INSTRUMENTS - FAIR VALUE**A. Fair value of financial instruments for disclosure purposes only**

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, long-term loans and debts, deposits, financial derivatives, bank overdraft, short-term loans and borrowings, trade payables, other payables and marketable Debentures (Series A) and other long-term liabilities (other than lease liabilities), are the same as or proximate to their fair value.

The fair value of the financial liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	March 31, 2020			
	Adjusted par value	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Marketable Debentures (Series F and I) ⁽¹⁾⁽²⁾	491,204	493,116	469,294	—
Marketable Debentures (Series D, E, and J) ⁽¹⁾⁽²⁾⁽³⁾	510,112	517,654	497,414	—
Bank loans ⁽⁴⁾	364,317	328,627	—	298,950
	1,365,633	1,339,397	966,708	298,950
Debentures at fair value ⁽²⁾:				
Marketable Debentures (Series A)	33,890	34,690	34,690	—
	33,890	34,690	34,690	—

(1) The carrying amount of Debentures (Series E, I, and J) is presented at amortized cost (net of raising costs and premium/discounting).

(2) The fair value of the marketable debentures is based on the quoted price on the TASE as at the reporting date.

(3) The carrying amount of Debentures (Series D and E) is presented at amortized cost (net of raising costs and premium/discounting) and to the extent relevant after application of fair-value hedge accounting.

(4) The carrying amount is presented net of raising costs and net of adjustments for amendments to the terms of the syndication loan in 2019 and 2018, as set out in Note 13C1 to the Annual Financial Statements.

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NOTE 7 - FINANCIAL INSTRUMENTS - FAIR VALUE (CONTD.)

A. Fair value of financial instruments for disclosure purposes only (contd.)

	March 31, 2019			
	Adjusted par value	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Private debentures ⁽¹⁾	729	729	–	748
Marketable Debentures (Series F and I) ⁽¹⁾⁽²⁾	517,942	520,571	539,350	–
Marketable Debentures (Series D and E) ⁽²⁾⁽³⁾	357,839	368,218	400,158	–
Bank loans ⁽⁴⁾	439,261	418,741	–	442,627
	1,315,771	1,308,259	939,508	443,375
Debentures at fair value ^{(2):}				
Marketable Debentures (Series A)	99,695	105,017	105,017	–
Marketable Debentures (Series G)	35,496	37,727	37,727	–
	135,191	142,744	142,744	–

	December 31, 2019				
	Adjusted par value	Carrying amount	Fair value level 1	Fair value level 2	Discount rates used for determining fair value
Financial liabilities					
Marketable Debentures (Series F and I) ⁽¹⁾⁽²⁾	496,805	499,042	524,870	–	
Marketable Debentures (Series D, E, and J) ⁽¹⁾⁽²⁾⁽³⁾	443,511	453,827	482,239	–	
Bank loans ⁽⁴⁾	370,984	333,825	–	371,134	4.18%-4.95%
	1,311,300	1,286,694	1,007,109	371,134	
Debentures at fair value ^{(2):}					
Marketable Debentures (Series A)	35,133	36,110	36,110	–	
Marketable Debentures (Series G)	37,528	38,413	38,413	–	
	72,661	74,523	74,523	–	

- (1) The carrying amount of Debentures (Series E, I, and J) is presented at amortized cost (net of raising costs and premium/discounting). As at March 31, 2019, including private debentures
- (2) The fair value of the marketable debentures is based on the quoted price on the TASE as at the reporting date.
- (3) The carrying amount of Debentures (Series D and E) is presented at amortized cost (net of raising costs and premium/discounting) and to the extent relevant after application of fair-value hedge accounting.
- (4) The carrying amount is presented net of raising costs and net of adjustments for amendments to the terms of the syndication loan in 2019 and 2018, as set out in Note 13C1 to the Annual Financial Statements.

For further information about the basis for the fair value measurement of financial liabilities on level 2, see Note 4 to the Annual Financial Statements.

NOTE 7 - FINANCIAL INSTRUMENTS - FAIR VALUE (CONTD.)**B. Fair value hierarchy of financial instruments measured at fair value**

The table below presents an analysis of the financial instruments measured at fair value, on a timing basis, using the evaluation method. The different levels were defined in Note 4 to the Annual Financial Statements.

	March 31, 2020			
	Level 1 ⁽¹⁾	Level 2	Level 3	Total
<u>Financial assets</u>				
Derivatives used for accounting hedging ⁽²⁾				
CCIRS ⁽³⁾	—	21,667	—	21,667
Derivatives for margins	—	—	5,892	5,892
Interest rate swaps	—	46	—	46
Derivatives that are not used for accounting hedging				
CCIRS ⁽³⁾	—	1,527	—	1,527
Derivatives for margins	—	10,463	—	10,463
Forward contracts	—	3,636	—	3,636
	—	37,339	5,892	43,231
<u>Financial liabilities</u>				
Non-derivative				
Marketable Debentures (Series A)	34,690	—	—	34,690
Derivatives used for accounting hedging				
CCIRS ⁽³⁾	—	19,725	—	19,725
Interest rate swaps	—	5,993	—	5,993
Derivatives that are not used for accounting hedging				
CCIRS ⁽³⁾	—	299	—	299
Derivatives for inventory	—	—	7,000	7,000
Forward contracts	—	213	—	213
	34,690	26,230	7,000	67,920

- (1) Marketable derivatives for inventory/cash flow exposure for acquisition of inventory (basic) at the end of the inventory availability transaction, are presented net of the amounts of the accounting.
- (2) In the three months ended March 31, 2020, a loss (before tax) in the amount of USD 27 million was recognized in a hedge fund for the effective part of the change in the fair value of Brent futures. On termination of the previous availability transaction as set out in Note 5B2, the balance of the hedge fund (debit) amounting to USD 4 million was recognized in inventory. As at March 31, 2020, the balance of the hedge fund for the new availability transaction (before tax) amounted to USD 16 million (debit).
- (3) Below are the main assumptions used to determine the fair value of cross-currency interest rate swap contracts as at March 31, 2020:
- NIS interest (used for discounting the NIS component) 0.61% - (1.90%)
 - USD interest (used to discount the USD component) 0.07%-1.45%
 - Exchange rate (NIS/USD) as at March 31, 2020

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NOTE 7 - FINANCIAL INSTRUMENTS - FAIR VALUE (CONTD.)**B. Fair value hierarchy of financial instruments measured at fair value (contd.)**

	March 31, 2019			
	Level 1 ⁽¹⁾	Level 2	Level 3	Total
<u>Financial assets</u>				
Derivatives used for accounting hedging ⁽²⁾				
CCIRS ⁽³⁾	—	18,119	—	18,119
Derivatives for margins	—	—	6,848	6,848
Interest rate swaps	—	1,000	—	1,000
Derivatives that are not used for accounting hedging				
CCIRS ⁽³⁾	—	6,561	—	6,561
Derivatives for margins	—	1,458	—	1,458
Interest rate swaps	—	260	—	260
Forward contracts	—	2,503	—	2,503
	—	29,901	6,848	36,749
<u>Financial liabilities</u>				
Non-derivative				
Marketable Debentures (Series A, G)	142,744	—	—	142,744
Derivatives used for accounting hedging				
CCIRS ⁽³⁾	—	8,221	—	8,221
Interest rate swaps	—	2,034	—	2,034
Derivatives that are not used for accounting hedging				
CCIRS ⁽³⁾	—	2,682	—	2,682
Forward contracts	—	40	—	40
	142,744	12,977	—	155,721

(1) Marketable derivatives for inventory/cash flow exposure for acquisition of inventory (basic) at the end of the inventory availability transaction, are presented net of the amounts of the accounting.

(2) In the three months ended March 31, 2019, a profit (before tax) in the amount of USD 18 million was recognized in a hedge fund for the effective part of the change in the fair value of Brent futures. As at March 31, 2019, the balance of the hedge fund (before tax) amounts to USD 12 million (credit).

(3) Below are the main assumptions used to determine the fair value of cross-currency interest rate swap contracts as at March 31, 2019:

- NIS interest (used for discounting the NIS component) 0.73% - (0.35%)
- CPI-linked NIS interest (used to discount the NIS-linked component): 5.08% - (1.67%)
- USD interest (used to discount the USD component) 2.01%-2.62%
- Exchange rate (NIS/USD) as at March 31, 2019

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NOTE 7 - FINANCIAL INSTRUMENTS - FAIR VALUE (CONTD.)

B. Fair value hierarchy of financial instruments measured at fair value (contd.)

	March 31, 2019			
	Level 1 ⁽¹⁾	Level 2	Level 3	Total
Financial assets				
Derivatives used for accounting hedging ⁽²⁾				
CCIRS ⁽³⁾	—	38,337	—	38,337
Derivatives for margins	—	—	2,329	2,329
Interest rate swaps	—	45	—	45
Derivatives that are not used for accounting hedging				
CCIRS ⁽³⁾	—	6,046	—	6,046
Derivatives for margins	—	2,161	—	2,161
Interest rate swaps	—	26	—	26
	—	46,615	2,329	48,944
Financial liabilities				
Non-derivative				
Marketable Debentures (Series A, G)	74,524	—	—	74,524
Derivatives used for accounting hedging				
CCIRS ⁽³⁾	—	2,629	—	2,629
Interest rate swaps	—	3,252	—	3,252
Derivatives that are not used for accounting hedging				
CCIRS ⁽³⁾	—	15	—	15
Forward contracts	—	970	—	970
	74,524	6,866	—	81,390

(1) Marketable derivatives for inventory/cash flow exposure for acquisition of inventory (basic) at the end of the inventory availability transaction, are presented net of the amounts of the accounting.

(2) In 2019, income (before tax) in the amount of USD 17 million was recognized in a hedge fund for the effective part of the change in the fair value of Brent futures. As at December 31, 2019, the balance of the hedge fund (before tax) amounts to USD 11 million (credit).

(3) Below are the main assumptions used to determine the fair value of cross-currency interest rate swap contracts as at December 31, 2019:

- NIS interest (used for discounting the NIS component) 0.74% - (0.5%)
- CPI-linked NIS interest (used to discount the NIS-linked component): 1.78% - (1.83%)
- USD interest (used to discount the USD component) 1.45%-1.94%
- Exchange rate (NIS/USD) as at December 31, 2019

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NOTE 8 – MATERIAL EVENTS IN AND SUBSEQUENT TO THE REPORTING PERIOD

- A.** Further to Note 6B to the Annual Financial Statements regarding the factoring agreements of the Company and its subsidiaries Carmel Olefins and Gadiv, in accordance with IFRS 9, as at March 31, 2020, the Company, Carmel Olefins, and Gadiv derecognized an immaterial amount of trade receivables (December 31, 2019 and March 31, 2019, USD 100 million and USD 256 million, respectively).
- B.** Further to Note 14B to the Annual Financial Statements, in the reporting period, Debentures (Series J) were expanded in an amount of USD 84 million (net of issuance costs). Concurrently with the expansion of the Debentures, the Company entered into a principal and interest swap transaction (including fixing the USD interest) to reduce currency and interest, exposure and elected to apply cash flow hedge accounting principles. The effective interest in the issuance (in terms of fixed USD interest after taking into account the swap transaction) is 4%.
- C.** Further to Note 21B1 to the Annual Financial Statements, in the reporting period, the Company's Board of Directors approved the allocation of 2,500,000 options for an officer of the Company (following the decision of the Company's compensation committee).
- D.** On March 31, 2020, Maalot S&P downgraded the rating outlook of the Company and its debentures to - ilA with negative outlook.
- E.** Due to a sharp decline in the price of crude oil and accordingly, in prices of fuel products, on March 31, 2020, the Group recognized an inventory impairment loss amounting to USD 106 million, of which, USD 36 million for inventory of crude oil, USD 67 million for inventory of fuel products, and USD 3 million for inventory of aromatics. .
- F.** Due to the outbreak of Covid-19 in the first quarter of 2020 and its implications as described in Section H below, which were reflected, among other things, in a sharp decline in the price of the Company's shares, a decrease in the refining volume, and an erosion in refining margins, a review of the recoverable amount of fuel sector assets was performed as at March 31, 2020 in accordance with IAS 36, based on the valuation of an independent outside valuator with expertise in the field, Ernst & Young (Israel) Ltd.

The recoverable amount of fuel sector assets was calculated according to value in use, which was estimated using the discounted cash flow (DCF) method. According to the valuation, the recoverable amount of fuel sector assets was estimated at USD 1,711 million, which exceeds the carrying amount of USD 1,414 million. Therefore, no impairment loss was recognized.

The valuation methodology includes several key assumptions forming the basis for the cash flow forecasts, including prices of crude oil and distillations based on the forecasts of the consulting company IHS, a forecast of investments in fixed assets, an estimated discount rate after tax of 9%, and a long-term growth rate of 0%. It should be noted that a decrease of USD 0.5 per barrel in the refining margin in a representative year would have been reflected in the value in use of USD 1,492 million, which is higher than the carrying amount

- G.** For further information about the developments in agreements, legal claims, and other contingencies, including in environmental quality, other events, and changes in guarantees, in and subsequent to the reporting period, see Note 5.
- H.** In January 2020, the coronavirus broke out in China, and as at the approval date of the report, it continues to spread throughout the world, causing considerable uncertainty.

In view of the Covid-19 pandemic, economic activity in many regions, including in Israel, has declined, and there is concern about the continued moderation of global and local economic activity for long periods. In an attempt to address the outbreak of Covid-19 and curb its spread, many regions, including Israel, have taken imposed strict measures that have significantly restricted the free movement and congregation of people. Accordingly, since the beginning of the Covid-19 outbreak, there has been a decrease, among other things, in global air, sea, and land traffic.

NOTE 8 – MATERIAL EVENTS IN AND SUBSEQUENT TO THE REPORTING PERIOD (CONTD.)

H. (contd.)

As a result of the above, in the reporting period, the Company recognized an operating loss of USD163 million, which was mainly due to the inventory impairment loss as set out in section E above and from a decrease in the refining margin. In addition, further to section F above, the Company reviewed the recoverable amount of fuel sector operations and concluded that it was higher than the carrying amount, therefore an impairment loss was not recognized.

It should be noted that several weeks before the approval date of the report, many countries, including Israel, began to lift some of the restrictions with the aim of gradually restarting economic activity. However, the pace of lifting of the restrictions and its effect on the recovery from the economic crisis cannot be estimated at this time.

Due to the significant uncertainty as to the continued spread of Covid-19 and the measures that may be derived from it, it is difficult to estimate demand for diesel fuel, gasoline, and jet fuel. Moreover, if Covid-19 continues to spread around the world and/or in Israel, and strict measures will again be imposed such that the decrease in economic activity continues and/or intensifies, the negative effect on demand for fuel and/or petrochemicals will intensify, and therefore, the negative effect on refining and/or petrochemical margins will also intensify.

If there is a decline in demand in the local market for diesel fuel, gasoline, and jet fuel, the Company will assess the need to direct its sales to export markets and/or to reduce gasoline imports, as relevant, however there is no certainty as to the demand for the Company's products in its export markets. Furthermore, the Group companies have made preparations to adjust inventory levels and production quantities, including to reduce the volume, if the decrease in economic activity and/or the decrease in demand and/or the decrease in market margins continue. It should be noted that reducing the Company's production volume may also affect the production volumes of the subsidiaries.

If the above materializes, there may be a continuation of significant impairment in the operating results and cash flows from the Group's operating activities, erosion in its equity, and deterioration, and in some scenarios even a breach, of some of the financial covenants applicable to the Company under financing agreements with banks. If the breach materializes, the Company will act to receive exemptions from the banks.

As at the approval date of the report, the Company is unable to estimate the duration and/or possible effects of the outbreak on the results of the Group's operations.

- I.** Subsequent to the reporting period, the chairman of the Board of Directors and all of the Company's directors, including the outside directors, as well as the acting CEO and the other management members, announced that they are waiving 10% of their remuneration due to them from the Company,¹ or, as the case may be, 10% of their salary (other than social provisions and incidentals), for the period from the beginning of June 2020 until the end of 2020

¹ It should be noted that even after the above waiver, the directors' remuneration is above the minimum remuneration set out in the Companies Regulations (Rules for Remuneration and Expenses for an Outside Director), 2020.

Bazan Ltd.

**Separate Financial Information
As of March 31, 2020**

(This part is available only in Hebrew)

This translation of the financial statement is for convenience purposes only.

The only binding version of the financial statement is the Hebrew version.

Quarterly report on the effectiveness of the internal control of financial reporting and disclosure pursuant to Article 38C(a):

Management, under the supervision of the Balance Sheet and Audit Committee and the Board of Directors of Bazan Ltd. ("the Company"), is responsible for setting and maintaining proper internal control of financial reporting and disclosure in the Company.

For this matter, the members of management are:

1. Shlomi Basson – Acting CEO and VP Human Resources, Safety, Environment and Security
2. Ana Berenshtein – CFO
3. The other members of Bazan management as of the report date:

Assaf Almagor – Acting Deputy CEO and VP Business Unit, Polyolefins and Aromatics

Yariv Gretz – VP Business Unit, Fuels

Limor Peshor-Cohen – VP Integrated Planning and Commerce

Yaron Nimrod – VP Technology and Projects

Mark Hana – VP Marketing and Sales, and Purchasing and Contracts

Aviram Gavish – Legal Counsel (from April 01, 2020)

Eliahu Mordoch – Corporate Secretary

Internal control of financial reporting and disclosure includes controls and procedures existing in the Company which were designed by the CEO and the most senior financial officer or under their supervision, or by whoever actually fulfills those roles, under the supervision of the Board of Directors of the Company, and are intended to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, and to ensure that information that the Company is required to disclose in the reports that it publishes as required by law, is gathered, processed, summarized and reported on the date and in the format prescribed in law.

Internal control includes, inter alia, controls and procedures designed to ensure that information that the Company is required to disclose as aforesaid, is accumulated and forwarded to the Company's management, including the CEO and the most senior financial officer or to whoever actually fulfills those roles, so as to enable decisions to be made at the appropriate time with regard to the disclosure requirement.

Owing to its inherent limitations, internal control of financial reporting and disclosure is not intended to provide absolute assurance that a misleading presentation or the omission of information in the reports will be prevented or will come to light.

In the annual report on the effectiveness of the internal control of financial reporting and disclosure attached to the Periodic Report for the period ended December 31, 2019 ("the Last Annual Report on Internal Control"), the Board of Directors and management assessed the Company's internal control. Based upon this assessment, the Company's Board of Directors and Management reached the conclusion that the said internal control as of December 31, 2019 was effective.

Up to the reporting date no event or matter that might change the assessment of the effectiveness of the internal control has been brought to the attention of the Board of Directors and management, as brought in the Last Annual Report on Internal Control;

As of the reporting date, based upon what is stated in the Last Annual Report on Internal Control, and based on information brought to the attention of the Board of Directors and management as stated above, the internal control is effective;

Certifications

A. Statement of the CEO pursuant to Article 38C(d)(1):

I, Shlomi Basson, declare that:

- 1) I have reviewed the Quarterly Report of Bazan Ltd. ("the Company") for the first quarter of 2020 ("the Reports").
- 2) To my knowledge, the Reports do not contain any incorrect representation of a material fact, nor is any representation of a material fact omitted which is needed to prevent the representations contained in it, in light of the circumstances in which they were included, from being misleading in relation to the period covered by the Reports.
- 3) To my knowledge, the financial statements and other financial information in the Reports reflect fairly, from all material aspects, the financial condition, the results of operations and the cash flows of the Company as of the dates and for the periods to which the Reports relate.
- 4) I disclosed to the auditors of the Company, to the Company's Board of Directors and to the Balance Sheet and Audit Committee of the Board of Directors of the Company, based on my latest assessment concerning the internal control of financial reporting and disclosure:
 - (a) all the significant flaws and material weaknesses in the determination or application of the internal control of financial reporting and disclosure, which can reasonably be expected to harm the Company's ability to gather, process, summarize or report on financial information in such a way as to cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, and –
 - (b) any deception, whether material or not material, involving the CEO or any of his direct subordinates or other employees who have a significant role in the internal control of financial reporting and disclosure.
- 5) I, alone or together with others in the Company:
 - (a) set controls and procedures or ascertained the setting and maintaining of controls and procedures under my supervision, which are designed to ensure that material information relating to the Company, including its consolidated companies as defined in the Securities (Annual Financial Statements) Regulations, 2010, is brought to my knowledge by others in the Company and in the consolidated companies, particularly during the period of preparation of the Reports; and
 - (b) set controls and procedures or ascertained the setting and maintaining of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles.
 - (c) No event or matter that occurred during the period between the Last Quarterly Report on Internal Control and the date of this Report has been brought to my attention that might change the conclusion of the Board of Directors and management concerning the effectiveness of the internal control of the financial reporting and disclosure of the Company.

Nothing in the aforesaid derogates from my liability or the liability of any other person under the law.

May 25, 2020

Shlomi Basson,
Acting CEO

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B. Statement of the most senior financial officer pursuant to Article 38C(d)(2):

I, Ana Berenshtein, declare that –

- 1) I have reviewed the interim financial statements and other financial information included in the Reports of the interim period of Bazan Ltd. (“the Company”) for the first quarter of 2020 (“the Reports” or “the Reports for the Interim Period”).
- 2) To my knowledge, the financial statements and the other financial information included in the Reports do not contain any incorrect representation of a material fact, nor is any representation of a material fact omitted which is needed to prevent the representations contained in them, in light of the circumstances in which they were included, from being misleading in relation to the period covered by the Reports.
- 3) To my knowledge, the interim financial statements and other financial information in the Reports for the Interim Period reflect fairly, from all material aspects, the financial condition, the results of operations and the cash flows of the Company as of the dates and for the periods to which the Reports relate.
- 4) I disclosed to the auditors of the Company, to the Board of Directors and to the Balance Sheet and Audit Committee of the Board of Directors of the Company, based on my latest assessment concerning the internal control of financial reporting and disclosure:
 - (a) all the significant flaws and material weaknesses in the determination or application of the internal control of financial reporting and disclosure, insofar as it relates to the interim financial statements and the other financial information contained in the Reports for the Interim Period, which can reasonably be expected to harm the Company's ability to gather, process, summarize or report on financial information in such a way as to cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and –
 - (b) any deception, whether material or not material, involving the CEO or any of his direct subordinates or other employees who have a significant role in the internal control of financial reporting and disclosure.
- 5) I, alone or together with others in the Company:
 - (a) set controls and procedures or ascertained the setting and maintaining of controls and procedures under my supervision, which are designed to ensure that material information relating to the Company, including its consolidated companies as defined in the Securities (Annual Financial Statements) Regulations, 2010, insofar as relevant to the financial statements and the other financial information contained in the Reports, is brought to my knowledge by others in the Company and in the consolidated companies, particularly during the period of preparation of the Reports; and
 - (b) I set controls and procedures or ascertained the setting and maintaining of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles.
 - (c) No event or matter that occurred during the period between the Last Quarterly Report on Internal Control and the date of this Report has been brought to my attention that refers to the interim financial statements and any other financial information included in the Reports for the Interim Period that might change the conclusion of the Board of Directors and management concerning the effectiveness of the internal control of the financial reporting and disclosure of the Company.

Nothing in the aforesaid derogates from my liability or the liability of any other person under the law.

May 25, 2020

Ana Berenshtein,
CFO

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