OIL REFINERIES LTD

Condensed Consolidated Interim Financial Statements as at June 30 , 2020

(Unaudited)

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

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Contents

Directors' Report on the State of the Company's Affairs for the Period ended June 30, 2020

The Board of Directors is pleased to present the Directors' Report on the State of the Company's Affairs for the period ended June 30, 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.

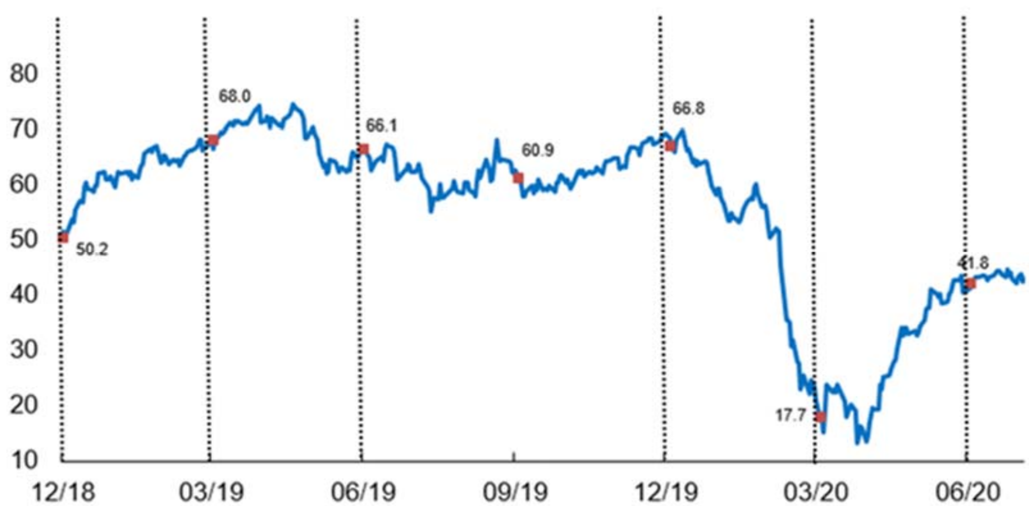
B. Business environment and Bazan Group profitability

Fuels Segment

The Covid-19 coronavirus pandemic that broke out during the Period had significant ramifications on the Group's business environment and operating results. For further information, see Chapter 10 below.

Average crude oil price

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



Source: Reuters
Dated Brent 1

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

B. Business environment and Bazan Group profitability (contd.)

Fuels Segment (contd.)

Average crude oil price (contd.)

Brent crude (USD/barrel)

1-6.2020	1-6.2019	Change	4-6.2020	4-6.2019	Change
40.1	66.0	- 39%	29.6	68.9	- 57%

In the Reporting Period, the Brent price was extremely volatile, with mixed trends, and its price ranged between USD 13 - USD 70.

The Brent price plunged in the first quarter of 2020 and was mainly affected by the sharp declines in demand for crude oil as a result of the outbreak of the Covid19 pandemic and the simultaneous sharp rise in crude oil supply due to record production rates in view of the oil price war that erupted in the wake of the OPEC+ refusal to cut production in order to balance global oil supply following the Covid19 pandemic outbreak.

In the second quarter of 2020 the Brent price has begun to rally due to the end of the pandemic and the agreement signed by OPEC+ to cut oil production, as well as the gradual recovery of oil demand following certain relief of the global travel restrictions. As at Reporting Date, the Brent price was fixed at USD 42 per barrel.

Subsequent to Reporting Date, Brent crude was traded between USD 42 - USD 44 per barrel, without significant impact due to OPEC+ decision to cut production rates from August 2020. Close to Reporting Date, the Brent price was fixed at USD 42 per barrel.

In the Reporting Period the crude oil futures market curve was extremely volatile, with mixed structure. In the first quarter of 2020 the market curve was contango at average USD 0.2 per barrel compared with the flat market curve in the corresponding quarter last year. In the second quarter of 2020, the contango increased to an average of USD 1.2 per barrel, due to excess supply in the global oil market and storage shortages, and peaked at USD 4 per barrel, compared to a backwardation market curve at an average of USD 0.8 per barrel in the corresponding quarter last year. With the steep rise in Brent prices in May 2020 the contango leveled out and towards the end of the quarter the market curve flattened.

Refining margin

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

Source: Reuters; Bloomberg.

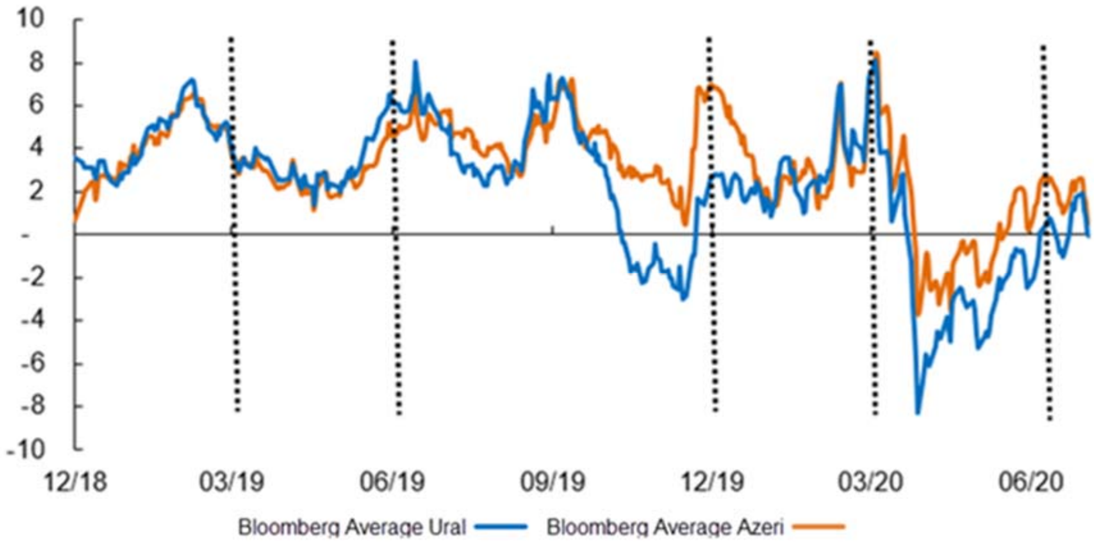
Chapter 1 - Description of the Company and its Business Environment (contd.)

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)

	1-6.2020	1-6.2019	Difference	4-6.2020	4-6.2019	Difference
Reuters Ural	0.6	2.6	- 2.0	- 0.5	1.7	- 2.2
Bloomberg Average Ural	0.4	3.9	- 3.5	- 2.3	3.4	- 5.7
Bloomberg Average Azeri	2.0			0.4		

- In the Reporting Period, and particularly in the second quarter of 2020, the average Ural margins (Reuters and Bloomberg) declined compared with the corresponding period last year, mainly due to the increase in heavy crude (such as Ural) compared with Brent, as a result of the production cut agreement and at the same time due to a drop in demand for distillates following the Covid19 pandemic breakout.
- In the Reporting Period, and particularly in the second quarter of 2020, the average Bloomberg Azeri margin declined mainly due to a drop in demand for distillates, with the Covid19 outbreak, and this despite the lower price of Azeri crude compared with Brent.
- Subsequent to Reporting Date and close to the date of approval of the Report, the recovery of the benchmark margins, primarily Bloomberg average Azeri and Ural, that began towards the end of the second quarter continues as the lifting of travel restrictions that came into effect towards the end of the second quarter and led to a rise in demand for distillates. As at this time, the Reuters and Bloomberg average Ural margins were USD minus 2.4 and 0.3 per barrel, respectively. The average Bloomberg Azeri margin amounted to USD 1.9 per barrel.

  For information regarding the Company's refining margin see Chapter 2, sections A2b and C2b.

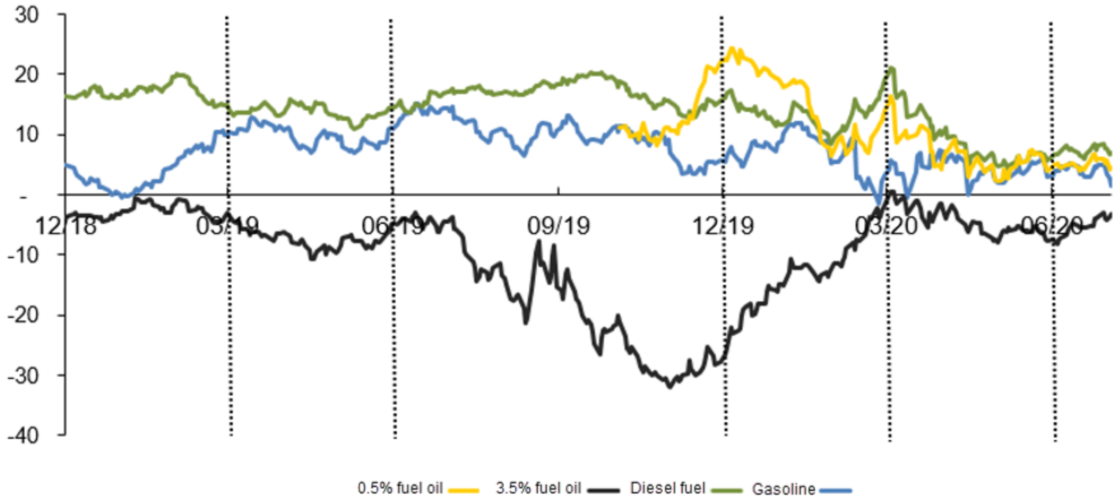
Chapter 1 - Description of the Company and its Business Environment (contd.)

B. Business environment and Bazan Group profitability (contd.)

Fuels Segment (contd.)

<u>Refining margins (contd.)</u>

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 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)

	1-6.2020	1-6.2019	Difference	4-6.2020	4-6.2019	Difference
Diesel fuel(1)	11.2	15.4	- 4.2	8.8	13.7	- 4.9
Gasoline(1)	5.6	6.8	- 1.2	4.2	9.6	- 5.4
3.5% Fuel oil(2)	- 8.5	- 5.0	- 3.5	- 4.6	- 7.4	2.8
0.5% Fuel oil(3)	10.9			6.5		

(1) In the Reporting Period and in the second quarter of 2020, there was a decrease compared to corresponding periods last year, mainly due to a decrease in demand as a result of the spread of the Covid19 pandemic and worldwide travel restrictions, together with surplus stocks of distillates that accumulated.

(2) In the Reporting Period, there was a decrease compared to the corresponding period last year, mainly due to IMO 2020 coming into force. In the second quarter of 2020, there was an increase compared to the corresponding period last year, mainly due to a drop in supply an increase in prices of heavy crude such as Ural resulting from an agreement to cut oil production.

(3) In the Reporting Period and in the second quarter of 2020, there was a decrease, mainly due to a decrease in demand as a result of the spread of the Covid19 pandemic and worldwide travel restrictions, together with surplus stocks of distillates that accumulated.

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

	4-6.2020	1-3.2020	10-12.2019	7-9.2019	4-6.2019
Transportation fuels[2]	1,409	1700	1,885	2,106	1,969
Other distillates	632	727	566	628	645
Total	**2,041**	**2,427**	**2,451**	**2,734**	**2,614**

Source: Ministry of National Infrastructures Energy and Water publications.

(1) Total consumption of distillates in the domestic market (transportation fuels, other distillates for industry and heating) decreased in the Reporting Period and in particular in the second quarter of 2020 by 14% and 22% respectively, compared to corresponding periods last year, mainly due to the spread of the Covid19 pandemic.

(2) Consumption of transportation fuels (gasoline, diesel and kerosene) decreased during the Reporting Period and in particular in the second quarter of 2020 by 19% and 28%, respectively, compared with corresponding periods last year mainly due to the Covid19 pandemic.

Refining volume

Breakdown of utilization of crude oil refining plants, crude oil refining volume and HVGO processing in the Fuels segment (thousands of tons)

	1-6.2020	1-6.2019		4-6.2020	4-6.2019	
Utilization of refining plants	85%	95%		80%	96%	
Refining volume	4,197	4,661		1,953	2,361	
Volume of heavy vacuum diesel processed	333	507		144	226	
Total	**4,530**	**5,168**		**2,097**	**2,587**	

The decrease in utilization of refining facilities in the Reporting Period compared to the corresponding period last year was mainly due to the adjustment of output resulting from the decrease in demand for distillates and a decrease in refining margins caused by the Covid19 pandemic.

For further information, see chapter 10B below.

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

	1-6.2020	% of total	1-6.2019	% of total	4-6.2020	% of total	4-6.2019	% of total
Diesel fuel	1,864	42%	2,013	40%	897	44%	971	38%
Gasoline	598	14%	695	14%	261	13%	362	14%
Kerosene	211	5%	402	8%	48	2%	244	10%
0.5% Fuel oil	673	15%	-	-	284	14%	-	-
3.5% Fuel oil			942	19%			477	19%
Petrochemical products [1]	696	16%	666	13%	349	17%	306	12%
Others [2]	375	8%	354	7%	191	10%	176	7%
Total	4,417	100%	5,072	100%	2,030	100%	2,536	100%

(1) Primarily includes: raw materials for production of polymers and aromatics.

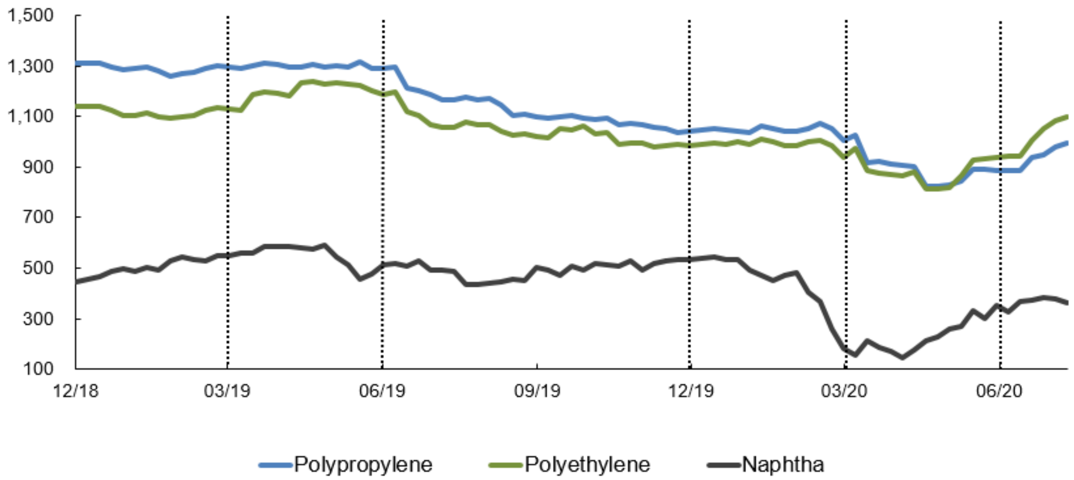
(2) Primarily includes: LPG and bitumen.

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, polypropylene - PP FD NEW Spot

(2) Naphtha CIF NEW

Average polymer and naphtha prices (USD / ton)

	1-6.2020	1-6.2019	Change	4-6.2020	4-6.2019	Change
Naphtha	327	531	- 38%	244	545	- 55%
Polypropylene	962	1,294	- 26%	879	1,300	- 32%
Polyethylene	934	1,162	- 20%	879	1,210	- 27%

<u>Raw material prices</u>

In the Reporting Period and in particular in the second quarter of 2020, the price of naphtha decreased compared to corresponding periods last year, concurrent with the decrease in the price of crude oil.

<u>Polymer prices</u>

In the Reporting Period and in particular in the second quarter of 2020, polymer prices (polypropylene and polyethylene) dropped compared to corresponding periods last year, mainly due to a decrease in the prices of raw materials and energy.

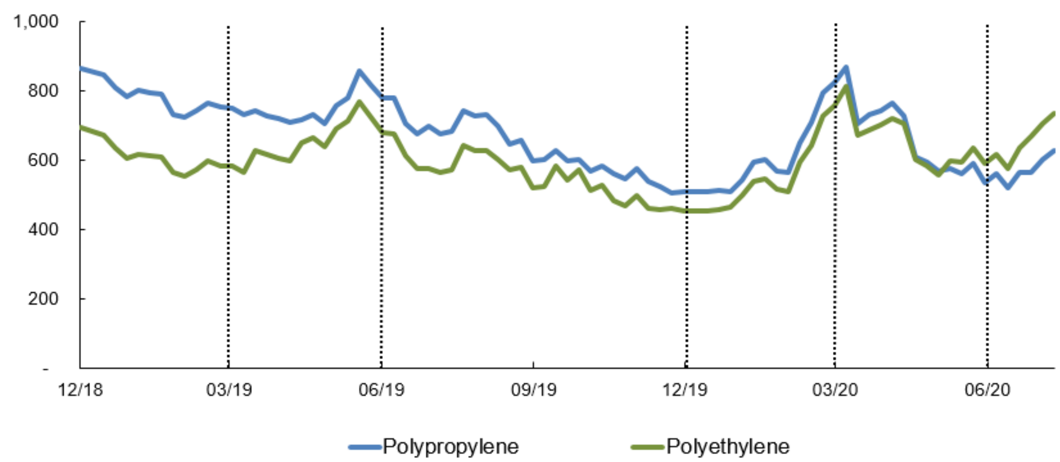
Chapter 1 - Description of the Company and its Business Environment (contd.)

B. Business environment and Bazan Group profitability (contd.)

Polymers Segment - Carmel Olefins (contd.)

<u>Margins</u>

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)

	1-6.2020	1-6.2019	Difference	4-6.2020	4-6.2019	Difference
Polypropylene	635	763	- 128	635	755	- 120
Polyethylene	607	631	- 24	635	665	- 30

- In the Reporting Period, and particularly in the second quarter of 2020, there was a decrease in the difference between the average polypropylene price and the average naphtha price compared with the corresponding periods last year, which was mainly caused by global surplus supply with the establishment of new production facilities in the East and the import of polypropylene into Europe.

<u>Polymer output volume (thousand tons)</u>

	1-6.2020	1-6.2019		4-6.2020	4-6.2019	
Polymers	262	271		126	132	

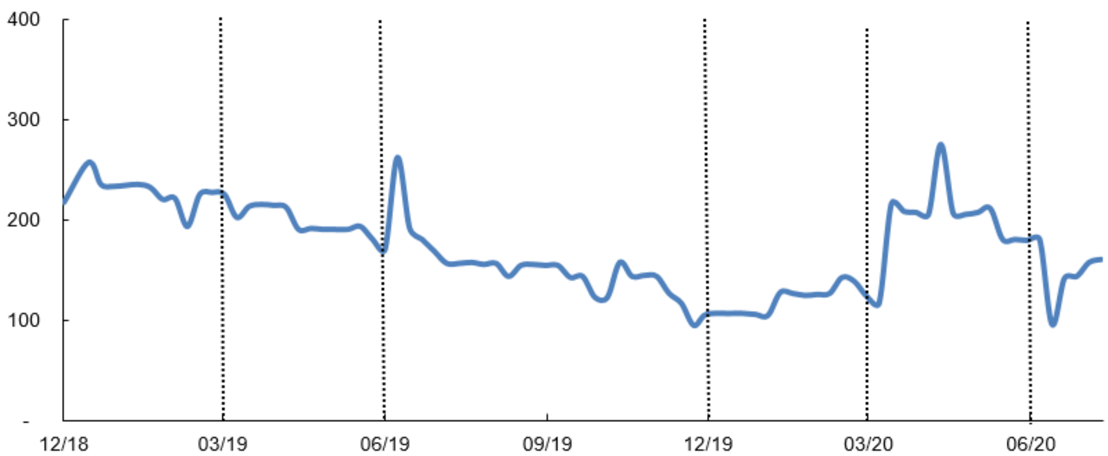
Chapter 1 - Description of the Company and its Business Environment (contd.)

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)

	1-6.2020	1-6.2019	Difference	4-6.2020	4-6.2019	Difference
Difference in price	163	213	- 50	205	201	4

- In the Reporting Period, the difference between the average price of polypropylene and the average price of propylene declined compared to the corresponding period last year, which was mainly caused by a decline in polypropylene prices due to an increase in supply from imports to Europe.
- In the second quarter of 2020, the difference between the average price of polypropylene and the average price of propylene increased compared to the corresponding period last year, which resulted from the declined in the price of propylene, which dropped parallel to the fall in the price of crude oil.

Polypropylene output volume (thousand tons)

	1-6.2020	1-6.2019		4-6.2020	4-6.2019	
Polypropylene	72	77		38	39	

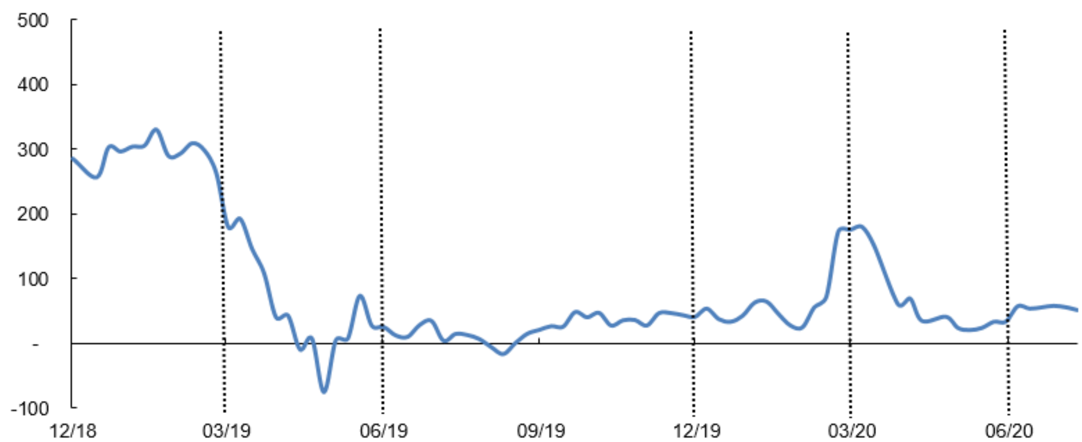
Chapter 1 - Description of the Company and its Business Environment (contd.)

B. Business environment and Bazan Group profitability (contd.)

Aromatics Segment - Gadiv

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)

	1-6.2020	1-6.2019	Difference	4-6.2020	4-6.2019	Difference
Difference in price	65	155	- 90	50	32	18

- In the Reporting Period, the difference between the average paraxylene price and the average xylene price declined compared to corresponding periods last year, due to an increase in supply of paraxylene with the establishment of new production facilities in the East and the United States.
- In the second quarter, the difference between the average price of paraxylene and the average price of xylene increased due to declining supply caused by the production shutdown in the East as a result of the spread of the Covid19 pandemic, especially at the beginning of the quarter, together with an increase in demand from the pharmaceutical industry

Aromatics output volume (thousand tons)

	1-6.2020	1-6.2019		4-6.2020	4-6.2019	
Aromatics	257	275		143	133	

The decrease in aromatics output in the Reporting Period is due, among other things, to the completion of planned maintenance work at the Gadiv facilities that began in the fourth quarter of 2019 and ended in the first quarter of 2020

Chapter 2- Results of Bazan Group's operations for the six- and three-month periods

A. Results of Bazan Group operations

Selected data from the reported consolidated statements of income and data after adjustment for accounting effects for the six and three months periods ending June 30, 2020 (USD millions):

In order to also present the Fuels segment operating results economically with the aim of providing the reader of the report with approximate information concerning operating profit on a cash basis; to enable better analysis compared to various benchmark indices (that are calculated on the assumption of zero inventory balances and accordingly no hedging transactions in respect thereof); and to enable better understanding of business performance over time and comparison with comparable companies; only the accounting effects in the Fuels segment were adjusted.

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.

	1-6.2020	1-6.2019	Change		4-6.2020	4-6.2019	Change
Revenue	2,122	3,260	(35%)		706	1,686	(58%)
Reported EBITDA	**(25)**	**255**	**(110%)**		**83**	**107**	**(22%)**
Depreciation	(98)	(84)	17%		(49)	(42)	17%
Other expenses, net (1)	(13)	(7)	86%		(7)	(3)	133%
Operating profit (loss)	**(136)**	**164**	**(183%)**		**27**	**62**	**(56%)**
Financing expenses, net (2)	(48)	(58)	(17%)		(40)	(29)	38%
Income tax (3)	27	(14)	(293%)		2	(4)	(150%)
Net income (loss)	**(157)**	**92**	**(271%)**		**(11)**	**29**	**(138%)**
Fuel segment adjustments (*)	107	(22)			(1)	(27)	
Adjusted EBITDA	**82**	**233**	**(65%)**		**82**	**80**	**2%**
Adjusted operating profit (loss)	**(29)**	**142**	**(120%)**		**26**	**35**	**(26%)**
Adjusted net income (loss)	**(50)**	**70**	**(171%)**		**(12)**	**2**	**(700%)**

(*) For further information about the adjustment components, see sections B3 and C3 below.

(1) Including amortization of excess cost. In the Reporting Period, including early retirement costs of USD 7 millions.

(2) Breakdown of principal changes in financing expenses, based on financial analysis (USD millions):

	1-6.2020 compared to 1-6.2019	4-6.2020 compared to 4-6.2019
Net financing expenses in the corresponding period last year	**58**	**29**
Interest on borrowings, net (*)	(4)	(2)
Financing for working capital items, net (*)	(3)	(1)
Exchange differences	(11)	8
Others (**)	8	6
Total change	**(10)**	**11**
Net financing expenses in Reporting Period	**48**	**40**

(*) 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.

(**) For further information regarding the loss from full early redemption of Debentures (Series D), see Note 6A (4) to the financial statements.

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

Chapter 2 - Results of Bazan Group's operations for the six- and three-month periods (contd.)

A. Results of Bazan Group operations (contd.)

Breakdown of the consolidated adjusted EBITDA by operating segments (USD millions):

	1-6.2020	1-6.2019	Change	4-6.2020	4-6.2019	Change
Fuels (adjusted)	(6)	113	(119)	36	20	16
Polymers (Carmel Olefins and Ducor)	56	94	(38)	36	44	(8)
Aromatics (Gadiv)	20	16	4	9	7	2
Others	18	10	8	7	4	3
Adjustments	(6)	−	(6)	(6)	5	(11)
Total	**82**	**233**	**(151)**	**82**	**80**	**2**

	4-6.2020	1-3.2020	10-12.2019	7-9.2019	4-6.2019	1-3.2019
Fuels (adjusted)	36	(42)	37	69	20	93
Polymers (Carmel Olefins and Ducor)	36	20	23	35	44	50
Aromatics (Gadiv)	9	11	(2)	7	7	9
Other (other segments and adjustments)	1	11	11	3	9	1
Total	**82**	**−**	**69**	**114**	**80**	**153**

<u>**Refining margin**</u> (USD/barrel)

	4-6.2020	1-3.2020	10-12.2019	7-9.2019	4-6.2019	1-3.2019
Bazan's adjusted refining margin	5.3(*)	0.5 (*)	4.8 (**)	6.3	3.8	7.7
Bloomberg Average Ural Margin	(2.3)	3.1	1.2	4.6	3.4	4.5
Reuters Ural Margin	(0.5)	1.9	(1.8)	3.3	1.7	3.6
Bloomberg Average Azeri Margin	0.4	3.6	4.1			

(*) For further information concerning the adjustment components in this Report, see sections B3 and C3 below.

(**) Bazan's adjusted proforma refining margin is USD 5.1 per barrel.

Chapter 2 - Results of Bazan Group's operations for the six- and three-month periods (contd.)

B. Analysis of results for the six months

1. Turnover of sales to external customers, by operating segment (*) (USD million):

	Sales turnover USD million		Distribution of sales		Average prices of the product mix (USD / ton)	
	1-6.2020	1-6.2019	1-6.2020	1-6.2019	1-6.2020	1-6.2019
Fuels (1)	1,574	2,542	75%	78%	392	552
Carmel Olefins (2)	281	354	13%	11%	1,051	1,255
Ducor	93	114	4%	3%	1,100	1,374
Gadiv (3)	146	228	7%	7%	589	772
Others	28	22	1%	1%		
Total	**2,122**	**3,260**	**100%**	**100%**		

(1) The decrease in the price of distillates coincides with the decrease in the price of crude oil, and parallel to the decrease in sales volumes due to the outbreak of the Covid19 pandemic.

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

(3) Mainly due to a decrease in the price of aromatics coincides with the decrease in the price of crude oil and in parallel to the decrease in sales volume mainly as a result of completion of the planned maintenance work that began in the fourth quarter of 2019 and that was completed in the first quarter of 2020.

(*) 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.

Chapter 2 - Results of Bazan Group's operations for the six- and three-month periods (contd.)

B. Analysis of results for the six months (contd.)

2. Consolidated adjusted EBITDA by operating segments

Breakdown of the main reasons for the change in the adjusted consolidated EBITDA for the operating segments in the Reporting Period compared to the corresponding period last year:

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

	Fuels Segment	PolymersSegment			Aromatics Segment	Others and adjustments	Consolidated
		Carmel Olefins	Ducor	Total			
Adjusted EBITDA January-June 2019	113	92	2	94	16	10	233
Margin/contribution [(1)]	(100)	(38)	(4)	(42)	4	–	(138)
Sales volume	(29)	(3)	1	(2)	(3)	–	(34)
Operating expenses [(2)]	10	5	1	6	3	2	21
Total change	(119)	(36)	(2)	(38)	4	2	(151)
Adjusted EBITDA January-June 2020	(6)	56	–	56	20	12	82

(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. The decrease is mainly due to a decrease licensing fees, municipal taxes and payroll costs.

Chapter 2 - Results of Bazan Group's operations for the six- and three-month periods (contd.)

B. Analysis of results for the six months (contd.)

3. Adjustment components in the Fuels segment

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

		1-6.2020	1-6.2019
Reported EBITDA in the Fuels segment		**(113)**	**135**
Effects of timing differences (1)		97	(14)
Effect of adjusting value of inventory to market value, net		8	(9)
Effect of changes in fair value of derivatives and disposals		2	1
Total adjustments (2)		**107**	**(22)**
Adjusted EBITDA in the Fuels segment		**(6)**	**113**
Company's refining margin	**Adjusted margin (USD/barrel)**	**2.8**	**5.8**
Benchmark margins	**Reuters Ural margin (USD/barrel)**	**0.6**	**2.6**
	Bloomberg Average Ural margin (USD/barrel)	**0.4**	**3.9**
	Bloomberg Average Azeri margin (USD/barrel)	**2.0**	

(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.

Further to the provisions of Chapter 2, section 3 of the Company's Board of Directors' Report dated March 31, 2020, with regard to the effects of the Covid19 pandemic on the refining industry in general and on the Company's results in particular, the end of the first quarter of 2020 experienced extreme volatility and exceptionally intense market changes.

Conversely, volatility of various market parameters at the end of the second quarter of 2020 was more moderate. This was mainly due to the gradual balancing between supply and demand for crude oil and certain transportation fuels, as set out in Chapter 1 above and 10B below.

Due to the foregoing, and in view of the fact that the Company applies its adjustment model consistently and cumulatively, and based on simple, objective and consistent assumptions, the Company believes that the adjusted results of the first half 2020 once again provide an adequate economic based representation of the Fuels segment results (adjusted refining margin and adjusted EBITDA).

Conversely, the adjusted refining margins of the Fuels segment in each of the quarters, the first quarter as described in the Board of Directors' Report at March 31, 2020 and the second quarter (which is derived from the first half and the first quarter) separately does not constitute, as an exception to the rule, a good economic based representation of the refining margin, including compared with the relevant benchmark margins.

Chapter 2 - Results of Bazan Group's operations for the six- and three-month periods (contd.)

B. Analysis of results for the six months (contd.)

4. Net income (loss)

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

Net income for the period 1-6,2019	**92**
Change in reported EBITDA	(280)
Change in depreciation expenses	(14)
Change in net financing expenses	10
Change in income taxes	41
Other	(6)
Net loss for the period 1-6.2020	**(157)**

C. Analysis of second quarter results

1. Turnover of sales to external customers, by operating segment (*) (USD million):

	Sales turnover USD million		Distribution of sales		Average prices of the product mix (USD / ton)	
	4-6.2020	**4-6.2019**	**4-6.2020**	**4-6.2019**	**4-6.2020**	**4-6.2019**
Fuels (1)	458	1,341	66%	80%	248	577
Carmel Olefins (2)	129	165	18%	10%	983	1,276
Ducor	43	55	6%	3%	998	1,381
Gadiv (3)	66	116	9%	7%	469	800
Others	10	9	1%	0%		
Total	**706**	**1,686**	**100%**	**100%**		

(1) The decrease in the price of distillates coincides with the decrease in the price of crude oil, and parallel to the decrease in sales volumes due to the outbreak of the Covid19 pandemic.

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

(3) Mainly due to a decrease in aromatics prices parallel to the decrease in the price of crude oil

(*) 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.

Chapter 2 - Results of Bazan Group's operations for the six- and three-month periods (contd.)

C. Analysis of second quarter results (contd.)

2. Consolidated adjusted EBITDA by operating segments

Breakdown of the main reasons for the change in the adjusted consolidated EBITDA for the operating segments in the Reporting Period compared to the corresponding period last year:

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

Increase (decrease)	Fuels Segment	Polymers Segment			Aromatics Segment	Others and adjustments	Consolidated
		Carmel Olefins	Ducor	Total			
Adjusted EBITDA April-June 2019	20	43	1	44	7	9	80
Margin/contribution [1]	22	(14)	–	(14)	–	(9)	(1)
Sales volume	(14)	2	1	3	–	–	(11)
Operating expenses [2]	8	2	1	3	2	1	14
Total change	16	(10)	2	(8)	2	(8)	2
Adjusted EBITDA April-June 2020	36	33	3	36	9	1	82

(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. The decrease is mainly due to a decrease in municipal taxes, licensing fees and payroll expenses.

Chapter 2 - Results of Bazan Group's operations for the six- and three-month periods (contd.)

C. Analysis of second 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):

		4-6.2020	4-6.2019
Reported EBITDA in the Fuels segment		**37**	**47**
Effects of timing differences (1)		14	(9)
Effect of adjusting value of inventory to market value, net		(8)	(19)
Effect of changes in fair value of derivatives and disposals		(7)	1
Total adjustments (2)		**(1)**	**(27)**
Adjusted EBITDA in the Fuels segment		**36**	**20**
Company's refining margin	**Adjusted margin (USD/barrel)**	**5.3**	**3.8**
Benchmark margins	**Reuters Ural margin (USD/barrel)**	**(0.5)**	**1.7**
	Bloomberg Average Ural margin (USD/barrel)	**(2.3)**	**3.4**
	Bloomberg Average Azeri margin (USD/barrel)	**0.4**	

(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.

* For further information regarding the adjusted results of the Fuels segment for the second quarter of 2020, see section B3 above.

4. Net income (loss)

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

Net income for the period 4-6,2019	**29**
Change in reported EBITDA	(24)
Change in depreciation expenses	(7)
Change in net financing expenses	(11)
Change in income taxes	6
Other	(4)
Net loss for the period 4-6.2020	**(11)**

Chapter 3 - Analysis of Financial Position (Balance Sheet)

USD Millions

	June 30, 2020	Dec 31, 2019	Change	Explanation
Trade and other receivables	344	461	(25%)	Mainly due to a decline in trade receivables due to a sharp drop in product prices.
Inventories	386	780	(51%)	Mainly due to a sharp drop in price and a decrease in quantity.
Fixed Assets	2,291	2,345	(2.3%)	
Trade, other payables and provisions	670	1,057	(37%)	Mainly due to a decrease in trade payables in the amount of USD 359 million due to the sharp drop in price that was partially offset by an increase in credit days (for further information see Chapter 10B below) as well as a decrease in other payables of USD 26 million mainly due to a decrease in customer deposits.
Long term bank loans and debentures (including current maturities)	1,414	1,361	4%	Mainly due to the expansion of Debentures (Series E and J) in the amount of USD 174 million, receipt of loans in the amount of USD 124 million, less principal repayments of debentures and loans in the amount of USD 239 million (including early redemption of Debentures (Series D) in the amount of USD 79 million) and exchange rate and linkage differentials* in the amount of USD 2 million.
Equity	1,200	1,381	(13%)	Mainly due to net loss for the Period in the amount of USD 157 million and other comprehensive loss for the Period in the amount of USD 24 million.
Shareholders equity to balance sheet ratio	33%	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.

Chapter 4 - Liquidity Analysis

Working capital

Total current assets less current liabilities (USD millions)

June 30, 2020	Mar 31, 2020	Dec 31, 2019	Sept 30, 2019	June 30, 2019	Mar 31, 2020
442	333	468	558	451	513

Current ratio

The current ratio at June 30, 2020 is 1.52 and as at December 31, 2019 was 1.36.

Accounting cash flows * for the period January-June 2020 (USD millions)

	1-6.2020
	USD million
Cash and deposits as at December 31, 2019	**512**
Cash flows from operating activities (1)	97
Interest paid, net	(44)
Acquisition of property, plant & equipment	(48)
Repayment of long-term loans and debentures, including early redemption (2)	(239)
Receipt of long term loans and issue of debentures, net of capital raising costs (3)	298
Payment of liabilities for lease	(12)
Change in short-term credit, net	(7)
Other (4)	(17)
Cash and deposits as at June 30, 2020	**540**

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

(1) Net cash flows from operating activities less interest paid, net, in the Reporting Period amounted to USD 53 million.

(2) For further information regarding early redemption of Debentures (Series D), see Note 6A(4) to the financial statements.

(3) For further information, see Note 6A to the financial statements.

(4) Mainly a decrease in customer deposits.

Chapter 4 - Analysis of the Group's liquidity (contd.)

Accounting cash flows * for the period April-June 2020 (USD millions)

	4-6.2020
	USD million
Cash and deposits as at March 31, 2020	**719**
Cash flows from operating activities (1)	107
Interest paid, net	(30)
Acquisition of property, plant & equipment	(19)
Repayment of long-term loans and debentures, including early redemption (2)	(190)
Receipt of long term loans and issue of debentures, net of capital raising costs (3)	214
Payment of liabilities for lease	(6)
Changes in short-term borrowings, net (4)	(250)
Other	(5)
Cash and deposits as at June 30, 2020	**540**

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

(1) Net cash flows from operating activities less interest paid, net, in the Reporting Period amounted to USD 77 million.

(2) For further information regarding early redemption of Debentures (Series D), see Note 6A(4) to the financial statements.

(3) For further information, see Note 6A to the financial statements.

(4) Mainly due to repayment of secured credit facilities utilized in the first quarter of 2020.

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

	June 30, 2020	Mar 31, 2020	Dec 31, 2019	Sept 30, 2019	June 30, 2019	Mar 31, 2019
Short-term borrowings (1)	3	254	10	16	13	8
Bank loans (2)	473	364	371	404	417	439
Debentures (2)	972	1,035	1,013	1,089	960	1,012
Liquid financial assets (3)	(540)	(718)	(512)	(622)	(487)	(511)
Hedging transactions on debentures (4)	(16)	(16)	(27)	(28)	(21)	(11)
Total net financial debt	**892**	**919**	**855**	**859**	**882**	**937**

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

Chapter 5 - Total credit from financial institutions(contd.)

Movement in financial debt, net

	1-6.2020
	USD million
Net debt as at December 31, 2019	**855**
Cash flows from operating activities (less changes in discounting and interest-bearing suppliers)	(240)
Changes in discounting and interest-bearing suppliers	143
Interest paid, net	44
Acquisition of property, plant & equipment	48
Other	42
Net debt as at June 30, 2020	**892**

	4-6.2020
	USD million
Net debt as at March 31, 2020	**919**
Cash flows from operating activities (less changes in discounting and interest-bearing suppliers)	(165)
Changes in discounting and interest-bearing suppliers	58
Interest paid, net	30
Acquisition of property, plant & equipment	19
Other	31
Net debt as at June 30, 2020	**892**

Financial leverage

	June 30, 2020	Dec 31, 2019
Financial leverage (*)	3.4	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, nominal value and without the costs of capital raising) of USD 1,409 million, net operating capital of USD 98 million (of which the average for trade receivables is USD 404 million and the average for trade payables is USD 702 million).

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.

In the reporting period the Company’s corporate governance report for 2017-2018 was published on the Company’s website (https://www.bazan-sustainability.co.il).

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)(A) to the financial statements (including by way of reference to Notes 20A(2) and (4) to the annual financial statements) with regard to administrative and other current 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 financial statements.

It should be noted that as of March 31, 2020, analysis was conducted of impairment of Fuels segment assets, which was attached to the interim report for the first quarter of 2020. In accordance with the valuation, the recoverable amount of Fuels segment assets was estimated at USD 1,711 million, which exceeds the carrying amount of USD 1,414 million. Consequently, impairment loss was not recognized. For further information, see Note 8B to the financial statement.

Furthermore, it should be noted that on March 31, 2020, due to the sharp plunge in crude oil prices and consequently also in the prices of fuel products, an inventory impairment loss was recognized in the amount of USD 106 million. For further information see Note 8E to the financial statements as at March 31, 2020.

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, and except to the downgrading of the Company's rating by Maalot (S&P) to ilA- with negative outlook; for the expansion of Debentures (Series E and J); and the early redemption in full of Debentures (Series D), as set out in Notes 6A to the financial statements.

For further information concerning the financial covenants applicable to the Company, including the letter of waiver signed during the Reporting Period with the banks, see Note 6B to the financial statements.

In the Reporting Period the company complied with its liabilities towards the financers 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) was fully redeemed. As at this date, Carmel Olefins guarantee to the holders of the debentures expired, as set out in Note 14A to the annual financial statements. In addition, as at this date, the Company's obligation to include the consolidated financial statements of Carmel Olefins in its Board of Directors' report expired.

Chapter 10 – Material Events in and Subsequent to the Reporting Period

A. For further information, see Notes 5, 6 and 8 to the financial statements.

B. Effect of the Corona Covid-19 virus on the Group's business operations

In January 2020, the Covid19 coronavirus pandemic that broke out in China, as of the date of approval of the Report, is continuing to spread throughout the world. In the period since the outbreak of the pandemic, there has been a decline in economic activity in many parts of the world, including in Israel, and there are concerns of the slowdown of global and local economic activity, as well as the extreme volatility experienced in many markets (both real and financial), continuing for prolonged periods causing high uncertainty.

In an attempt to address the COVID-19 pandemic and curb its spread, many regions, including Israel, have taken imposed strict measures that have significantly restricted the free movement and congregation of people, which reached its peak in April-May 2020.

As from the beginning of May 2020, many countries, including Israel, began to lift some of the restrictions with the aim of gradually restarting economic activity. However, it is not possible at this time to assess the pace of implementation of such easing and the extent of its impact on recovery from the economic crisis.

It should be noted that several weeks before the approval date of the financial statement, due to concerns of a second wave of COVID-19, policies were again applied in certain countries, including in Israel, to restrict the social gathering. As at the approval date of the report, there is concern about the continued spread of the second wave, which may lead to tighter measures, including restricting mobility, and to further damage to economic activity in general, and to the energy and refining industry in particular.

1. Business Environment

<u>Price of crude oil</u>

In March 2020 and at the beginning of April there was a considerable increase in crude oil inventories worldwide as a result of continuing high production rates, mainly by the three major producers: Saudi Arabia, Russia and the United States, and due to the flooding of the market with crude oil with maximum utilization of available storage capabilities on the one hand and decrease of refinery outputs due to the drop in demand for transportation fuels, on the other. In view of this, during this period the price of oil plunged sharply and unusually.

In April 2020, representatives of OPEC + member countries reached agreement on an unusual cut in output compared with the past, although this cut did not initially compensate for the decline in demand caused by the outbreak of the Covid19 pandemic. As of May 2020, as a result of these output cuts and a gradual increase in demand for transportation fuels following the gradual easing of mobility and gathering restrictions in many countries, there has been a marked increase and even certain stabilization in crude oil prices.

Based on the revised production cut agreement in July 2020, the scope of the cut compared to previous months has been reduced starting from the beginning of August 2020.

Chapter 10 – Material Events in and Subsequent to the Reporting Period (contd.)

B. Effect of the Corona Covid-19 virus on the Group's business operations (contd.)

1. Business Environment (contd.)

Global demand for transportation fuels1

Since the beginning of the Covid19 outbreak, there has been a reduce, among other things, in global transportation - by air, sea and land.

Due to the decrease in transportation and the corresponding decrease the demand for transportation fuels, together with high crude oil production rates and gradual decrease in utilization of refining facilities, unusually high surplus stockpiles of transportation fuels were created in the second quarter of 2020.

The acute drop in global demand for transportation fuels peaked in April-May 2020, when demand began to rally gradually. An average drop of 11 million barrels per day was forecasted for 2020 as a whole, with demand in 2021 expected to continue recovering and a return to pre-outbreak levels in 2022. Nonetheless, if the second pandemic wave continues and/or intensifies and/or if there will be further Covid19 outbreaks, their intensity, location and the capacity to cope will impact the forecasts.

The foregoing decrease such demand is evident in all transportation fuels, with the biggest fall impacting the jet fuel sector due to the acute fall in the scope of international aviation, which peaked in May, and which, as of July 2020 began to show a slight recovery. According to forecasts, the rate of recovery for jet fuel demand will depend on the rate of recovery of the aviation industry, which it is expected to be relatively slow compared to other transportation fuels.

Demand for gasoline was also significantly impacted in the second quarter of 2020, but unlike jet fuel, gasoline has been recovering at a relatively rapid pace, due in part to a change in traveling habits of some passengers who prefer, at least in the short term, to travel by car (allowing social distancing) over public transport. According to the forecasts, demand for gasoline is expected to return to pre-Covid19 outbreak levels towards the end of 2020.

Demand for diesel fuel was also affected, but to a lesser extent than gasoline, in part due to industrial activities that continued also in April-May 2020, and has since been recovering gradually, albeit at a more moderate pace compared with gasoline, and is expected to return to pre-Corona outbreak levels in 2021.

Utilization of refineries worldwide1

Due to the decline in demand for transportation fuels as set out above, the refinery utilization worldwide was adjusted to meet the demand and was decreased in the second quarter of 2020 to an average of 65% utilization, compared to usual utilization of 85%. According to forecasts, the average global utilization in the third quarter is expected to be 70%, and returning to pre-Covid19 utilization is expected in early 2021.

[1] The macroeconomic data provided in this section are based on various forecasts including those of IHS Markit for July 2020.

Chapter 10 – Material Events in and Subsequent to the Reporting Period (contd.)

B. Effect of the Corona Covid-19 virus on the Group's business operations (contd.)

1. Business Environment (contd.)

Polymers

At the end of 2019 polymer margins were low compared to previous years mainly due to excess supply of polypropylene and polyethylene resulting from new production capacities in the US and East, as well as low production costs in the US (production from shale oil), leading to declining polyethylene prices.

In the first half of 2020, due to the outbreak of the Covid19 pandemic, market conditions changed, mainly (1) a sharp decline in the price of naphtha as a result of the drop in demand for naphtha. In view of the sharp decline in the naphtha price, which is mainly due to the fall in the price of crude oil, the relative advantage of shale oil polymers, especially in the US, was eroded and the advantage for naphtha-based polymer manufacturers was retained; (2) a sharp fall in polymer demand in the automobile and furniture industries and counter increase in polymer demand in the food packaging, medical and sanitation equipment industries; (3) a decrease in expected global polymer supply due to the postponing running of new facilities, shutdown of facilities and cuts in output rates; and (4) a decrease in economic viability of the use of recycled materials following the drop in prices and resulting increase in demand for original materials (that are not recycled).

Due to the new market conditions created compared to the period prior to the Covid19 outbreak (i.e. end of 2019), in the first half and beginning of the third quarter of 2020 there was an increase in polymer margins over naphtha for manufacturers involved in a vertical production chain with a refinery.

2. The impact of Covid19 on the Group's business operations in the second quarter through to close to the date of approval of the Report:

A. Demand for the Group’s products

Compared with April last year, in April 2020 there was a significant decrease in the sales volumes of the Company's products, mainly in Israel (including in Palestinian Authority territories), mainly regarding jet fuel (80%) (it should be noted that routine jet fuel output in recent periods has been 8 % on average of the total Fuels segment output, regarding which the Company has significant flexibility by adjusting its product mix), gasoline (30%) (gasoline output routinely constitutes about 14% the average Fuels segment output) and diesel fuel (30%).

In May 2020, compared with April, there was a significant increase in the sales volume of the Company's products in Israel (including in the PA territories), especially in diesel and gasoline sales, and the decline in diesel and gasoline sales in Israel compared to May last year is 12%.

In June 2020, compared with May, there was a significant rise in the sales volume of the Company's products in Israel (including in the PA territories), especially in diesel and gasoline sales, and the decline in diesel and gasoline sales in Israel compared to June last year is 12%.

In July 2020, there was another significant rise in the sales volume of the Company's products in Israel (including in the PA territories), especially in diesel and gasoline sales, and the decline in diesel and gasoline sales in Israel compared to July last year is only 2%.

Chapter 10 – Material Events in and Subsequent to the Reporting Period (contd.)

B. Effect of the Corona Covid-19 virus on the Group's business operations (contd.)

2. The impact of Covid19 on the Group's business operations in the second quarter through to close to the date of approval of the Report: (contd.)

A. Demand for the Group's products (contd.)

In August 2020, based on the orders and the volume of transactions planned for this month, a decline in sales volume of the Company's products is expected in Israel (including in the PA territories) compared to July 2020, in particular in diesel and gasoline sales, and compared with August last year, the decline in diesel and gasoline sales in Israel is estimated to be 16%.

It should be noted that as at the date of approval of the Report, significant decrease has not been seen in demand for the other products of the Group's companies in Israel (including polymer and aromatic products) and/or in the export markets in which the Group operates.

B. Refining Volume

In view of the foregoing with regard to the demand for transportation fuels as well as the following with regard to the refining margins, the Company regularly reviews the need to adjust production volumes to demand and market margins. Utilization of refinery facilities in the second quarter of 2020 was 80%. In addition, if necessary, the Company reduces the volume of gasoline imports, diverts certain sales from the domestic market to its export markets, and adjusts its inventory levels.

C. Refining and Petrochemical Margins

The Reuters Average Ural and Bloomberg Average Ural and Average Azeri margins for the second quarter of 2020 are minus USD 0.5, minus USD 2.3 and USD 0.4 per barrel, respectively. In addition, the average polypropylene and polyethylene margins over naphtha (for the same period) are USD 635 and USD 635 per ton, respectively. For further information regarding market margins in the Reporting Period, see Chapter 1 above.

In the period from the beginning of the third quarter of 2020 through the date of approval of the Report, the Reuters Ural and Bloomberg Ural and Azeri margins are minus USD 2.4, USD 0.3 and USD 1.9 per barrel, respectively. In addition, the average polypropylene and polyethylene margins over naphtha (for the same period) are USD 575 and USD 663 per ton, respectively.

D. Fixed Costs and Investments

In the wake of the Covid19 pandemic, the Company has taken and continues to take measures to reduce its costs, including: freeze and/or reduction of investments in fixed assets; deferral of timetables of regulatory projects in coordination with relevant regulators, including with regard to environmental quality. At the same time, the Company continues to examine the timing and scope of its planned periodic maintenance work at some of the Company's facilities and at Carmel Olefins facilities in 2021.

The Company is also working to reduce fixed costs that are not essential at this time. For further information concerning the decrease in fixed costs in the second quarter of 2020 compared to the corresponding quarter last year, see Chapter 2C2 above. Furthermore, subsequent to Reporting Date, the Company's Board of Directors approved an early retirement plan at a total cost of USD 23 million, which is expected to reduce the Company's payroll costs in the coming years.

Chapter 10 – Material Events in and Subsequent to the Reporting Period (contd.)

B. Effect of the Corona Covid-19 virus on the Group's business operations (contd.)

2. The impact of Covid19 on the Group's business operations in the second quarter through to close to the date of approval of the Report: (contd.)

E. Availability of Human Resources

As the Group companies are considered to be essential enterprises, the companies act to adjust their working format in a way that will allow, if possible, availability of the labor required to sustain their operations. To date, there has been no problem with the availability of local labor for the Group's regular activities.

F. Liquidity and Financial Robustness

1. 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 and repayment schedules are appropriate for its needs. At June 30, 2020, the Group's net financial debt amounts to USD 892 million. For further information concerning long-term bank loans, particularly with regard rescheduling of the Company's long term debt in the Reporting Period, extending the long term syndication agreement, and with respect to the Company's debentures, including debentures issued in 2019 and in the Reporting Period, see Note 6 to the financial statements and Notes 13 and 14 to the annual financial reports.

2. In the second quarter of 2020, the Group raised a long-term debt in the amount of USD 169 million with weighted maturity of 3 years. In addition, as part of extending the maturity of its long-term debt, the Company expanded its Debentures (Series E) in the amount of USD 45 million and earmarked the proceeds for early redemption of Debentures (Series D) amounting to USD 79 million.

3. As part of the measures adopted to secure the Group's financial robustness and liquidity, in the Reporting Period the Company signed a waiver with the banks that provide its long-term financing, to alleviate the financial ratio of net financial liability to adjusted EBITDA (as defined in the financing agreements and in Note 13 to the annual reports) for the last three quarters - second, third and fourth, of 2020. For further information, see Note 6B to the financial statements.

4. Operational working capital[2] - the balance of the operational working capital at June 30, 2020 amounted to USD 60 million and is not materially different from the balance of operational working capital at March 31, 2020 (which amounted to USD 60 million).

Similar to previous periods, the payables balance (mainly crude oil suppliers) includes an extension of credit days (to more than 30 days) at market interest, as set out in Note 20B7 to the annual Reports. As at June 30, 2020, the balance of interest-bearing payables amounts to USD 185 million (as at March 31, 2020, at USD 330 million and as of December 31, 2019, at USD 315 million). As described in Note 5B(10) to the financial statements, close to the date of approval of the Report, the Company signed agreements with crude oil suppliers that promise, particularly at this time, availability of supplier credit anchored in binding framework agreements.

5. As at Reporting Date, the Group has significant cash and deposit balances amounting to USD 540 million. In addition, the Company has unutilized secured and unsecured credit facilities in the amount of USD 301 million and USD 242 million, respectively, as set out in Note 6C to the financial statements. Furthermore, as a rule the Group does not have encumbered assets (other than with respect to Ducor assets as described in Note 13A to the annual reports), in accordance with its commitments of negative liens towards its credit providers.

[2] Including payables and receivables, with addition of inventory and deduction of eligible other payables and provisions.

Chapter 10 – Material Events in and Subsequent to the Reporting Period (contd.)

B. Effect of the Corona Covid-19 virus on the Group's business operations (contd.)

3. The Group's estimates for the period from the date of approval of the Report through the end of the third quarter of 2020:

A. <u>Demand for the Group's products</u>

Due to the significant uncertainty regarding the continued spread of COVID-19, especially in view of the recent outbreak of a second wave in some countries, including Israel, and the measures taken so far and that will be taken, and the consequences of the economic crisis, it is difficult to estimate the demand for transportation fuels in the short term on the domestic market. With regard to polymer and aromatic products, the Company estimates that demand in the domestic market is not expected to be affected.

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

B. <u>Refining and Petrochemical Margins</u>

Close to the date of approval of the Report, the Reuters Average Ural and Bloomberg Average Ural and Average Azeri margins are minus USD 1.9, minus USD 0.1 and USD 0.5 per barrel, respectively. Furthermore, the average polypropylene and polyethylene margins over naphtha are USD 628 and USD 734 per ton, respectively.

Assessment of refining margins for the rest of the quarter is extremely difficult, as these are affected by frequent global changes in crude oil prices and in refining margins, which are substantially affected at this time by the scope of global demand. If the benchmark margins remain at their current level until the end of the third quarter of 2020, the Company is expected to record negative to balanced EBITDA in the Fuels segment.

C. <u>Refining Volume</u>

If refining margins remain at their current level also in August-September, the Company's refining utilization rate in the third quarter of 2020 is expected to be 80%. As for the sales volumes of polymer and aromatic products, no significant change is expected compared to the second quarter of 2020.

D. <u>Fixed Costs and Investments</u>

The Company will continue to work to reduce the volume of investments and fixed costs that are not essential at this time. The Company estimates that its capital investments for 2020 is expected to amount to USD 90 million.

E. <u>Liquidity and Financial Robustness</u>

1. Rescheduling of long-term debt - the Group considers ensuring its financial robustness and liquidity to be one of its main objectives, particularly at a time of such significant uncertainty. As at Reporting Date the Group has supplemented its long-term debt needs for 2020. The Group continuously monitors developments in this regard, including in the capital market and the banking system, and if sees what it believes are opportunities, they will be reviewed in respect of all relevant considerations.

2. Credit facilities - the Group intends to act during the second half of 2020 to renew its short term secured credit facilities for 2021, at least at the current level (until December 31, 2020 - USD 311 million).

Chapter 10 – Material Events in and Subsequent to the Reporting Period (contd.)

B. Effect of the Corona Covid-19 virus on the Group's business operations (contd.)

3. The Group's estimates for the period from the date of approval of the Report through the end of the third quarter of 2020: (contd.)

E. Liquidity and Financial Robustness (contd.)

3. Operational working capital - the Group intends to act in the second half of 2020 to renew receivables discounting frames for 2021, the scope of which for 2020 is up to USD 235 million (valid through December 31, 2020).

4. Financial covenants – further to the foregoing in section 2F(3) above, in view of the sharp drop in the adjusted EBITDA in the first half of 2020 compared with the corresponding period last year, as set out in Chapter 2 above, and due to uncertainty concerning the Company's adjusted refining margin in the coming quarters and the consolidated adjusted EBITDA that is derived from, among other things, stress scenarios, there may be a breach of the financial debt to adjusted EBITDA set in the letter of waiver signed with the banks.

5. Based on the Group's cash flow forecast for the coming quarters, based on various profitability scenarios, further rescheduling of long term debt in 2021 and additional assumptions set out above, the Company estimates that it has the financial resources needed to finance all its needs, including for meeting its existing and expected liabilities.

4. The foregoing with regard to the Company's assessments of the impact of future developments in the global and local economic environment on the Company's financial state and liquidity and its assessment that it has the necessary financial resources to finance all its needs, are forward-looking information as defined in section 32A of the Securities Law. Such developments and implications are not in the Company's control, are uncertain and are based on the information available to the Company at the date of approval of the Report. Should the global crisis deepen and if it continues for a prolonged period and if there is a material deviation from the assumptions underlying the Company's foregoing assessments, including with regard to obtaining the consent of the banks as set out above, this may result in significant deterioration in the Company's results , including its financial ability to cope with the event.The Group's estimates for the fourth quarter of 2020 and thereafter

Due to the significant uncertainty as to the continued spread of Covid19 and the measures that may be derived from it, and taking into account the economic crisis, it is difficult to estimate demand for diesel fuel, gasoline, and jet fuel on the domestic market. Nonetheless, the Company estimates that, without another wave Covid19 outbreak that could materially adversely affect the demand forecast, it expects that demand in the domestic market for gasoline and diesel fuel will reach normative levels prior to the outbreak of the Covid19 pandemic. Furthermore, there are real difficulties involved in estimating refining margins for the fourth quarter of 2020 and thereafter.

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.

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.

Chapter 10 – Material Events in and Subsequent to the Reporting Period (contd.)

B. Effect of the Corona Covid-19 virus on the Group's business operations (contd.)

4. The Group's estimates for the fourth quarter of 2020 and thereafter (contd.)

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.

As the Group companies are considered to be essential enterprises, the companies will act to adjust their working format in a way that will allow, if possible, availability of the labor 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 view of the circumstances, the Company continues to act to request postponement of the project completion dates from the Ministry of the Environment.

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 and the debentures.

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

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	**Moshe Kaplinsky Peleg**
Chairman of the Board of Directors	**CEO**

August 5, 2020

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 have been no material changes or innovations in the description of the corporation's business that do not appear in other chapters in the consolidated interim financial statements or in the Board of Directors Report, other than as follows:

1. Further to the foregoing in section 1.6.13.5, the Company obtained an extension to the schedules set out in the contingent power generation license.

2. Further to section 1.12.9 of the description of the corporation's business, at the end of June 2020 the Knesset's Interior and Environment Committee discussed the future plans for evacuation of the polluting plants from Haifa Bay. The Minister of Environmental Protection noted at the hearing that she intends to obtain a government decision on the matter in the near future, in collaboration with the relevant bodies. She further noted that this is a gradual process, but that it could come to an end before the deadlines set in the McKinsey report, by addressing the national issues involved, a process that would include discussion between all relevant entities and interested parties. At the same hearing, Prof. Avi Simhon, chairman of the National Economic Council, noted that after members of the inter-ministerial taskforce set up to examine the future of the Gulf petrochemical plants had studied the conclusions of the McKinsey report, they failed to reach agreement. Representatives of the Israel Land Authority noted that they had prepared a draft "proposed decision" for the government and had forwarded it to the various government ministries and that the source of finance for the project would be income from the sale of land in the area, which was valuated at NIS 13.5 billion.

   As at the date of approval of the Report, the Company is unable to assess the results and/or ramifications of each of the discussions and/or processes set out above, not as to the date and content of the Government's decisions, if and when they will be given.

3. Further to that stated in section 1.18.7, the business licenses and temporary permits issued by the Haifa Municipality for all of the Group companies were extended until September 30, 2020.

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

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 June 30, 2020 and the condensed consolidated statements of income, comprehensive income, changes in equity, and cash flows for the six and three months then ended. The Board of Directors and the management are responsible for preparation and presentation of the financial information for these interim periods in accordance with IAS 34 - Interim Financial Reporting, and are also responsible for preparation of the interim financial information for these interim periods 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 these interim periods 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)(a) to the financial statements (including by way of reference to Note 20A(2) and (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

August 5, 2020

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 August 5, 2020 on the Company's condensed consolidated financial information as at June 30, 2020 and for the six and three months then ended.

(2) Review report of the auditor of August 5, 2020, on the Company's condensed separate financial information as at June 30, 2020 and for the six and 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, August 5, 2020

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

	June 30, 2020	June 30, 2019	December 31, 2019
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	531,126	391,813	425,367
Deposits	9,000	96,101	87,333
Trade receivables	300,302	436,035	417,002
Other receivables	43,573	52,198	43,925
Financial derivatives	15,072	15,093	14,458
Inventory	385,533	592,576	780,458
Total current assets	**1,284,606**	**1,583,816**	**1,768,543**
Non-current assets			
Loan to Haifa Early Pension Ltd.	35,844	40,277	41,071
Long term loans and receivables	12,270	6,267	6,463
Financial derivatives	22,704	21,518	34,486
Fixed assets, net	2,116,126	2,178,577	2,165,441
Right-of-use assets, net	150,783	136,959	150,907
Intangible assets and deferred expenses, net	23,565	28,374	28,769
Total non-current assets	**2,361,292**	**2,411,972**	**2,427,137**
Total assets	**3,645,898**	**3,995,788**	**4,195,680**

Ovadia Eli	Moshe Kaplinsky Peleg	Ana Berenshtein
Chairman of the Board of Directors	**CEO**	**CFO**

Approval date of the condensed consolidated interim financial statements: August 5, 2020

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

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

	June 30, 2020	June 30, 2019	December 31, 2019
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings (including current maturities)	165,763	298,074	239,238
Trade payables	551,030	691,738	910,210
Other payables	112,578	132,673	139,514
Financial derivatives	7,666	4,395	4,422
Provisions	5,675	5,971	6,797
Total current liabilities	**842,712**	**1,132,851**	**1,300,181**
Non-current liabilities			
Liabilities to banks, net (see Note 6A5)	387,428	328,644	289,349
Debentures, net (see Notes 6A2, 3, 4)	864,026	762,102	842,290
Other long-term liabilities	114,918	97,015	111,845
Financial derivatives	8,172	5,423	2,444
Employee benefits, net	54,909	56,171	61,692
Deferred tax liabilities, net	173,589	193,362	207,138
Total non-current liabilities	**1,603,042**	**1,442,717**	**1,514,758**
Total liabilities	**2,445,754**	**2,575,568**	**2,814,939**
Equity			
Share capital	807,604	807,506	807,604
Share premium	32,761	32,721	32,761
Capital reserves	9,927	32,016	38,983
Retained earnings	349,852	547,977	501,393
Total capital	**1,200,144**	**1,420,220**	**1,380,741**
Total liabilities and capital	**3,645,898**	**3,995,788**	**4,195,680**

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

Bazan Ltd - Condensed Consolidated Interim Statements of Income and Other Comprehensive Income

	Six months ended		Three months ended		Year ended
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	December 31, 2019
	(Unaudited)		(Unaudited)		(Audited)
Revenue	2,122,471	3,259,731	706,021	1,685,516	6,423,011
Cost of sales	(2,185,211)	(3,014,199)	(641,041)	(1,582,453)	(6,030,752)
Gross profit (loss)	**(62,740)**	**245,532**	**64,980**	**103,063**	**392,259**
Selling and marketing expenses	(45,399)	(54,224)	(23,020)	(26,614)	(105,502)
General and administrative expenses	(20,822)	(26,520)	(11,268)	(14,092)	(51,140)
Other expenses, net	(7,369)	(441)	(4,349)	–	(14,236)
Operating profit (loss)	**(136,330)**	**164,347**	**26,343**	**62,357**	**221,381**
Financing income	6,940	5,208	(11,758)	2,676	26,711
Financing expenses	(54,950)	(63,180)	(28,122)	(31,285)	(120,579)
Financing expenses, net	(48,010)	(57,972)	(39,880)	(28,609)	(93,868)
Profit (loss) before taxes on income	**(184,340)**	**106,375**	**(13,537)**	**33,748**	**127,513**
Income tax income (expenses)	27,791	(14,365)	2,726	(4,386)	(28,173)
Net income (loss) for the period	**(156,549)**	**92,010**	**(10,811)**	**29,362**	**99,340**
Items of other comprehensive income (loss) transferred to profit or loss:					
Foreign currency translation differences for foreign operations	(110)	(42)	(58)	130	(180)
Effective share of the change in fair value of cash flow hedging, net of tax	(31,009)	12,343	12,141	(7,258)	16,963
Change in fair value hedging costs, net of tax	1,053	(673)	533	213	677
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	**(30,066)**	**11,628**	**12,616**	**(6,915)**	**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	(3,357)	–	(1,277)	(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	682	921	272	1,202	1,810
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	**5,690**	**(2,436)**	**272**	**(75)**	**(5,461)**
Total other comprehensive income (loss) for the period, net of tax	**(24,376)**	**9,192**	**12,888**	**(6,990)**	**11,999**
Comprehensive income(loss) for the period	**(180,925)**	**101,202**	**2,077**	**22,372**	**111,339**
Earnings (loss) per share (USD)					
Basic and diluted earnings (loss) per 1 ordinary share	(0.048)	0.029	(0.003)	0.009	0.031

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

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
	Six months ended June 30, 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	–	–	–	–	–	–	–	–	**(156,549)**	**(156,549)**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(110)	–	–	–	–	–	(110)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	1,053	–	–	1,053
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	(31,009)	–	–	(31,009)
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	–	–	–	–	–	–	–	682	–	682
Total other comprehensive income (loss) for the period, net of tax	**–**	**–**	**–**	**(110)**	**–**	**–**	**(29,956)**	**682**	**5,008**	**(24,376)**
Total comprehensive income (loss) for the period	**–**	**–**	**–**	**(110)**	**–**	**–**	**(29,956)**	**682**	**(151,541)**	**(180,925)**
Share-based payment	**–**	**–**	**328**	**–**	**–**	**–**	**–**	**–**	**–**	**328**
Balance as at June 30, 2020	**807,604**	**32,761**	**972**	**5,863**	**(6,801)**	**28,478**	**(18,585)**	**–**	**349,852**	**1,200,144**

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

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
	Six months ended June 30, 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	–	–	–	–	–	–	–	–	**92,010**	**92,010**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(42)	–	–	–	–	–	(42)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	(673)	–	–	(673)
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	12,343	–	–	12,343
Remeasurement of a defined benefit plan, net of tax	–	–	–	–	–	–	–	–	(3,357)	(3,357)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	921	–	921
Total other comprehensive income (loss) for the period, net of tax	**–**	**–**	**–**	**(42)**	**–**	**–**	**11,670**	**921**	**(3,357)**	**9,192**
Total comprehensive income (loss) for the period	**–**	**–**	**–**	**(42)**	**–**	**–**	**11,670**	**921**	**88,653**	**101,202**
Share-based payment	–	–	**(734)**	–	–	–	–	–	–	**(734)**
Exercised share options	**425**	**69**	**(494)**	–	–	–	–	–	–	–
Expired share options	–	–	**(86)**	–	–	–	–	–	**86**	–
Balance as at June 30, 2019	**807,506**	**32,721**	**398**	**6,111**	**(6,801)**	**28,478**	**5,401**	**(1,571)**	**547,977**	**1,420,220**

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

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 June 30, 2020 (unaudited)									
Balance as at April 1, 2020	**807,604**	**32,761**	**793**	**5,921**	**(6,801)**	**28,478**	**(31,259)**	**(272)**	**360,663**	**1,197,888**
Loss for the period	–	–	–	–	–	–	–	–	**(10,811)**	**(10,811)**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(58)	–	–	–	–	–	(58)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	533	–	–	533
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	12,141	–	–	12,141
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	272	–	272
Total other comprehensive income (loss) for the period, net of tax	**–**	**–**	**–**	**(58)**	**–**	**–**	**12,674**	**272**	**–**	**12,888**
Total comprehensive income (loss) for the period	**–**	**–**	**–**	**(58)**	**–**	**–**	**12,674**	**272**	**(10,811)**	**2,077**
Share-based payment	**–**	**–**	**179**	**–**	**–**	**–**	**–**	**–**	**–**	**179**
Balance as at June 30, 2020	**807,604**	**32,761**	**972**	**5,863**	**(6,801)**	**28,478**	**(18,585)**	**–**	**349,852**	**1,200,144**

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

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 June 30, 2019 (unaudited)									
Balance as at April 1, 2019	**807,356**	**32,663**	**1,393**	**5,981**	**(6,801)**	**28,478**	**12,446**	**(2,773)**	**519,892**	**1,398,635**
Net profit for the period	–	–	–	–	–	–	–	–	**29,362**	**29,362**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	130	–	–	–	–	–	130
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	213	–	–	213
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	(7,258)	–	–	(7,258)
Remeasurement of a defined benefit plan, net of tax	–	–	–	–	–	–	–	–	(1,277)	(1,277)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	1,202	–	1,202
Total other comprehensive income (loss) for the period, net of tax	**–**	**–**	**–**	**130**	**–**	**–**	**(7,045)**	**1,202**	**(1,277)**	**(6,990)**
Total comprehensive income (loss) for the period	**–**	**–**	**–**	**130**	**–**	**–**	**(7,045)**	**1,202**	**28,085**	**22,372**
Share-based payment	–	–	**(787)**	–	–	–	–	–	–	**(787)**
Exercised share options	**150**	**58**	**(208)**	–	–	–	–	–	–	–
Balance as at June 30, 2019	**807,506**	**32,721**	**398**	**6,111**	**(6,801)**	**28,478**	**5,401**	**(1,571)**	**547,977**	**1,420,220**

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

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.

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

	Six months ended		Three months ended		Year ended
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	December 31, 2019
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Net profit (loss) for the period	(156,549)	92,010	(10,811)	29,362	99,340
Adjustments to cash flows from operating activities:					
Income and expenses not included in cash flows (Appendix A – section A)	112,377	188,758	90,726	76,523	339,611
	(44,172)	**280,768**	**79,915**	**105,885**	**438,951**
Changes in assets and liabilities (Appendix A – section B)	140,657	(68,481)	27,246	29,792	(14,925)
Income tax received (paid), net	608	987	(195)	(489)	192
Net cash from operating activities	**97,093**	**213,274**	**106,966**	**135,188**	**424,218**
Cash flow from investing activities					
Interest received	2,432	3,940	689	2,409	6,147
Change in deposits, net	76,047	(55,461)	–	(808)	(40,245)
Repayment of a loan from Haifa Early Pension	4,233	4,118	–	4,118	4,118
Acquisition of fixed assets including periodic maintenance (1)	(48,352)	(76,976)	(19,565)	(46,118)	(150,551)
Other	–	242	–	–	242
Net cash from (used in) investment activities	**34,360**	**(124,137)**	**(18,876)**	**(40,399)**	**(180,289)**
Cash flow from financing activities					
Change in short-term credit, net	(6,764)	4,786	(250,070)	4,888	1,797
Change in deposits from customers and others, net	(29,695)	22,929	(8,118)	10,234	19,249
Interest paid (1)	(46,481)	(58,370)	(30,965)	(41,698)	(106,356)
Derivative transactions, net	10,312	2,393	7,933	1,414	8,071
Repayment of long-term bank loans (see Note 6A5)	124,095	100,000	124,095	–	100,000
Repayment of long-term bank loans, including early repayment (2)	(22,238)	(35,092)	(15,571)	(21,998)	(81,371)
Repayment of debentures, including early repayment (3)	(217,328)	(104,780)	(175,527)	(62,243)	(185,254)
Issue of debentures, net of raising costs (see Note 6A2, 3)	174,022	–	90,065	–	116,259
Payment of liabilities for lease	(12,075)	(11,446)	(5,621)	(5,366)	(22,322)
Dividend paid	–	–	–	–	(50,000)
Net cash used for financing activities	**(26,152)**	**(79,580)**	**(263,779)**	**(114,769)**	**(199,927)**
Net increase (decrease) in cash and cash equivalents	105,301	9,557	(175,689)	(19,980)	44,002
Effect of exchange rate fluctuations on cash and cash equivalents	458	(2,117)	(247)	(1,153)	(3,008)
Cash and cash equivalents at beginning of period	425,367	384,373	707,062	412,946	384,373
Cash and cash equivalents at the end of the period	**531,126**	**391,813**	**531,126**	**391,813**	**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
(3) For the six and three months ended June 30, 2020, including full early repayment of the principle of Debentures (Series D) in the amount of USD 79 million. See Note 6A4.

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

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

	Six months ended		Three months ended		Year ended
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	December 31, 2019
	(Unaudited)		(Unaudited)		(Audited)
A. Income and expenses not included in cash flows:					
Depreciation and amortization	103,635	89,783	52,113	44,397	183,038
Other expenses, net (including early retirement)	7,369	441	4,349	–	14,236
Financing expenses, net	50,692	57,882	33,251	29,535	91,871
Changes in fair value and movement in deposits for inventory derivatives and margins	(21,957)	28,570	4,377	(458)	24,762
Changes in fair value the of the loan to Haifa Early Pension	101	(1,549)	(817)	(550)	(2,119)
Share-based payments	328	(734)	179	(787)	(350)
Income tax expenses (income)	(27,791)	14,365	(2,726)	4,386	28,173
	112,377	**188,758**	**90,726**	**76,523**	**339,611**
B. Changes in assets and liabilities					
Change in trade receivables	116,688	(79,087)	195,150	(62,929)	(60,419)
Change in other receivables	(7,194)	(32,316)	(11,539)	13,329	(22,490)
Change in inventory	393,127	(27,585)	(64,109)	84,865	(215,865)
Change in trade payables	(346,198)	68,846	(90,526)	881	278,609
Change in other payables and provisions	(15,349)	(460)	(3,474)	(7,161)	2,197
Change in employee benefits, net	(417)	2,121	1,744	807	3,043
	140,657	**(68,481)**	**27,246**	**29,792**	**(14,925)**

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

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 June 30, 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 August 5, 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 8E below.

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.

NOTE 4 – SEGMENT REPORTING

Further to Note 28 to the Annual Financial Statements, as at June 30, 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.

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Polymers - Ducor	Total polymers	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Six months ended June 30, 2020 (unaudited)								
Revenue from external sources - Israel	1,008,499	120,303	–	120,303	26,652	1,155,454	322	–	1,155,776
Revenue from external sources - other countries	565,547	160,949	92,819	253,768	119,293	938,608	28,087	–	966,695
Total revenue from external sources	**1,574,046**	**281,252**	**92,819**	**374,071**	**145,945**	**2,094,062**	**28,409**	–	**2,122,471**
Revenue from inter-segment sales (1)	196,432	6,518	–	6,518	16,466	219,416	1,893	(221,309)	–
Segment revenue	**1,770,478**	**287,770**	**92,819**	**380,589**	**162,411**	**2,313,478**	**30,302**	**(221,309)**	**2,122,471**
Reported EBITDA	**(112,598)(2)**	**55,714**	**108**	**55,822**	**19,758**	**(37,018)**	**17,509**	**(5,817)**	**(25,326)**
Depreciation and amortization	**(56,445)**	**(20,994)**	**(2,214)**	**(23,208)**	**(6,328)**	**(85,981)**	**(11,966)**	–	**(97,947)**
Reported EBITDA less amortization and depreciation									**(123,273)**
Amortization of excess cost arising on acquisition of subsidiaries									(5,688)
Other expenses, net									(7,369)
Operating loss									**(136,330)**
Financing expenses, net									(48,010)
Loss before taxes on income									**(184,340)**

(1) Mainly in Israel
(2) Negative adjusted EBITDA in the fuel segment for the six months ended June 30, 2020: USD (5,579) thousand.

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Polymers - Ducor	Total polymers	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Six months ended June 30, 2019 (unaudited)								
Revenue from external sources - Israel	1,493,178	154,311	–	154,311	22,052	1,669,541	4,975	–	1,674,516
Revenue from external sources - other countries	1,049,096	199,783	113,667	313,450	205,674	1,568,220	16,995	–	1,585,215
Total revenue from external sources	**2,542,274**	**354,094**	**113,667**	**467,761**	**227,726**	**3,237,761**	**21,970**	**–**	**3,259,731**
Revenue from inter-segment sales [(1)]	323,476	7,679	–	7,679	18,958	350,113	7,552	(357,665)	–
Segment revenue	**2,865,750**	**361,773**	**113,667**	**475,440**	**246,684**	**3,587,874**	**29,522**	**(357,665)**	**3,259,731**
Reported EBITDA	**134,494[(2)]**	**91,265**	**2,363**	**93,628**	**15,983**	**244,105**	**10,800**	**(334)**	**254,571**
Depreciation and amortization	**(44,050)**	**(21,140)**	**(1,829)**	**(22,969)**	**(5,640)**	**(72,659)**	**(11,294)**	**–**	**(83,953)**
Reported EBITDA less amortization and depreciation									**170,618**
Amortization of excess cost arising on acquisition of subsidiaries									(5,830)
Other income, net									(441)
Operating profit									**164,347**
Financing expenses, net									(57,972)
Profit before taxes on income									**106,375**

(1) Mainly in Israel
(2) Adjusted EBITDA in the fuel segment for the six months ended June 30, 2019: USD 113,267 thousand.

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

	Fuels	Polymers - Carmel Olefins	Polymers - Ducor	Total polymers	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Three months ended June 30, 2020 (unaudited)								
Revenue from external sources - Israel	278,139	55,276	–	55,276	12,231	345,646	133	–	345,779
Revenue from external sources - other countries	179,410	73,941	43,267	117,208	53,668	350,286	9,956	–	360,242
Total revenue from external sources	**457,549**	**129,217**	**43,267**	**172,484**	**65,899**	**695,932**	**10,089**	**–**	**706,021**
Revenue from inter-segment sales [1]	78,519	2,867	–	2,867	7,686	89,072	1,153	(90,225)	–
Segment revenue	**536,068**	**132,084**	**43,267**	**175,351**	**73,585**	**785,004**	**11,242**	**(90,225)**	**706,021**
Reported EBITDA	**37,012**[2]	**32,682**	**2,769**	**35,451**	**9,178**	**81,641**	**6,981**	**(5,817)**	**82,805**
Depreciation and amortization	**(29,033)**	**(10,543)**	**(985)**	**(11,528)**	**(3,179)**	**(43,740)**	**(5,529)**	**–**	**(49,269)**
Reported EBITDA less amortization and depreciation									**33,536**
Amortization of excess cost arising on acquisition of subsidiaries									(2,844)
Other expenses, net									(4,349)
Operating profit									**26,343**
Financing expenses, net									(39,880)
Loss before taxes on income									**(13,537)**

(1) Mainly in Israel
(2) Adjusted EBITDA in the fuel segment for the three months ended June 30, 2020: USD 36,462 thousand.

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 June 30, 2019 (unaudited)								
Revenue from external sources - Israel	790,669	73,891	–	73,891	11,772	876,332	1,160	–	877,492
Revenue from external sources - other countries	550,677	91,257	54,616	145,873	104,269	800,819	7,205	–	808,024
Total revenue from external sources	**1,341,346**	**165,148**	**54,616**	**219,764**	**116,041**	**1,677,151**	**8,365**	–	**1,685,516**
Revenue from inter-segment sales (1)	159,773	3,709	–	3,709	9,832	173,314	2,606	(175,920)	–
Segment revenue	**1,501,119**	**168,857**	**54,616**	**223,473**	**125,873**	**1,850,465**	**10,971**	**(175,920)**	**1,685,516**
Reported EBITDA	**46,449(2)**	**43,551**	**833**	**44,384**	**7,109**	**97,942**	**3,787**	**5,025**	**106,754**
Depreciation and amortization	**(22,151)**	**(10,563)**	**(893)**	**(11,456)**	**(2,811)**	**(36,418)**	**(5,289)**	–	**(41,707)**
Reported EBITDA less amortization and depreciation									**65,047**
Amortization of excess cost arising on acquisition of subsidiaries									(2,690)
Operating profit									62,357
Financing expenses, net									**(28,609)**
Profit before taxes on income									**33,748**

(1) Mainly in Israel
(2) Adjusted EBITDA in the fuel segment for the three months ended June 30, 2019: USD 19,750 thousand.

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 (audited)								
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									
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

NOTE 5 – CONTINGENT LIABILITIES, AGREEMENTS INCLUDING WITH RELATED PARTIES AND DEVELOPMENTS AND OTHER EVENTS, GUARANTEES AND LIENS

A. Contingent liabilities

Further to Note 20A to the Annual Financial Statements, and except as 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

A. As set out in Note 20A2 to the Annual Financial Statements, there are legal, administrative, and other proceedings against the Group companies, including civil claims and warnings.

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 June 30, 2020. Provisions were not included in the financial statements for these proceedings, for which it is not possible to assess their effect. For the other proceedings, the Company included provisions in immaterial amounts, which it believes adequately reflects the amounts that will more likely than not be paid.

B. Further to Note 20A2 to the Annual Financial Statements regarding the filing of an indictment against the Company and four managers following the fire in an intermediate materials storage tank on the Company's premises in 2016, in the reporting period, the court approved a plea bargain filed by the parties, according to which the indictment against one of the managers was struck out and the alleged offenses of the other three managers were exchanged for lesser offenses. The Company and the three managers were convicted and were fined in insignificant amounts and they pledged not to commit the same offenses in the future.

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

B. Agreements, including with related parties

Further to Note 20B to the Annual Financial Statements, and except as 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 hearing on the matter had been postponed, however, as at the approval date of the financial statements, a new date for the hearing had not yet been provided.

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 second half of 2021.

5. 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).

6. Further to Note 12B5 to the Annual Financial Statements, in the reporting period, the Company signed a mediation agreement with Haifa Chemicals Ltd. (Haifa Chemicals), which was approved by the court and which is subject to the approval of the Company's general meeting (after the approval of the Company's audit committee and board of directors subsequent to the reporting date). Under the mediation agreement, the parties agreed that Haifa Chemicals will vacate the land underlying the dispute between the parties on December 31, 2020 and return it to the Company, vacant and clean (unless the Company instructs otherwise) and meets the requirements of any environmental law applicable to it, after Haifa Chemicals clears it of any pollution it caused. It was further agreed that Haifa Chemicals will pay the Company appropriate usage fees for the period from the termination date of the lease agreements until December 31, 2020, in an amount estimated at USD 4 million.

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

B. Agreements, including with related parties (contd.)

7. In the reporting period, the chairman of the board of directors and all the Company's directors, including the external directors, as well as the Company's CEO and the other management members, announced that they are waiving 10% of the remuneration due to them from the Company,[1] or, as the case may be, 10% of their current salary (other than social security contributions and related terms), for the period from the beginning of June 2020 to the end of 2020.

8. On June 1, 2020, Moshe Kaplinsky Peleg (Moshe Kaplinsky) was appointed as CEO of the Company and chairman of the board of directors of the subsidiaries Carmel Olefins, Gadiv, and Haifa Basic Oils. At that time, Shlomo Bason ceased to serve as Acting CEO and returned to his position as Deputy CEO, in addition to his positions as VP Human Resources, Environmental Quality, Safety and Security.

As part of his employment agreement, which was approved at the general meeting on July 13, 2020, after the approval of the Company's compensation committee and Board of Directors, Moshe Kaplinsky is entitled to a monthly salary of NIS 150 thousand (linked to the increase in the CPI) and to incidentals as is standard in the Company for senior employees (including vacation, convalescence, deposits in a study fund on the full amount of his salary, sick leave, including the option of redeeming accrued sick leave beyond the limit set, on severance, a company car and underlying expenses, including grossing up of tax).

Upon termination of his employment, Moshe Kaplinsky will be entitled to a six-month notice period, in which he will be entitled to all payments and conditions as if he continued to be employed by the Company during this period. In the last three months of this period, Moshe Kaplinsky will not be required to actually work. In addition, on termination of his employment, Moshe Kaplinsky will be entitled to compensation in an amount equal to 150% of his last basic salary, multiplied by the number of years that he was employed in the Company, proportionately to part of the year, and all the amounts accumulated in funds on account of the severance account will be deducted, and these amounts will be deposited in the name of Moshe Kaplinsky on termination of his employment.

In addition, Moshe Kaplinsky will be entitled to a variable annual bonus based on the formula in the Company's compensation policy for a CEO bonus, which will not exceed NIS 2 million.

Moshe Kaplinsky was also allotted options of the Company. Below is information about the options (*):

No. of instruments (millions)	Vesting period (years)	Life of options (years)	Average interest rate	Expected volatility	Exercise price (NIS, linked to the CPI)	Share price as a basis for option price	Value of the options granted (NIS millions)
13.5	1-3	3-4	(0.3%)	40%-44%	1.102	0.637	1.2

(*) The value of the options granted was calculated shortly before the approval date of the general meeting.

[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.

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

B. Agreements, including with related parties (contd.)

9. Further to Note 20B1(e) to the Annual Financial Statements, regarding the mediation agreement for the purchase of natural gas from the Tamar partnership (from May 2019), after the approval of the Company's audit committee and Board of Directors, subsequent to the reporting date, the negotiations were completed for the additional mediation agreement with the Tamar partnership for the purchase of natural gas ("the Agreement"). As at the approval date of the financial statements, the Agreement has not yet been signed and the Company was informed that the partners are expected to sign the Agreement in the coming days. The Agreement is subject to the approval of the general meeting.[2]

The main terms of the Agreement are as follows:

A. The term of the Agreement is as from the date of the general meeting's approval to enter into the agreement and until Energean starts to supply natural gas to the Company (see also subsection 4 above) or until July 31, 2022, with an option for the Company to extend the agreement twice, each time for three months until the end of 2022, whichever is earlier.

B. Under the Agreement, Tamar undertakes to supply the Company the total quantity up to 1 BCM (for a period of 12 months), and the Company undertakes to purchase the total quantities of its natural gas requirements from the Tamar partnership, in relation to the excess quantities beyond the minimum amount that the Company undertook to purchase from Tamar under the first mediation agreement.[3] The Agreement does not include a take or pay mechanism.

C. The price of natural gas set between the parties is fixed (without any linkage mechanisms).

D. The total financial scope of the Agreement is expected to be between USD 120 million and USD 180 million, depending on the quantities of gas expected to be purchased under the Agreement and the date that Energean starts to supply natural gas in the second quarter of 2021.

E. The Agreement includes additional provisions and arrangements, as is standard in such agreements for the purchase of natural gas.

10. Further to Note 20B7 to the Annual Financial Statements regarding the Company's agreements (for fixed and spot transactions) with crude oil suppliers, on August 5, 2020, the Company signed additional framework agreements ("the Framework Agreements") with a number of its crude oil suppliers.

Under the Framework Agreements, the Company undertook to purchase a minimum quantity of crude oil from the suppliers, and the suppliers undertook to allow the Company to extend the credit terms of the suppliers for the crude oil they purchased to period of 60 to 90 days, without collateral and against payment of transaction costs (estimated at an annual amount that is immaterial to the Company), up to the maximum quantity of crude oil , as determined for each of the suppliers in their agreement. If the Company exercises its right to extend the suppliers 'credit beyond 30 days, it will bear the cost of the suppliers' credit for the period beyond the 30 days, which is on market terms, and similar to other tracks for the Company's short-term working capital.

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[2] The Company and ICL Group Ltd. (a public company controlled by Israel Corporation Ltd., which controls the Company) negotiated with the Tamar Partnership, together, to leverage their aggregate buying power to obtain optimal terms for the purchase of natural gas.
However, on completion of the negotiations, the supply agreement is expected to be signed by each of the companies separately and it will stand alone independently of the other agreements.

[3] It should be noted that the Company's undertaking to purchase minimum quantities (take or pay) from the Tamar partnership under the first mediation agreement is applicable to the fourth quarter of 2020 only.

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

B. Agreements, including with related parties (contd.)

10 (contd.)

Other than the above credit terms, the purchase of crude oil from the suppliers is expected to be on the market terms prevailing on each purchase date.

The term of the Framework Agreements is between 15 and 18 months, and includes an option for the Company to extend by an additional 12 months. The minimum and maximum amounts, transaction costs, and cost of supplier credit and how it is determined, and the term of the agreements are different in each of the Framework Agreements according to the agreements between the Company and each supplier. In addition, in general, the Framework Agreements include conditions for their termination if certain events occur, including controls for significant deterioration in the Company's business situation.

The amount of suppliers' credit due to the extension of the credit days depends on the amount of crude oil purchases under the Framework Agreements, the credit days to be determined by the Company for each transaction (within the set range of days), and changes in the price of crude oil. Assuming the Company’s maximum utilization of the credit days, and given the crude oil price of USD 42 per barrel (the Brent price of crude oil shortly before the reporting date), the estimated amount of suppliers' credit under all the Framework Agreements is USD 380 million.

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, in 2019, the Ministry of Environmental Protection presented the Company and Gadiv with an administrative order to prevent or reduce air pollution, 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 timetables set out in the administrative order, some of which do not correspond with the shutdown dates scheduled by the Company, including their replacement in 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 financial statements, due to the significant reduction in benzene emissions in 2019 compared to prior years, the Company is continuing its efforts with the Ministry of Environmental Protection to reduce or cancel some of the demands in the order. Concurrently, the Company applied to the Ministry of Environmental Protection with a request to postpone the application date of the provisions in the order for replacement of the equipment components, to complete the discussions on the subject. As at the approval date of the report, the Ministry's response was received, according to which date for replacing the equipment components was postponed to no later than November 30, 2020. If the Company fails to reach agreements with the Ministry regarding the reduction or cancellation of the demands and/or further postponement of certain deadlines set out in the order, it will act to comply with the provisions of the order. The Company believes that it will be able to fulfill the provisions within the revised dates that were set.

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

C. Other developments and 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, in 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.

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. In 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. Significant events in the reporting period

1. On March 31, 2020, Maalot S&P downgraded the rating outlook of the Company and its debentures to -ilA with negative outlook.

2. Further to Note 14B to the Annual Financial Statements, in the first quarter of 2020, there was an expansion of Debentures (Series J) in the amount of USD 84 million (net of issuance costs), and in the second quarter of 2020, there was a further expansion of Debentures (Series J) was made in the amount of USD 44 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.

3. Further to Note 14B to the Annual Financial Statements, in the second quarter of 2020, Debentures (Series E) were expanded in an amount of USD 46 million (net of issuance costs). Concurrently with the expansion of the debentures, the Company entered into principal and interest swap transactions (including fixing the USD interest) to reduce currency and interest exposure, and elected to apply cash flow hedge accounting principles. The consideration of the issuance is intended for early repayment of Debentures (Series D). For further information, see subsection 4 below.

4. On June 30, 2020, the Company made full early repayment of Debentures (Series D) with par value (USD 79 million) plus the accrued interest (USD 2 million) amounting to USD 81 million (NIS 282 million) for a consideration of USD 85 million (NIS 294 million). The loss for the early repayment is recognized as financing expenses in the reporting period.

5. Further to Note 13A(3) to the Annual Financial Statements, in the second quarter of 2020, the Company took out long-term bank loans amounting to USD 124 million with an average duration of three years. Most of the loans bear variable USD interest (Libor plus a margin). For these loans, the Company is subject to the same financial covenants as in the syndication agreement (for further information, see section B below).

B. Financial covenants - the Company

Further to the Note 13C (2) to the Annual Financial Statements regarding the terms of the syndication agreement, on June 21, 2020, a waiver was signed for a temporary change in the terms of the agreement, as set out below:

1. Below are the amendments to the financial covenants applicable to the Company:

	Required	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021 and thereafter
Consolidated ratio (net financial debt + factoring receivables) to consolidated adjusted EBITDA	≤	6.5	7.7	7.0	5.0
Cash flows plus the unused balance of binding credit facilities in the separate statement (USD millions)	≥	110	110	110	75

NOTE 6 - BORROWINGS FROM BANKS AND OTHERS AND DEBENTURES (CONTD,)

B. Financial covenants - the Company (contd.)

2. The distribution announcement and distribution of dividends by the Company in the quarters ending on June 30, 2020, September 30, 2020, and December 31, 2020, or in accordance with the financial statements for those quarters, is subject to the approval of the financiers, in writing and in advance.

The amendments to the syndication agreement also apply to the Company's other financing agreements with the banks, with the exception of a foreign bank that provided financing for construction of the Hydrocracker, for which similar agreements were signed.

For the amendment to the syndication agreement and the other agreements with banks, as aforesaid, the Company will pay the temporary additions to interest for the relief period and fees in a total amount that is not material to the Company.

Below are the financial covenants, as defined in the Note and in accordance with the letter of waiver set out above, 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), as at June 30, 2020:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated adjusted equity (USD million)	≥	750	1,321.7
Consolidated adjusted equity to total consolidated statement of financial position, net	≥	20.0%	39.5%
Consolidated ratio (net financial debt + factoring receivables) to consolidated adjusted EBITDA	<	6.5	3.8
Consolidated principal and interest cover ratio	≥	1.1	2.7
Cash flows plus the unused balance of binding credit facilities in the separate statement (USD millions)	≥	110	803.2

As at June 30, 2020, the Company is in compliance with the financial covenants.

In addition, as set out in Note 13C(2) to the Annual Financial Statements, as at June 30, 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. Definitions and calculation of the covenants for the loan 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 without violating the covenants set out above.

Further to Note 14C to the Annual Financial Statements, 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 June 30, 2020:

	Required	Required ratio/amount	Actual ratio/amount
Adjusted equity (USD million) (*)	<	630	1,517.8
Adjusted equity plus shareholders' loans to total consolidated statement of financial position	≤	15%	47.6%
Net debt divided by the average consolidated annual adjusted EBITDA	≥	8	3.5
Consolidated cash and cash equivalents (USD millions)	≤	50	531.1

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

As at June 30, 2020, the Company is in compliance with the financial covenants.

NOTE 6 - BORROWINGS FROM BANKS AND OTHERS AND DEBENTURES (CONTD,)

C. 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 (*)	June 30, 2020
Consolidated secured facilities		
Scope of facility (1)	311	311
Actual utilization (2)	**11**	**10**
Consolidated unsecured facilities		
Scope of facility (Company only) (3)	256	256
Scope of facility (Ducor)	22	22
Actual utilization (4)	**13**	**14**

(*) As at August 3, 2020

(1) As at June 30, 2020 and shortly before the approval date of the financial statements, valid until December 31, 2020.

(2) 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 utilization of cash 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 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:

	As at June 30, 2020			
	Adjusted par value	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Marketable Debentures (Series F and I) (1)(2)	460,134	461,930	430,049	–
Marketable Debentures (Series E and J) (1)(2) (3)	511,912	514,163	469,503	–
Bank loans (4)	472,598	438,366	–	466,944
	1,444,644	**1,414,459**	**899,552**	**466,944**

(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 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.

	As at June 30, 2019			
	Adjusted par value	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Private debentures (1)	502	502	–	513
Marketable Debentures (Series F and I) (1)(2)	502,406	504,873	533,096	–
Marketable Debentures (Series D and E) (2)(3)	351,992	362,797	389,753	–
Bank loans (4)	417,263	397,890	–	423,701
	1,272,163	**1,266,062**	**922,849**	**424,214**
Debentures at fair value (2):				
Marketable Debentures (Series A)	68,707	71,238	71,238	–
Marketable Debentures (Series G)	36,695	38,721	38,721	–
	105,402	**109,959**	**109,959**	**–**

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

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

	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, F, 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 June 30, 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.

	June 30, 2020		
	Level 2	Level 3	Total
Financial assets (1)(2)			
Derivatives used for accounting hedging			
CCIRS (3)	26,335	–	26,335
Derivatives for margins	–	3,737	3,737
Derivatives that are not used for accounting hedging			
Derivatives for inventory	–	700	700
Derivatives for margins	5,638	–	5,638
Forward contracts	1,366	–	1,366
	33,339	**4,437**	**37,776**
Financial liabilities (1)(2)			
Derivatives used for accounting hedging			
CCIRS (3)	9,043	–	9,043
Interest rate swaps	6,142	–	6,142
Derivatives that are not used for accounting hedging			
Forward contracts	653	–	653
	15,838	**–**	**15,838**

(1) The fair value of marketable derivatives for inventory/cash flow exposure for acquisition of inventory (basic) at the end of the inventory availability transaction, classified at level 1, is presented in the statement of net financial position net of the amounts of the accounting.

(2) In the six and three months ended June 30, 2020, a loss (before tax) of USD 26 million and a profit (before tax) of USD 1 million, respectively, was recognized as a hedge fund for the effective part of the fair value change of Brent futures. On termination of the previous availability transaction as set out in Note 5B2, in the first quarter of 2020, the balance of the hedge fund (debit) amounting to USD 4 million was recognized in inventory. As at June 30, 2020, the balance of the hedge fund for the new availability transaction (before tax) amounted to USD 14 million (debit).

(3) Below are the main assumptions used to determine the fair value of cross-currency interest rate swap contracts as at June 30, 2020:

- NIS interest (used for discounting the NIS component) (0.06%) - (1.03%)
- USD interest (used to discount the USD component) 0.00%-0.69%
- Exchange rate (NIS/USD) as at June 30, 2020

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

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

	June 30, 2019			
	Level 1 (1)	Level 2	Level 3	Total
Financial assets				
Derivatives used for accounting hedging (2)				
CCIRS (3)	–	22,485	–	22,485
Derivatives for margins	–	–	5,566	5,566
Interest rate swaps	–	542	–	542
Derivatives that are not used for accounting hedging				
CCIRS (3)	–	7,793	–	7,793
Interest rate swaps	–	59	–	59
Forward contracts	–	166	–	166
	–	**31,045**	**5,566**	**36,611**
Financial liabilities				
Non-derivative				
Marketable Debentures (Series A, G)	109,959	–	–	109,959
Derivatives used for accounting hedging				
CCIRS (3)	–	4,170	–	4,170
Interest rate swaps	–	3,788	–	3,788
Derivatives that are not used for accounting hedging				
CCIRS (3)	–	138	–	138
Interest rate swaps	–	39	–	39
Forward contracts	–	1,683	–	1,683
	109,959	**9,818**	**–**	**119,777**

(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 six and three months ended June 30, 2019, a profit (before tax) of USD 13 million and a loss (before tax) USD 5 million, respectively, was recognized as a hedge fund for the effective part of the fair value change of Brent futures. As at June 30, 2019, the balance of the hedge fund (before tax) amounts to USD 7 million.

(3) Below are the main assumptions used to determine the fair value of the principal and interest swap contracts as at June 30, 2019:

- NIS interest (used for discounting the NIS component) 0.56% - (0.24%)
- CPI-linked NIS interest (used to discount the NIS-linked component): 0.16% - (1.64%)
- USD interest (used to discount the USD component) 1.51%-2.37%
- Exchange rate (NIS/USD) as at June 30, 2019

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

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

	December 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				
Interest rate swaps	–	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.

(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

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 June 30, 2020, the Company, Carmel Olefins, and Gadiv derecognized an amount of USD 91 million from theirtrade receivables (December 31, 2019 and June 30, 2019, USD 100 million and USD 174 million, respectively).

B. Due to the outbreak of Covid-19 in the first quarter of 2020 and its implications, 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 included 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 exceeds the carrying amount.

C. For further information about the developments in agreements, including with related parties and other contingencies, including in environmental quality, other events, and changes in guarantees, in and subsequent to the reporting period, see Note 5.

D. For further information about bank credit and debentures, including credit ratings, see Note 6.

E. In January 2020, COVID-19 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 COVID-19 pandemic and curb its spread, many regions, including Israel, have taken imposed strict measures that have significantly restricted the free movement and congregation of people, which reached its peak in April 2020.

As from the beginning of May 2020, many countries, including Israel, began to lift some of the restrictions with the aim of gradually restarting economic activity. However, at this time, it is not possible to estimate at what pace the restrictions will be lifted and how this will affect the recovery from the economic crisis.

It should be noted that several weeks before the approval date of the financial statement, due to concerns of a second wave of COVID-19, certain policies were applied again, including in Israel, to restrict the gathering of people. As at the approval date of the report, there is concern about the continued spread of the second wave, which may lead to tighter measures, including restricting mobility, and to further damage to economic activity in general, and to the energy and refining industry in particular. Accordingly, since the beginning of the COVID-19 pandemic, there has been a decrease, among other things, in global air, sea, and land traffic.

Due to the significant uncertainty regarding the continued spread of the COVID-19 pandemic, especially in view of the recent outbreak of a second wave in some countries, including Israel, and the measures that have been taken and that will be taken in the future, and the consequences of the economic crisis, it is difficult to estimate the demand for diesel fuel, gasoline, and jet fuel.

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

E. (contd.)

Moreover, if the COVID-19 pandemic 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 Group 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 and the debentures.

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

F. Subsequent to the reporting period, the Company's Board of Directors approved an early retirement plan for the Group's employees (before the retirement age set out in the law), for 2020-2021 at a total cost of USD 23 million.

Bazan Ltd.

Separate Financial Information
As of June 30, 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. Moshe Kaplinsky Peleg - CEO
2. Ana Berenshtein – CFO
3. The other members of Bazan management as of the report date:

   Shlomi Basson – Deputy CEO and VP Human Resources, Safety, Environment and Security

   Assaf Almagor – VP Business Unit, Polyolefins and Aromatics

   Yariv Gretz – VP Business Unit, Fuels

   Limor Pesher-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 quarterly report on the effectiveness of the internal control of financial reporting and disclosure attached to the Quarterly Report for the period ended March 31, 2020 (“the Last Quarterly Report on Internal Control”), the internal control was found to be 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, Moshe Kaplinsky Peleg, declare that:

1) I have reviewed the Quarterly Report of Bazan Ltd. ("the Company") for the second 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.

August 5, 2020

Moshe Kaplinsky Peleg,
CEO

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 second 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.

August 5, 2020

Ana Berenshtein,
CFO