



OIL REFINERIES LTD

Condensed Consolidated Interim Financial Statements as of March 31, 2017

(Unaudited)

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Directors' Report on the State of the Company's Affairs for the Period ended March 31, 2017

The Board of Directors is pleased to present the Directors' Report on the State of the Company's Affairs for the period ended March 31, 2017 ("the Reporting Period"). The report is presented under the assumption that the Company's Report for 2016 ("the Periodic Report") is available to the reader.

1 Description of the Company and its Business Environment

1.1 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 (through Carmel Olefins), aromatics (through Gadiv) and polymers (through Ducor). In addition, Group companies also engage in operations that are not material: basic oils and waxes (through Haifa Basic Oils) and trade (through Trading and Shipping).

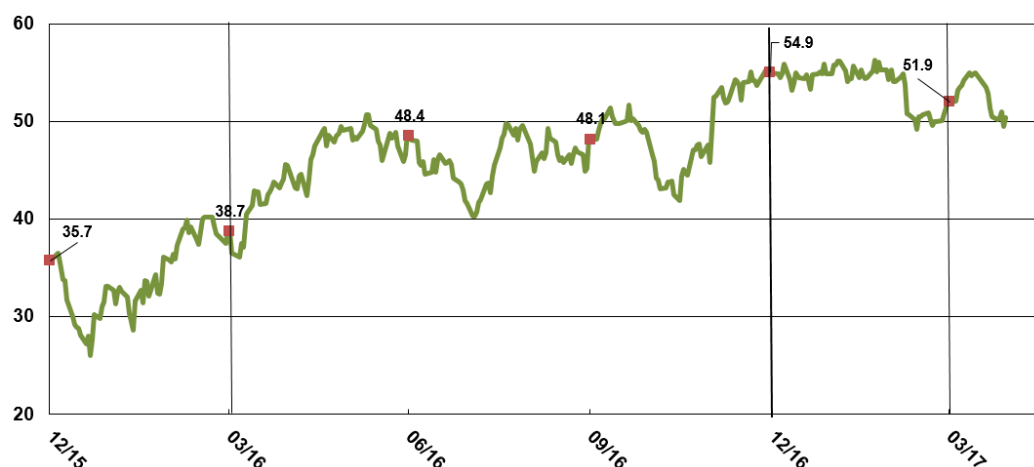
The subsidiaries' plants (with the exclusion of Ducor, which is located in the Netherlands) are downstream facilities of the Company and they receive most or all of the required feedstock from the Company on an ongoing basis through pipelines, and return all or part of the products of their facilities 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.

1.2 Business environment and Bazan Group profitability

Fuels

The price of crude oil

Brent crude oil prices in 2016-2017 (USD/barrel)



Source: Reuters

Average price of Brent crude (USD/barrel)

Jan-Mar 2017	Jan-Mar 2016	Change
53.7	33.9	58%

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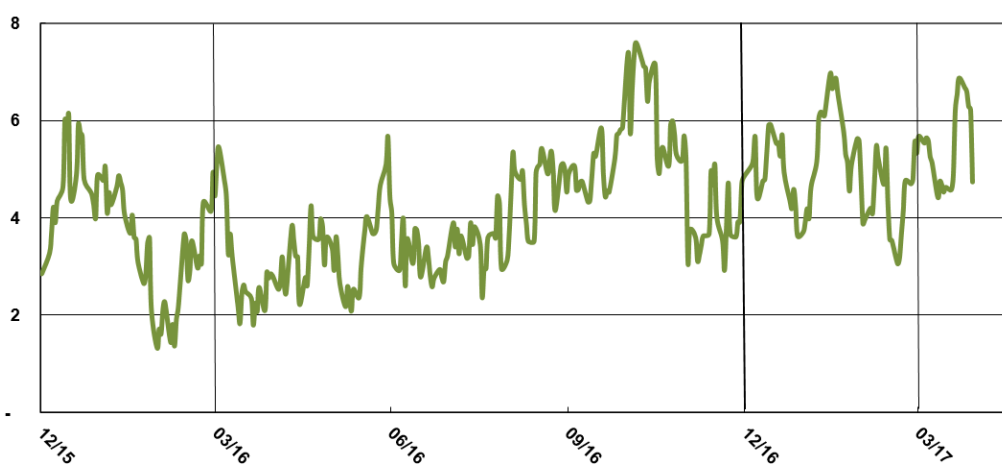
In the first quarter of 2017, the trend that began in December last year and which was affected by the decision of OPEC member countries to limit output, continued following unlimited oil production by each country over the past two years. This decision supported a Brent price of close to USD 50 per barrel and at the end of the Reporting Period, the Brent price was fixed at USD 52 per barrel. Close to Reporting Date, the Brent price increased and was fixed at USD 52 per barrel, following OPEC's intention to continue reduced production for a further 9 months.

In the Reporting Period the price of Ural crude oil, which is heavy crude oil, weakened compared to Brent prices (which is light crude oil), with disparity of USD 1.5 per barrel, compared with USD 1.7 per barrel in the corresponding period last year. The volatility of the disparity between heavy crude and light crude was great, ranging between USD 2.5 - 1 per barrel due to the increase in supply of Ural crude oil substitutes from outside the Mediterranean region.

In the Reporting Period, the crude oil futures market continued to be contango at average rate of USD 0.3 per barrel per month. At the same time, the contango increase in crude oil prices began to decline.

Refining margin

Benchmark Margin¹ in 2016-2017 (USD per barrel)



Source: Reuters

Average Ural margin (USD/barrel)

Jan-Mar 2017	Jan-Mar 2016	Change
5.0	3.8	32%

The Ural margin increased in the Reporting Period compared with the corresponding period last year. The main reasons for the increase were the relatively harsh winter in Europe and the United States, and planned and unplanned shutdowns of refining facilities.

Subsequent to Reporting Date, the average Ural margin increased compared with the first quarter and in the period subsequent to the Reporting Date through to the date of publication of the report was USD 5.6 per barrel.

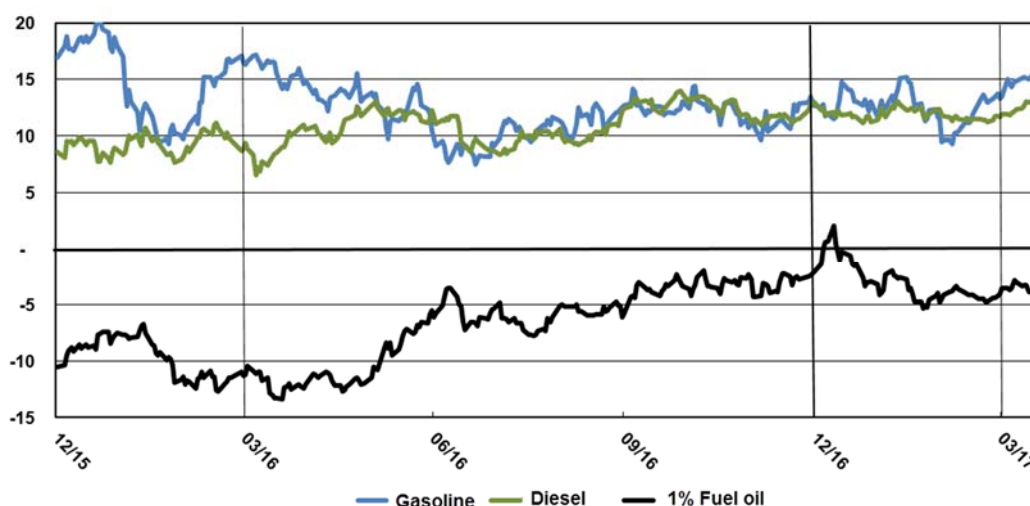
For information regarding the Company's refining margins see section 2.1.2 below.

¹ The Ural margin is the margin published by Reuters for a typical refinery in the Mediterranean with the capability of cracking Ural-type crude oil. For further information, see section 1.6.2.4 in the Description of the Company's Affairs in the Periodic Report.

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Mediterranean Basin transportation diesel, gasoline and 1% fuel oil margins over Brent crude oil (USD per barrel)



Average transportation diesel fuel, gasoline and fuel oil margins (USD per barrel)

	Jan-Mar 2017	Jan-Mar 2016	Change
Gasoline	12.5	14.7	- 15%
Diesel fuel	11.9	9.3	28%
1% Fuel oil	- 3.1	- 9.6	- 68%

The trend of increase in the diesel fuel margin compared with the corresponding period last year, together with the decline in the gasoline margin, peaked in mid-2015, so that in the reporting period gasoline and diesel profits margins were similar. The fuel oil margin has increased significantly since the fourth quarter of 2016.

Refining volume

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

	Jan-Mar 2017	Jan-Mar 2016
Utilization of refining plants	74% (*)	93%
Refining volume	1,802	2,291
Import of HVGO, net	134	51
Total	1,936	2,342

The refining volume decreased by 489 thousand tons in the Reporting Period compared to the corresponding period last year. Input volume, including diesel and HVGO, decreased by 406 thousand tons in the Reporting Period compared with the corresponding period last year. The decrease in refining volume in the reported period is mainly due to periodic maintenance work on part of the Company's facilities, particularly the continuous catalytic reformer (CCR) plant, following which some of the Company's refining and downstream facilities were shut down. For information regarding the effect of the periodic maintenance work on the margins in the Reporting Period, see section 2.1.2 below.

(*) Utilization of the refining facilities without the foregoing periodical maintenance work, on the assumption that 17.5 million barrels of crude oil and interim materials are processed per year (about 70 million barrels per year), is estimated at 93%.

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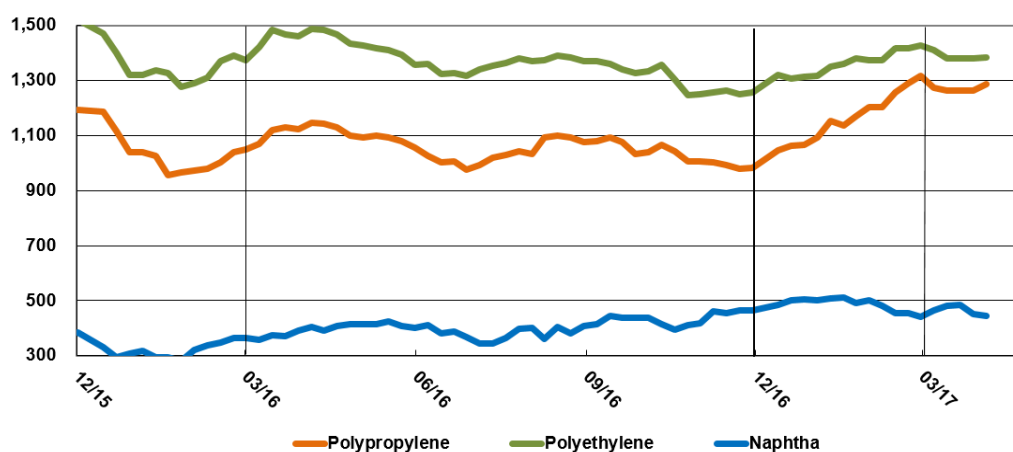
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Breakdown of the Company's output by main product groups in the Fuels segment (in thousands of tons)

	Jan-Mar 2017	Jan-Mar 2016
Diesel fuel	661	833
Gasoline	232	445
Kerosene	120	135
Fuel oil	460	524
Others	425	356
Total	1,898	2,293

Polymers Segment - Carmel Olefins

Polymer and naphtha prices in 2016-2017 (USD /ton)



Source: ICIS

Average polymer and naphtha prices (USD / ton)

	Jan-Mar 2017	Jan-Mar 2016	Change
Naphtha	485	321	51%
Polypropylene	1,175	1,031	14%
Polyethylene	1,367	1,349	1%

Raw material prices

Raw material prices, particularly naphtha, increased sharply in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices.

Polymer prices

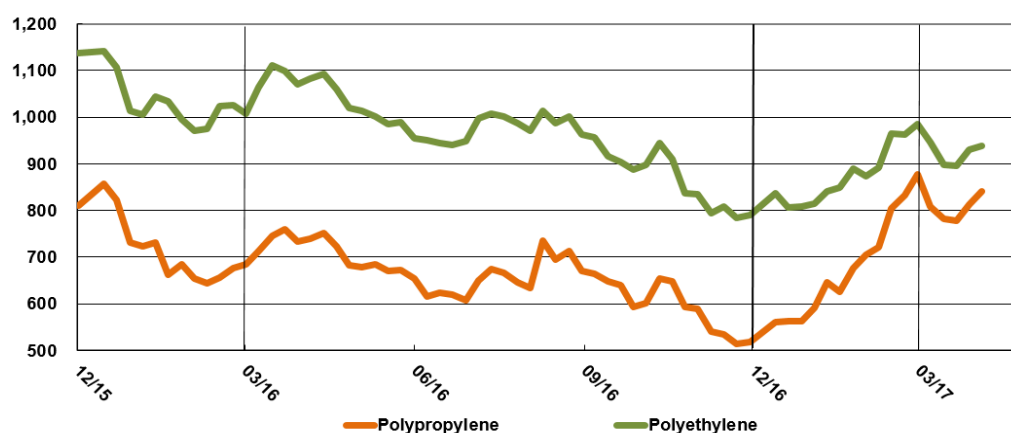
In the Reporting Period, the prices of polyethylene and polypropylene increased compared with the corresponding period last year. This trend is due, among other things, to the behavior of the prices of raw materials used for manufacturing polymers in Europe (propylene and ethylene), which was reflected in a decrease in supply, among other things, due to the shutdown of the production facilities, as well as an increase in demand. Particularly evident is the strengthening of polypropylene prices compared with polyethylene due to, as aforesaid, the shutdown of the production facilities in Europe.

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Margins

Difference between polymer and naphtha prices in 2016-2017 (USD /ton)



Source: ICIS

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

	Jan-Mar 2017	Jan-Mar 2016	Change
Polypropylene	690	710	- 3%
Polyethylene	882	1,028	- 14%

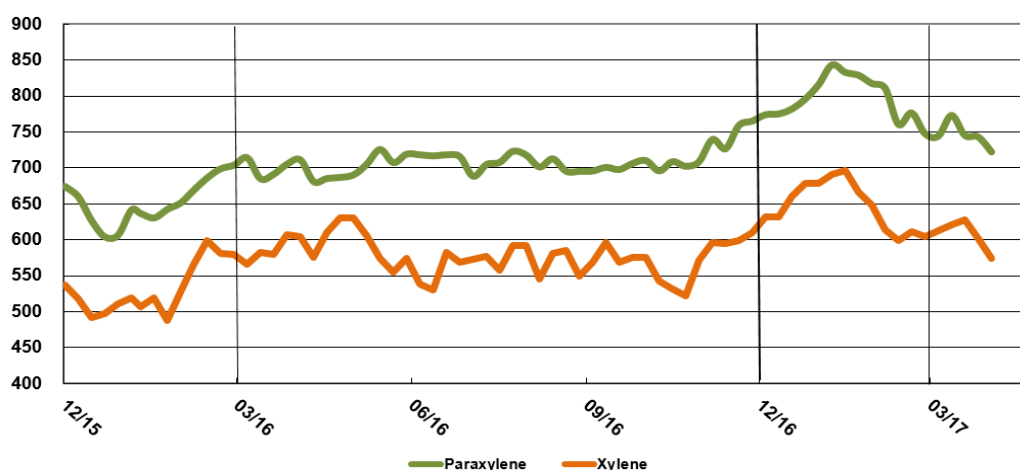
The difference between the polymer and the naphtha prices was lower than in the corresponding period last year, especially with regard to polyethylene.

Polymer output volume (thousand tons)

	Jan-Mar 2017	Jan-Mar 2016
Polymers	134	132

Aromatics Segment - Gadiv

Xylene and paraxylene prices in 2016-2017 (USD /ton)



Source: Reuters

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Average xylene and paraxylene prices (USD / ton)

	Jan-Mar 2017	Jan-Mar 2016	Change
Xylene	646	531	22%
Paraxylene	795	650	22%

Raw material prices

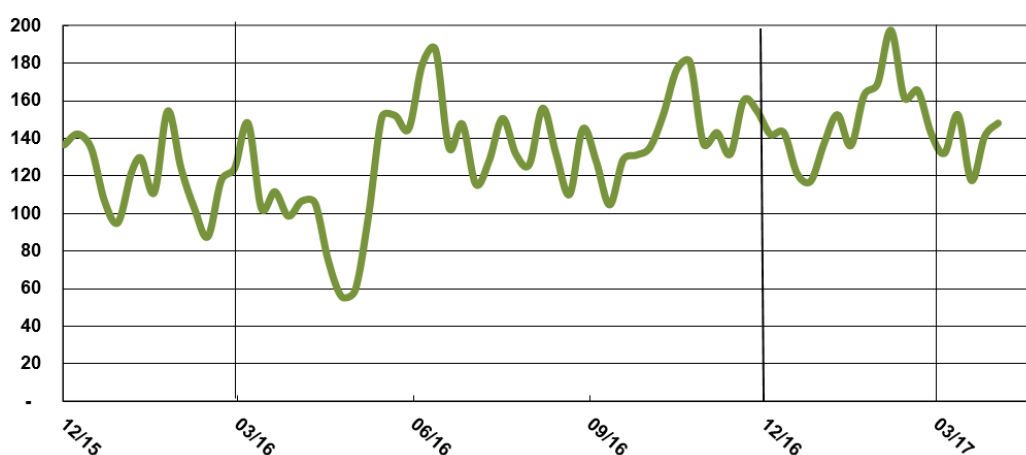
Raw material prices, particularly naphtha, increased sharply in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices.

Aromatics prices

The prices of the aromatics products, particularly paraxylene, increased in the Reporting Period compared with the corresponding period last year, parallel to the increase in raw material and energy prices.

Margins

Difference between paraxylene and xylene prices in 2016-2017 (USD /ton)



Source: Reuters

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

	Jan-Mar 2017	Jan-Mar 2016	Change
Difference in price	149	119	25%

In the Reporting Period, the difference between the paraxylene and xylene prices remained stable, with a slight increase compared with the corresponding period last year.

Aromatics output volume (thousand tons)

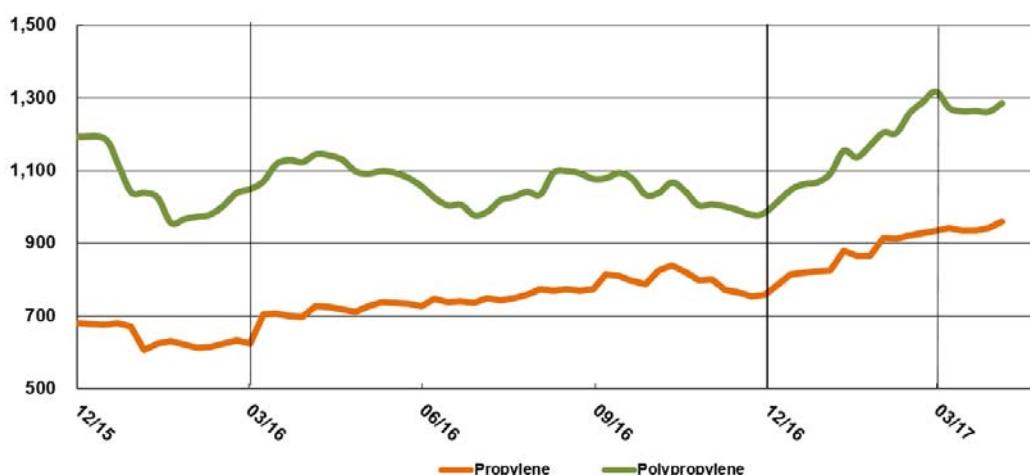
	Jan-Mar 2017	Jan-Mar 2016
Aromatics	23	141

The decrease in aromatic output in the Reporting Period is mainly due to the shutdown of all Gadiv plants in the Reporting Period for periodic maintenance work. For information regarding the effect of the periodic maintenance work on the margins in the Reporting Period, see section 2.1.2 below.

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Polymers Segment – Ducor

Polypropylene and propylene prices in 2016-2017 (USD /ton)



Source: ICIS

Average polypropylene and propylene prices (USD / ton)

	Jan-Mar 2017	Jan-Mar 2016	Change
Polypropylene	1,175	1,031	14%
Propylene	880	635	39%

Raw material prices

Raw material prices, particularly propylene prices, increased in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices.

Polypropylene prices

Polypropylene prices increased in the Reporting Period compared with the corresponding period last year, parallel to the increase in raw material and energy prices. This increase was not equivalent to the increase in raw material prices, among other things, as a result of planned and unplanned shutdowns of the propylene production facilities.

Margins

Difference between polypropylene and propylene prices in 2016-2017 (USD /ton)



Source: ICIS

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

	Jan-Mar 2017	Jan-Mar 2016	Change
Difference in price	295	396	-26%

In the Reporting Period, the difference between the polypropylene and propylene prices was lower than in the corresponding period last year, mainly as a result of the increase in the propylene price.

Polypropylene output volume (thousand tons)

	Jan-Mar 2017	Jan-Mar 2016
Polypropylene	40	40

2 Results of Bazan Group operations

2.1 Selected figures from the reported consolidated statements of income for the Reporting Period, after adjustment for accounting effects (USD millions)

To present the results of the Fuels segment operations on an economic basis and for comparison with the Ural margin, the accounting effects in the fuel segment are adjusted and presented in a way that allows better comparison of the performance of the Fuels segment with the Ural margin. Consequently, in this report the term “consolidated adjusted EBITDA” relates to the adjusted EBITDA for the Fuels segment plus the EBITDA reported for the Group’s other segments of operations.

	Jan-Mar 2017		Jan-Mar 2016	
	Accounting	Adjusted (*)	Accounting	Adjusted (*)
Revenue	1,205	1,205	925	925
EBITDA	116	74	96	123
Depreciation	(32)	(32)	(29)	(29)
Other expenses - net	(3)	(3)	(3)	(3)
Operating profit	81	39	64	91
Financing expenses, net	(47)	(47)	(36)	(36)
Company's share in losses of investees	(1)	(1)	--	--
Income tax	(14)	(14)	--	--
Net income (loss)	19	(23)	28	55

EBITDA by operating segments for the Reporting Period (USD million)

	Jan-Mar 2017		Jan-Mar 2016	
	Accounting	Adjusted (*)	Accounting	Adjusted (*)
Fuels	64	22	38	65
Polymers - Carmel Olefins	41	41	50	50
Aromatics - Gadiv	(1)	(1)	5	5
Polymers - Ducor	7	7	7	7
Other segments and adjustments	5	5	(4)	(4)
Total consolidated	116	74	96	123

(*) The adjusted figures relate to the Fuels segment. For further information concerning the adjustment components in the Fuels segment, see section 2.1.2 below.

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2.1.1 Sales by segments (including inter-segment sales)

Fuels segment sales amounted to USD 1,037 million in the Reporting Period, compared to USD 767 million in the corresponding period last year. The average price per ton of the product index in the Mediterranean area, similar to the Company's product index, amounted to USD 474 in the Reporting Period, compared to USD 313 in the corresponding period last year. The increase in the average price of the product index is mainly due to the increase in energy prices, together with the increase in raw material prices. Part of the decrease in sales turnover is due to the shutdown of part of the Company's plants, particularly the CCR plant in the Reporting Period, for periodic maintenance.

Domestic consumption of distillates (transportation, industrial and heating fuels) decreased by 1% compared to the corresponding period last year. There was an increase of 4% in consumption of transportation fuels (gasoline, diesel and kerosene) compared to the corresponding period last year.

Polymer segment - Carmel Olefins sales amounted to USD 166 million in the Reporting Period, compared to USD 143 million in the corresponding period last year, an increase of USD 23 million. This increase is due to an increase of USD 18 million in sales volume and an increase in selling prices in the amount of USD 5 million. The average price of the product mix was USD 1,287 per ton compared to US 1,241 per ton in the corresponding period last year.

Aromatics - Gadiv sales amounted to USD 37 million in the Reporting Period, compared to USD 92 million in the corresponding period last year. The decrease of USD 55 million is mainly due to the decrease in volume of USD 56 million resulting from the shutdown of all Gadiv's facilities for periodic maintenance in the Reporting Period, and a decrease in other revenues in the amount of USD 4 million, offsetting a price increase of USD 5 million. The average price of the product mix was USD 680 per ton compared to US 597 per ton in the corresponding period last year.

Polymer segment - Ducor sales turnover amounted to USD 55 million in the Reporting Period, compared to USD 46 million in the corresponding period last year. The decrease of USD 9 million is mainly due to a price increase amounting to USD 7 million and the increase in sales volume of USD 2 million. The average price of the product mix was USD 1,257 per ton compared to US 1,093 per ton in the corresponding period last year.

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2.1.2 Consolidated adjusted EBITDA in the operating segments

Adjusted EBITDA operating profit amounted to USD 74 million in the Reporting Period, compared to USD 123 million in the corresponding period last year.

Below is a description of the main reasons for the decrease of USD 49 million in the adjusted consolidated EBITDA by segment in the period (in USD million):

	Fuels	Polymers Carmel Olefins	Aromatics	Polymers Ducor	Others	Consolidated
Increase (decrease) in the margin / contribution (**)	9	(11)	--	--	9	7
Increase (decrease) in sales quantities	4	7	--	--	--	11
Loss of profits due to periodic maintenance (*)	(61)	(4)	(4)	--	--	(69)
Decrease in other revenue	-	-	(4)	-	-	(4)
Decrease (increase) in operating expenses	5	(1)	2	-	-	6
Total	(43)	(9)	(6)	-	9	(49)

(*) In the Reporting Period, the Company carried out periodic maintenance work on part of its downstream facilities, in particular the CCR plant, due to which part of the refining facilities were also shut down. In addition, all of Gadiv's plants were shut down to carry out planned periodic maintenance work. The Group estimates that the projected total loss of earnings caused to it as a result of the shutdowns, as reflected in the results of the period, amount to approximately USD 69 million (USD 61 million in the Fuels segment, USD 4 million in the Aromatics segment and USD 4 million in the Polymer segment - Carmel Olefins, due to derivative effects).

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

Adjustment components in the fuels segment

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

	Jan-Mar 2017	Jan-Mar 2016
Accounting EBITDA	64	38
Expenses (income) from timing differences (1)	(6)	15
Expenses (income) from adjusting value of inventory to market value, net (2)	(26)	24
Effect of changes in fair value of derivatives and disposals (3)	(10)	(12)
Total adjustments	(42)	27
Adjusted EBITDA	22	65

(1) Expenses (income) arising from changes in the value of unhedged inventory. In accordance with Company policy, the Company does not hedge the inventory of up to 430 thousand tons.

(2) Expenses (income) arising from changes in the adjustment of hedged inventory balances to market value and expenses (income) from changes in accounting provision for impairment of unhedged inventory, at the end of the Reporting Period.

(3) Expenses (income) arising from reevaluation of the fair value of open positions that do not relate to hedged inventory (hedging transactions on future cash flow exposure for base inventory purchase and hedging of refining margins). The cumulative profit or loss with regard to these positions, which are non-cash, will be attributed to the adjusted EBITDA when disposed. In the first quarter of 2017, most of this amount derived from non-cash disposal of the loss in positions that do not relate to hedged inventory.

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Analysis of the Company's refining margins in the Fuels segment and comparison with the Ural margin

In the first quarter of 2017, the Company carried out significant periodic maintenance work on part of its downstream facilities, in particular on the CCR plant, for which part of the refining plants were also shut down. The shutdown of the facilities reduced the refining capacity to 74% and significantly affected the refining margin. In the Company's assessment, the estimated loss of profits incurred as a result amounts to USD 61 million. Therefore, a quarterly comparative analysis of the refining margin for this quarter compared with the Ural margin and compared with the previous and/or corresponding periods is not represented.

Breakdown of the comparison between the refining margins of the Company, including proforma refining margins, for the Reporting Period, if the periodic maintenance work was not carried out/

	Jan-Mar 2017	Jan-Mar 2017 Proforma (*)	Jan-Mar 2016
Accounting margin (USD/ton)	55.2	70.7	37.7
Adjustments in the fuels segment (USD/ton)	(21.6)	(17.7)	11.6
Adjusted margin (USD/ton)	33.6	53.0	49.3
Adjusted margin (USD/barrel)	4.6	7.3	6.8
Ural margin (USD/barrel)	5.0	5.0	3.8

(*) The proforma margins for the Reporting Period as set out in the foregoing table were computed as follows:

1. The estimated loss of profits of USD 61 million was added to the Company's actual refining margin for the Reporting Period, which is approximately USD 66 million (hereinafter together - "the Adjusted Margin").
2. The Adjusted Margin was divided by the average number of barrels of crude oil and interim materials that the Company processes in a quarter, 17.5 million barrels (70 million barrels per year).

It is noted that there are differences in a number of parameters between the Company's refining margin and the Ural margin. These include composition of crude oil (the Company refines mainly crude oil types that are not Ural), composition and quality of products produced by the refineries, the energy source used for refining, and the difference generated due to the fact that the quote takes into account purchase and sale on the same day, while in practice, there is a gap between the purchase date of the crude and the selling date of distillates produced from the crude oil. Comparison to the Ural margin could provide insight in relation to development trends of the Company's refining margin, and does not constitute a precise parameter for estimating the Company's refining margin in the short term.

Operating expenses (including fixed production costs and general and administrative expenses)

In the Reporting Period, operating expenses decreased by USD 6 million compared with the corresponding period last year, mainly due to discounting of the direct costs of the periodic maintenance work at Bazan and at Gadiv.

2.1.3 Adjusted consolidated operating profit

Adjusted consolidated operating profit amounted to USD 39 million in the Reporting Period, compared to USD 91 million in the corresponding period last year. The main factors that affected the operating profit, other than the adjusted EBITDA as set out in section 2.1.2 above, are depreciation and amortization and other expenses.

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Depreciation (without amortization of excess costs)

Depreciation expenses in the Reporting Period amounted to USD 32 million compared with USD 29 million in the corresponding period of last year, primarily due to amortization of periodic maintenance applied in 2016.

Other expenses

In the Reporting Period, other expenses amounted to USD 3 million and were mainly made up of amortization of excess costs, similar to the corresponding period last year.

2.1.4 Net income (loss)

Consolidated net accounting profit amounted to USD 19 million in the Reporting Period, compared to USD 28 million in the corresponding period last year.

Adjusted consolidated net loss in the amount of USD 23 million in the Reporting Period, compared to USD 55 million in the corresponding period last year. The main factors that affected the adjusted net profit, other than the adjusted operating profit as set out in section 2.1.3 above, are financing expenses and income tax.

Financing expenses

In the Reporting Period the consolidated financing expenses amounted to USD 47 million, compared to USD 36 million in the corresponding period last year. Principal changes in financing expenses, based on financial analysis (USD millions):

	Jan-Mar 2017 compared to Jan-Mar 2016
Increase in interest on short term credit and for working capital items	1
Increase in interest on long term loans and debentures (*)	(1)
Effect of exchange differences on financial items, net	10
Changes in fair value of hedge transactions	(3)
Other	4
Total	11

Income tax

In the Reporting Period, tax expenses amounted to USD 14 million, compared with the corresponding period last year, in which tax expenses were balanced. The increase in tax expenses in the Reporting Period derives mainly from tax expenses in the amount of USD 8 million in respect of dividend that was distributed (for details see Note 8A to the Consolidated Financial Statements).

3 Financial position

3.1 Current assets

As at March 31, 2017, current assets amounted to USD 1,238 million, representing 34% of total assets, compared to USD 1,309 million, representing 36% of total assets as at December 31, 2014. The decrease of USD 71 million is mainly due to a decrease in deposits and cash in the amount of USD 103 million, a decrease of USD 44 million in trade receivables, mainly due to a decrease in sales resulting from the periodic maintenance work, a decrease in derivatives of USD 1 million offsetting an increase in inventories of USD 56 million, mainly as a result of an increase in inventory volumes and prices, an increase of USD 21 million in other receivables, primarily due to and increase in prepaid expenses in the amount of USD 13 million, and an increase in current maturities of loans to Haifa Early Pensions Ltd. in the amount of USD 4 million.

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3.2 Non-current assets

At March 31, 2017, non-current assets amounted to USD 2,395 million, compared to USD 2,359 million at December 31, 2016. The increase of USD 36 million is mainly due to an increase of USD 24 million in property, plant and equipment, including additional investment of USD 56 million, less depreciation of USD 32 million for the period, an increase in derivatives of USD 22 million, offsetting a decrease in long term loans and debit balances in an amount of USD 8 million, mainly due to a decrease in deposits for financial derivatives and a decrease in investments in investees in the amount of USD 1 million.

3.3 Current liabilities

At March 31, 2017, current liabilities amounted to USD 1,102 million representing 41% of total liabilities, compared to USD 1,123 million representing 43% of total liabilities at December 31, 2016. The decrease of USD 22 million is mainly due to a decrease of USD 74 million arising mainly due to a decrease in current maturities of debentures in the amount of USD 82 million (see Note 14A, B to the annual financial statements and Note 7B to the Consolidated Financial Statements) less an increase in current maturities for long term bank loans in the amount of USD 9 million and repayment of short term borrowings in the amount of USD 1 million, an increase in trade payables in the amount of USD 2 million, mainly due to an increase in liabilities with regard to VAT that was offset by a decrease in interest for accrued debentures (see Note 14B to the annual financial statements), a decrease in financial derivatives in the amount of USD 3 million, offset by an increase in trade payables of in the amount of USD 52 million, primarily from an increase in interest-bearing supplier credit due to the periodic maintenance work and an increase in inventory volumes, and an increase in provisions in the amount of USD 6 million.

3.4 Non-current liabilities

As of March 31, 2017, non-current liabilities amounted to USD 1,569 million, compared to USD 1,507 million at December 31, 2016. The increase of NIS 62 million is mainly due to a net increase in debentures in the amount of USD 44 million, as a result of periodic repayments in the amount of NIS 85 million offsetting the effects of the appreciation and changes in fair value, in the amount of USD 47 million and decrease in current maturities in the amount of USD 82 million dollars, an increase of net bank liabilities in the amount of USD 17 million as a result of loans received in the amount of USD 34 million (without capital raising costs) offsetting repayments in the amount of USD 10 million and classification of current maturities amounting to USD 7 million, an increase in employee benefits totaling USD 3 million, an increase of deferred taxes of USD 2 million and other long-term liabilities in the amount of USD 2 million, offsetting a decrease in financial derivatives in the amount of USD 6 million.

3.5 Capital

As of March 31, 2017, equity amounted to USD 962 million, representing 26% of the statement of financial position, compared to USD 1,037 million, representing 28% of the statement of financial position at December 31, 2016. The decrease in equity of USD 75 million derives mainly from a declared and distributed dividend in the amount of \$ 85 million, as set out in Note 8A to the Consolidated Financial Statements, from the profits of the period in the amount of USD 19 million, the effect of the net change in fair value of the debentures attributed to changes in the Group's credit risk in the amount of USD 2 million, a change in the effective share of the change in fair value of cash flow hedges in the amount of USD 10 million, and a change in the cost of fair value hedging in the amount of USD 1 million.

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4 Liquidity

Total current assets less current liabilities at March 31, 2017 amounted to USD 136 million compared to a balance of USD 185 million as at December 31, 2016.

The current ratio at March 31, 2017 is 1.12 and at December 31, 2016 is 1.16.

Consolidated cash flows from Bazan Group's operating activities amounted to USD 130 million in the Reporting Period, mainly due to profit in the period amounting to of USD 19 million, non-cash income and expense adjustments in an amount of USD 98 million and changes in asset and liability items in an amount of USD 21 million and offsetting and amount of USD 8 million for income tax paid for dividends declared and paid in the Reporting Period as set out in Note 8A to the Consolidated Financial Statements.

Cash flows from Bazan Group's operating activities, which take into account net interest payments of USD 44 million, classified under financing and investment activities, amounted to USD 86 million in the Reporting Period.

Cash used for investment activities in the Reporting Period amounted to USD 13 million and used mainly for an investment of USD 49 million in property, plant and equipment, offsetting a decrease in deposits of USD 36 million.

Net cash flows used for financing operations amounted to USD 181 million in the Reporting Period. The cash was used mainly to pay a dividend of USD 85 million (as set out in Note 8A to the Consolidated Financial Statements), repayment of long-term bank loans and debentures in the amount of USD 95 million and payment of interest of USD 44 million (including repayment of principal and interest of debentures paid on January 1, 2017, instead of December 31, 2016, as set out in Notes 14A to the annual financial statements), for the repayment of short-term borrowings in the amount of USD 1 million, offset by the receipt of long-term bank loans in the amount of USD 31 million (net of capital raising costs) and receipt of deposits from customers and others in the amount of USD 13 million.

Sources of Finance

Composition of Bazan Group financing sources and uses:

	Jan-Mar 2017	Jan-Mar 2016
	USD millions	
Sources		
Decrease in cash	64	32
Dividend from investees	--	1
Cash from operating activities (prior to changes in working capital)	117	87
Decrease in working capital	21	49
Decrease in deposits, net	36	--
Receipt of short-term credit and deposits from customers and others, net	12	--
Receipt of long-term borrowings, net of capital raising costs	31	25
Total sources	281	194
Uses		
Dividend paid	85	--
Investments in property, plant and equipment and intangible assets	49	22
Interest paid, net	44	19
Repayment of long-term loans and debentures, net	95	59
Derivative transactions, net	--	2
Increase in deposits, net	--	19
Receipt of short-term credit and deposits from customers and others, net	--	73
Income tax payments, net	8	--
Total uses	281	194

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5 Total credit from financial institutions

Breakdown of Bazan Group's net debt to financial institutions and debenture holders as of March 31, 2017 (USD million):

	Bazan	Subsidiaries	Total
Short-term loan (1)	--	1	1
Bank loans (2)	484	23	507
Debentures (2)(3)	1,021	--	1,021
Liquid financial assets (4)	(229)	(39)	(268)
Total net financial debt	1,276	(15)	1,261

(1) At Bazan - offset by the short-term debt to subsidiaries

(2) Including current maturities

(3) Presented at the liability value.

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

As of December 31, 2016, the Group's net financial debt amounted to USD 1,178 million.

For further information regarding secured short-term credit facilities through to December 31, 2017, see Note 13A to the annual financial statements. As of March 31, 2017, the Group has secured unused bank credit facilities of USD 303.9 million (the Company's share is USD 257.7 million).

6 Average volume of sources of finance in the Reporting Period

Long term loans and debentures (including current maturities, excluding capital raising costs) amounts to USD 1,568 million, short term financial credit amounts to USD 60 million, net operating capital amounts to USD 100 million (of which the average for trade receivables is USD 356 million and trade payables is USD 715 million).

7 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, 2016.

8 Corporate governance

8.1 Directors with accounting and financial expertise

There was no change in the requirements for the minimum number of directors having accounting and financial expertise. As at the date of this report the Company has 6 directors with accounting and financial expertise.

8.2 Independent directors

There has been no change in the minimum number of independent directors as required under the law (2). The number of independent directors serving in the Company is 2.

8.3 Salaries of officers and considerations on which the Board of Directors base such salaries

There was no change to the Board of Directors' considerations underlying the salaries of officers, in respect of the disclosure in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2016.

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8.4 Disclosure regarding the internal auditor in a reporting corporation

In the Reporting Period, there was no change in the disclosure given in this matter in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2016.

9 Disclosure of financial reporting

9.1 Additional information contained in the auditors' report to shareholders

Without qualifying their conclusions, the auditors of the Company drew attention to:

The contents of Note 5 to the financial statements (including by way of reference to the content of Notes 20 to the annual financial statements), with regard to legal, administrative and other proceedings, other contingencies, and laws and regulations relating to the environment. Based on the opinions of their legal counsels, the managements of the Company and the subsidiaries, believe that it is not possible at this stage to assess the foregoing impact on the results of operations and on the financial situation, if any exists, and therefore, no provision regarding this matter was included in the financial statements.

9.2 Use of estimates and judgments

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

9.3 Definition of insignificant transactions in the Company's financial statements

In the Reporting Period there were no changes in the definition of insignificant transactions with regard to the disclosure given in this regard in the 2016 Periodic Report.

10 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, 2016 and in the notes to the financial statements for that year, other than upgrading of the rating outlook of the debentures subsequent to Reporting Period. For further information concerning the financial covenants, see Note 6A to the Consolidated Financial Statements.

In the Reporting Period the company complied with its liabilities towards the financing banks 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.

For further information regarding upgrading of the Company's rating by Maalot (S&P) and the issue of new debentures (Series I) subsequent to the Reporting Period, see Notes 8D and 8E to the Consolidated Financial Statements.

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11 Significant subsequent events

11.1 For further information see Notes 5 and 8 to the Consolidated Financial Statements and the revised description of the corporation's businesses, as set out below.

11.2 Effect of changes in exchange rates and prices of crude oil

11.2.1 **Changes in exchange rates:** from the end of the Reporting Period and up to the date of approval of the financial statements, there was an appreciation of 1.1% in the NIS-USD exchange rate. The Company uses hedging transactions to partially offset this exposure, as part of its risk management policy.

11.2.2 **Changes in crude oil prices:** the price of oil, which was USD 52 per barrel at Reporting Date, was USD 53 per barrel shortly before the date of publication of the interim financial statements.

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

Ovadia Eli
Chairman of the Board of Directors

Avner Maimon
CEO

May 21, 2017

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**Revision to the Description of the Company's Businesses in the
Periodic Report as at December 31, 2016**

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

During and subsequent to the Reporting Period, there were no significant changes or new events in the Company's affairs, other than as set out below:

1. Further to section 1.19.7 of Chapter A of the Periodic Report with regard to the licenses held by the Group companies, the temporary permit held by the Company from the Haifa Municipality was extended until October 15, 2017.

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Appendix - Condensed Consolidated Interim Financial Statements of Carmel Olefins Ltd.

Once the arrangement to replace Carmel Olefins debentures with debentures (Series G) of the Company is completed, under which Carmel Olefins provided collateral for the Company's obligations to the holders of its debentures (Series G) as set out in Note 14A to the Annual Statements, Carmel Olefins will cease to be reporting corporation and all its reporting obligations will cease.

So long as Carmel Olefins remains guarantor as aforesaid, the Company undertook to attach to its Board of Directors Report, ever quarter, condensed consolidated financial statements of Carmel Olefins (Statements of Financial Position, Statements of Profit and Loss and Statements of Cash Flows).

Breakdown of the interim consolidated financial statements of Carmel Olefins, used in the preparation of the Company's consolidated financial statements (audited or reviewed, as the case may be):

A. Carmel Olefins - Consolidated Statements of Financial Position (in USD thousands)

		As at	
	March 31, 2017	March 31, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	30,596	18,932	28,161
Customers	86,171	116,152	98,544
Other receivables	17,874	11,718 (*)	3,469
Financial derivatives	3,633	964	7,727
Inventories	59,530	57,100	51,119
Total current assets	197,804	204,866	189,020
Non-current assets			
Financial derivatives	5,262	1,914	453
Long term receivables	9,913	31,658 (*)	11,851
Property, plant and equipment, net	665,318	634,315	674,475
Intangible assets, net	6,895	7,818	7,164
Total non-current assets	687,388	675,705	693,943
Total assets	885,192	880,571	882,963

(*) Reclassified

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Bazan Ltd.

A Carmel Olefins - Consolidated Statements of Financial Position (in USD thousands)

	March 31, 2017	As at March 31, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current liabilities			
Current maturities of loans from the parent company	10,882	33,622	44,014
Loans (including current maturities) and borrowings	6,277	58,599	2,808
Trade payables	31,898	78,621	39,844
Other payables	15,703	15,197	17,568
Financial derivatives	505	6,113	2,576
Provisions	7,400	4,948	6,090
Total current liabilities	<u>72,665</u>	<u>197,100</u>	<u>112,900</u>
Non-current liabilities			
Liabilities to banks, net	16,812	62,269	6,782
Loan from the parent company, net	152,816	107,386	149,428
Other long-term liabilities	9,980	--	9,852
Financial derivatives	--	210	756
Employee benefits, net	18,554	17,178	17,722
Deferred tax liabilities, net	73,937	57,145	70,396
Total non-current liabilities	<u>272,099</u>	<u>244,188</u>	<u>254,936</u>
Total liabilities	<u>344,764</u>	<u>441,288</u>	<u>367,836</u>
Capital			
Share capital	116,997	116,997	116,997
Capital reserves	(12,153)	(12,942)	(11,306)
Capital surplus	435,584	335,228	409,436
Total capital	<u>540,428</u>	<u>439,283</u>	<u>515,127</u>
Total liabilities and capital	<u>885,192</u>	<u>880,571</u>	<u>882,963</u>

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Bazan Ltd.

B. Carmel Olefins - Condensed Consolidated Interim Statements of Income and Other Comprehensive Income (in USD thousands)

	Three months ended		Year ended
	March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)	December 31, 2016 (Audited)
Revenue	219,131	186,873	727,499
Cost of sales	<u>172,128</u>	<u>129,319</u>	<u>529,990</u>
Gross income	47,003	57,554	197,509
Selling and marketing expenses	7,292	5,920	24,439
General and Administrative Expenses:	3,969	3,356	14,177
Other income	--	--	(2,409)
Other expenses	<u>--</u>	<u>1,180</u>	<u>4,459</u>
Operating profit	35,742	47,098	156,843
Financing revenues	334	42	314
Finance expenses	<u>(4,422)</u>	<u>(4,124)</u>	<u>(21,526)</u>
Financing expenses, net	<u>(4,088)</u>	<u>(4,082)</u>	<u>(21,212)</u>
Income before taxes on income	31,654	43,016	135,631
Income tax	<u>(5,506)</u>	<u>(9,195)</u>	<u>(27,461)</u>
Net profit for the period	<u>26,148</u>	<u>33,821</u>	<u>108,170</u>
Items of other comprehensive income (loss) transferred to profit or loss			
Effective share of the change in fair value of cash flow hedging, net of tax	(947)	50	844
Foreign currency translation differences for foreign operations	12	(624)	(228)
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	<u>(935)</u>	<u>(574)</u>	<u>616</u>
Items of other comprehensive income (loss), net of tax, not transferred to profit or loss			
Reclassification of defined benefit plan, net to tax	--	--	(141)
Comprehensive loss, net of tax, not transferred to profit or loss	<u>--</u>	<u>--</u>	<u>(141)</u>
Total comprehensive income for the period	<u>25,213</u>	<u>33,247</u>	<u>108,645</u>

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Bazan Ltd.

C. Carmel Olefins - Consolidated Statements of Cash Flow (in USD thousands)

	Three months ended		Year ended
	March 31,	March 31,	December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
Cash flows from operating activities			
Profit for the period	26,148	33,821	108,170
Adjustments to cash flows from operating activities:			
Revenue and expenses not involving cash flows (Appendix A – section A)	26,663	20,449	76,074
	<u>52,811</u>	<u>54,270</u>	<u>184,244</u>
Changes in assets and liabilities items (Appendix A - section B)	(19,408)	63,279	50,551
Interest paid, net	(6,042)	(8,420)	(18,282)
Income tax paid	(44)	(42)	(204)
	<u>(25,494)</u>	<u>(3,583)</u>	<u>(76,915)</u>
Net cash from operating activities	<u>27,317</u>	<u>109,087</u>	<u>216,309</u>
Cash flow for investment activities			
Change in deposits, net	585	(24)	17,681
Loans to employees, net	8	18	63
Investments in property plant and equipment (including periodic maintenance)	(700)	(6,987)	(67,672)
	<u>(107)</u>	<u>(6,993)</u>	<u>(49,928)</u>
Net cash used for investing activities	<u>(107)</u>	<u>(6,993)</u>	<u>(49,928)</u>
Cash flow from financing activities			
Receipt of long-term loans from parent company	--	--	57,335
Repayment of short-term loan, net	(293)	(71,143)	(79,290)
Repayment of long term borrowings from banks	(1,438)	(3,460)	(106,394)
Payments from currency swap transactions and interest, net	(1,214)	(1,598)	(1,683)
Receipt of long term borrowings from banks	15,000	--	--
Repayment of loans from parent company	(36,942)	(32,879)	(34,349)
	<u>(24,887)</u>	<u>(109,080)</u>	<u>(164,381)</u>
Net cash used for financing activities	<u>(24,887)</u>	<u>(109,080)</u>	<u>(164,381)</u>
Increase (decrease) in cash and cash equivalents	2,323	(6,986)	2,000
Effect of exchange rate fluctuations on cash and cash equivalents	112	566	809
Cash and cash equivalents at beginning of period	<u>28,161</u>	<u>25,352</u>	<u>25,352</u>
Cash and cash equivalents at end of period	<u>30,596</u>	<u>18,932</u>	<u>28,161</u>

(*) For further information regarding periodic maintenance work carried out on the Company's facilities in 2016, see Note 11A to the annual financial statements.

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Bazan Ltd.

C. Carmel Olefins - Consolidated Statements of Cash Flow (in USD thousands) contd

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

	Three months ended		Year ended
	March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)	December 31, 2016 (Audited)
A. Income and expenses not that do not involve cash flows:			
Depreciation and amortization	11,990	8,785	43,394
Net financing expenses recognized in profit or loss	12,535	7,403	19,378
Other income	--	--	(2,409)
Net changes in fair value of derivative financial instruments	(3,456)	(5,081)	(12,343)
Share-based payment of parent company	88	147	593
Income tax	5,506	9,195	27,461
	<u>26,663</u>	<u>20,449</u>	<u>76,074</u>
B. Changes in assets and liabilities			
Decrease in trade receivables	12,631	494	16,911
Decrease (increase) in other receivables	(14,398)	24,577	27,998
Increase in inventory	(8,196)	(7,701)	(2,700)
Increase (decrease) in trade payables	(8,730)	48,797	8,326
Decrease in other accounts payable	(2,399)	(4,586)	(2,238)
Increase in provisions	994	775	290
Increase in employee benefit liabilities, net	690	923	1,964
	<u>(19,408)</u>	<u>63,279</u>	<u>50,551</u>

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Somekh Chaikin

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04-861-4800

Auditors Report to the Shareholders of Bazan Limited

Introduction

We have reviewed the accompanying financial information of Bazan Limited ("the Company") and its subsidiaries ("the Group"), including the condensed consolidated interim statement of financial position as at March 31, 2017 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three months then ended. The board of directors and the management are responsible for preparation and presentation of the financial information for this interim period in accordance with IAS 34 - Interim Financial Reporting, and are also responsible for preparation of the interim financial information for this period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express an opinion on this interim financial information based on our review.

Review scope

We conducted our review in accordance with Accounting Standard No. 1 –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.

Without qualifying our above conclusions, we draw attention to the contents of Note 5 to the financial statements (including by way of reference to Note 20 to the annual financial statements) regarding legal, administrative and other proceedings, other contingencies, laws and regulations relating to the environment. 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 financial position, if any exists, and therefore, no provision regarding this matter was included in the financial statements.

Somekh Chaikin
Certified Public Accountants

Haifa, May 21, 2017

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Condensed Consolidated Interim Statements of Financial Position
USD thousands

	March 31, 2017	March 31, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	227,215	256,851	290,399
Deposits	40,383	56,748	80,370
Trade receivables	333,619	321,792	377,812
Other receivables	37,073	55,358	16,586
Financial derivatives	11,286	4,411	12,665
Inventory	588,092	358,228	531,271
Total current assets	<u>1,237,668</u>	<u>1,053,388</u>	<u>1,309,103</u>
Non-current assets			
Investments in associates	1,607	3,398	2,449
Loan to Haifa Early Pensions Ltd.	47,666	50,838	48,178
Long term loans and debit balances	5,091	41,157 (*)	13,146
Financial derivatives	32,143	16,803	9,590
Property, plant and equipment, net	2,279,076	2,183,965	2,255,227
Intangible assets and deferred expenses, net	29,424	31,091	30,006
Total non-current assets	<u>2,395,007</u>	<u>2,327,252</u>	<u>2,358,596</u>
Total assets	<u><u>3,632,675</u></u>	<u><u>3,380,640</u></u>	<u><u>3,667,699</u></u>

*) Reclassified, see Note 2C

Ovadia Eli
Chairman, Board of Directors

Avner Maimon
CEO

Israel Lederberg
CFO

Approval date of the condensed interim financial statements: May 21, 2017

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

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Condensed Consolidated Interim Statements of Financial Position
USD thousands

	March 31, 2017	March 31, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings (including current maturities)	164,701	303,183	238,811
Trade payables	741,017	462,463	689,337
Other payables	126,060	128,024	128,429
Financial derivatives	19,111	23,569	22,589
Provisions	50,893	38,950	44,564
Total current liabilities	1,101,782	956,189	1,123,730
Non-current liabilities			
Liabilities to banks, net	427,484	499,902	410,726
Debentures, net	963,137	877,707	918,834
Other long-term liabilities	30,007	25,156	28,167
Financial derivatives	9,395	18,519	15,865
Employee benefits, net	53,196	51,057	50,400
Deferred tax liabilities, net	85,446	48,225	82,880
Total non-current liabilities	1,568,665	1,520,566	1,506,872
Total liabilities	2,670,447	2,476,755	2,630,602
Capital			
Share capital	805,282	805,282	805,282
Share premium	31,962	31,962	31,962
Capital reserves	32,486	37,542	41,286
Retained earnings	92,498	29,099	158,567
Total capital	962,228	903,885	1,037,097
Total liabilities and capital	3,632,675	3,380,640	3,667,699

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

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Condensed Consolidated Interim Statements of Income and Other Comprehensive Income
USD thousands

	Three months ended		Year ended
	March 31, 2017	March 31, 2016	December 31, 2016
	(Unaudited)		(Audited)
Revenue	1,205,147	925,051	4,320,868
Cost of sales	1,094,672	825,330	3,836,449
Gross profit	110,475	99,721	484,419
Selling and marketing expenses	18,233	21,229	82,946
General and administrative expenses	11,498	14,162	49,370
Other revenues, net	--	--	(990)
Loss from impairment of cash-generating units	--	--	13,700
Voluntary redundancy expenses	--	--	9,854
Operating profit	80,744	64,330	329,539
Financing income	(866)	(21,304)	(2,458)
Financing expenses	47,887	57,319	134,047
Financing expenses, net	47,021	36,015	131,589
Company's share in profits (losses) of associates (net of tax)	543	217	56
Income before taxes on income	33,180	28,098	197,894
Income tax (tax benefit)	14,249	(30)	40,050
Net income for the period	18,931	28,128	157,844
Items of other comprehensive income (loss) transferred to profit or loss			
Foreign currency translation differences for foreign operations	12	(624)	(228)
Effective share of the change in fair value of cash flow hedging, net of tax (see Note 3)	(9,870)	50	1,418
Change in fair value hedging costs, net of tax	(1,150)	1,464	3,544
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	(11,008)	890	4,734
Items of other comprehensive income (loss) not transferred to profit or loss			
Remeasurement of a defined benefit plan, net of tax	--	--	(248)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	1,857	704	(929)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	5	14	(3)
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	1,862	718	(1,180)
Comprehensive income for the period	9,785	29,736	161,398
Earnings per share (USD)			
Basic and diluted earnings per 1 ordinary share	0.006	0.009	0.049

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

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Condensed Consolidated Interim Statements of Changes in Equity
USD thousands

	Share capital	Share premium	Capital reserve for share- based payment	Capital reserve from translation differences	Capital reserve for financial instruments at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Three months ended March 31, 2017 (unaudited)									
Balance as at January 1, 2017 (audited)	805,282	31,962	12,356	5,640	(6,810)	28,478	6,175	(4,553)	158,567	1,037,097
Profit for the period	--	--	--	--	--	--	--	--	18,931	18,931
<u>Other comprehensive income (loss):</u>										
Foreign currency translation differences for foreign operations	--	--	--	12	--	--	--	--	--	12
Change in fair value hedging costs, net of tax	--	--	--	--	--	--	(1,150)	--	--	(1,150)
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	(9,870)	--	--	(9,870)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	--	--	--	--	--	--	1,857	--	1,857
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	--	--	--	--	5	--	--	--	--	5
Total other comprehensive income (loss) for the period, net of tax	--	--	--	12	5	--	(11,020)	1,857	--	(9,146)
Total other comprehensive income (loss) for the period	--	--	--	12	5	--	(11,020)	1,857	18,931	9,785
Dividend paid	--	--	--	--	--	--	--	--	(85,000)	(85,000)
Share-based payment	--	--	346	--	--	--	--	--	--	346
Balance as at March 31, 2017	805,282	31,962	12,702	5,652	(6,805)	28,478	(4,845)	(2,696)	92,498	962,228

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

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Condensed Consolidated Interim Statements of Changes in Equity (Contd.)
USD thousands

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial instruments at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Three months ended March 31, 2016 (unaudited)									
Balance as at January 1, 2016 (audited)	805,282	31,962	10,245	5,868	(6,807)	28,478	1,213	(3,624)	971	873,588
Profit for the period	--	--	--	--	--	--	--	--	28,128	28,128
<u>Other comprehensive income (loss):</u>										
Foreign currency translation differences for foreign operations	--	--	--	(624)	--	--	--	--	--	(624)
Change in fair value hedging costs, net of tax	--	--	--	--	--	--	1,464	--	--	1,464
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	50	--	--	50
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	--	--	--	--	--	--	704	--	704
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	--	--	--	--	14	--	--	--	--	14
Total other comprehensive income (loss) for the period, net of tax	--	--	--	(624)	14	--	1,514	704	--	1,608
Total other comprehensive income (loss) for the period	--	--	--	(624)	14	--	1,514	704	28,128	29,736
Share-based payment	--	--	561	--	--	--	--	--	--	561
Balance as at March 31, 2016	805,282	31,962	10,806	5,244	(6,793)	28,478	2,727	(2,920)	29,099	903,885

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Consolidated Statements of Changes in Equity (Contd.)
USD thousands

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial instruments 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, 2016 (audited)									
Balance as at January 1, 2016	805,282	31,962	10,245	5,868	(6,807)	28,478	1,213	(3,624)	971	873,588
Income for the year	--	--	--	--	--	--	--	--	157,844	157,844
<u>Other comprehensive income (loss):</u>										
Foreign currency translation differences for foreign operations	--	--	--	(228)	--	--	--	--	--	(228)
Change in fair value hedging costs, net of tax	--	--	--	--	--	--	3,544	--	--	3,544
Remeasurement of a defined benefit plan, net of tax	--	--	--	--	--	--	--	--	(248)	(248)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	--	--	--	--	--	--	(929)	--	(929)
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	1,418	--	--	1,418
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	--	--	--	--	(3)	--	--	--	--	(3)
Total other comprehensive income (loss) for the year, net of tax	--	--	--	(228)	(3)	--	4,962	(929)	(248)	3,554
Total other comprehensive income (loss) for the year	--	--	--	(228)	(3)	--	4,962	(929)	157,596	161,398
Share-based payment	--	--	2,111	--	--	--	--	--	--	2,111
Balance as at December 31, 2016	805,282	31,962	12,356	5,640	(6,810)	28,478	6,175	(4,553)	158,567	1,037,097

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Condensed Consolidated Interim Statements of Cash Flows
USD thousands

	Three months ended		Year ended
	March 31, 2017	March 31, 2016	December 31, 2016
	(Unaudited)		(Audited)
Cash flows from operating activities			
Profit for the period	18,931	28,128	157,844
Adjustments to cash flows from operating activities:			
Revenue and expenses not involving cash flows (Appendix A – section A)	98,026	58,957	319,700
	116,957	87,085	477,544
Changes in assets and liabilities (Appendix A –section B)	20,824	48,626	22,337
Income tax paid, net (see Note 8A)	(8,169)	(240)	(1,101)
Net cash from operating activities	129,612	135,471	498,780
Cash flow used for investment activities			
Interest received	377	(***) 111	2,060
Decrease (increase) in deposits, net	36,113	(18,848)	(31,224)
Dividend received from investees	299	1,311	2,421
Repayment of long-term loans from others, net	20	45	214
Repayment of loan from Haifa Early Pensions Ltd.	--	--	4,035
Acquisition of property, plant and equipment (including periodic maintenance) (**)	(48,996)	(21,809)	(187,838)
Purchase of intangible assets and deferred expenses	(345)	(251)	(1,775)
Net cash used for investment activities	(12,532)	(39,441)	(212,107)
Cash flow from financing activities			
Short-term borrowing, net	(818)	(75,863)	(82,510)
Decrease in deposits from customers and others, net	12,731	2,373	8,747
Interest paid (*)	(44,201)	(***)(18,505)	(84,055)
Derivative transactions, net	(161)	(1,974)	(12,234)
Receipt of long-term bank loans, net of raising costs	31,457	25,000	411,613
Repayment of long-term bank loans	(9,688)	(23,916)	(599,302)
Repayment of debentures (*)	(84,987)	(34,754)	(69,106)
Issue of debentures (less issuance expenses)	--	--	144,607
Dividend paid	(85,000)	--	--
Net cash used for financing activities	(180,667)	(127,639)	(282,240)
Net increase (decrease) in cash and cash equivalents	(63,587)	(31,609)	4,433
Effect of exchange rate fluctuations on cash and cash equivalents	403	2,111	(383)
Cash and cash equivalents at beginning of period	290,399	286,349	286,349
Cash and cash equivalents at the end of the period	227,215	256,851	290,399

(*) As at December 31, 2016, principal and interest payments on the debentures in the amount USD 48,804 thousand and USD 27,186 thousand, respectively, were deferred under the provisions of the deeds of trust as at January 1, 2017, since the contractual repayment date was not a business day.

(**) In the first quarter of 2017, periodic maintenance was performed in some of the Company's facilities, including the CCR facility, and in all Gadiv's facilities, with a direct cost amounting to USD 56 million (of which, USD 26 million at the Company and USD 30 million at Gadiv). As at March 31, 2017, a total of USD 25 million has not yet been paid. For information about the cost of periodic maintenance in 2016, see Note 11 A to the Annual Statements.

(***) Reclassified

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Condensed Consolidated Interim Statements of Cash Flows (Contd.)
USD thousands

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

	Three months ended		Year ended
	March 31, 2017	March 31, 2016	December 31, 2016
	(Unaudited)		(Audited)
A. Income and expenses not included in cash flows:			
Depreciation and amortization	35,804	32,056	141,349
Other revenue	--	--	(990)
Loss from impairment of cash-generating units	--	--	13,700
Financing expenses, net	58,709	23,861	112,838
Net changes in fair value of derivatives	(6,999)	(1,452)	(3,087)
Changes in fair value of the loan to Haifa Early Pensions Ltd.	(3,249)	(2,446)	(1,079)
Share in losses of associates	543	217	56
Loss (gain) and change in inventory hedge deposits, net	(1,377)	6,190	14,752
Share-based payments	346	561	2,111
Income tax (tax benefit)	14,249	(30)	40,050
	<u>98,026</u>	<u>58,957</u>	<u>319,700</u>
B. Changes in assets and liabilities			
Decrease (increase) in trade receivables	44,457	36,542	(20,669)
Decrease (increase) in other receivables	(16,338)	(10,655)	26,596
Decrease (increase) in inventory	(56,515)	74,562	(96,157)
Increase (decrease) in trade payables	45,408	(78,324)	116,053
Increase (decrease) in other payables and provisions	1,205	24,357	(5,226)
Increase in employee benefits, net	2,607	2,144	1,740
	<u>20,824</u>	<u>48,626</u>	<u>22,337</u>

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

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Notes to the Consolidated Financial Statements
USD thousands

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 which operate in Israel and are engaged primarily in the production of oil products, feedstock for the petrochemical industry, raw materials for the plastics industry, oils, waxes and byproducts. The facilities of the subsidiaries are integrated with those of the Company. The Company also provides water treatment and power generation services (mainly electricity and steam) to a number of industries adjacent to the Haifa refinery. The controlling shareholders in the Company are Israel Corporation Ltd. and Israel Petrochemical Enterprises Ltd.

- B.** The interim condensed consolidated interim financial statements as at March 31, 2017 include the statements of the Company and its subsidiaries (jointly: “the Group”) and the Group’s interests in associates.

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, 2016 and for the year then ended (“the Annual Statements”). Additionally, these statements have been prepared in accordance with the provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed consolidated interim financial statements were approved by the Company’s Board of Directors on May 21, 2017.

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 Statements, other than as set out in Note 3 below:

C. Reclassification

As at March 31, 2016, employee benefits, deferred taxes and financial assets at fair value through other comprehensive income classified for reasons of immateriality under Loans and long-term receivables.

Notes to the Consolidated Financial Statements
USD thousands

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

The Group's accounting policy in these condensed consolidated interim statements is the same policy applied in the Annual Statements, other than as set out below:

Accounting policy for new transactions or events

As from January 1, 2017, certain SWAP transactions performed by Carmel Olefins to hedge the margin between the price of polymers that it manufactures and sells (propylene and/or polyethylene) and the price of naphtha were designated as hedging items for the purpose of implementing the cash flow hedge accounting principles for hedging against: (A) changes in market prices of the expected sales of polymers; and (b) changes in market prices of crude oil (the raw material in naphtha production).

In addition, marketable Brent futures acquired by the Company to hedge future cash flow exposure for the expected transaction for acquisition of inventory at the market prices prevalent on completion of the availability transaction described in Note 5B (in this section below: "the Transaction"), were designated as hedging items for the purpose of cash flow hedge accounting, as from their acquisition in the first quarter of 2017, to hedge changes in the market price of crude oil by completion of the transaction. See section 7B below for further information.

Changes in the fair value of these derivatives that were designated for hedge accounting are recognized from the start of the hedge through other comprehensive income directly in a hedging reserve, to the extent that the hedge is effective. Other fair value changes in these derivatives continue to be recognized under the relevant item in profit or loss. The amount recognized in the hedging reserve is reclassified to profit or loss in the same period that profit or loss is affected by the cash flows and is recognized under the relevant item in the statement of income together with the hedged item. When the hedged item is a non-financial asset, such as inventory or fixed assets, the amount accrued in the hedging reserve is reclassified to the carrying amount of the asset when it is recognized.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued. The cumulative profit or loss previously recognized through other comprehensive income and presented in the hedging reserve remains in equity until the projected transaction is completed or is no longer expected to occur. If the forecasted transaction is no longer expected to occur, then the cumulative profit or loss previously recognized in the hedging reserve is recognized immediately in profit or loss.

NOTE 4 –SEGMENT REPORTING

Further to Note 28 to the Annual Statements, in the period, the composition of the Group's reportable segments remained unchanged.

Segment results are reported to the chief operating decision maker on the basis of accounting EBITDA (gross profit less selling, marketing and administrative expenses, plus depreciation and amortization), and in fuel sector, also on the basis of adjusted EBITDA.¹

Other expenses/income which are not allocated to segments, and are not included in EBITDA, are reviewed by the chief operating decision maker, on a consolidated basis only.

¹ Adjusted accounting EBITDA has the following effects: (a) the method for recognizing derivatives under IFRS; (b) buying and selling timing differences of unhedged inventory; (c) adjustment of the hedged inventory value to market value.

Notes to the Consolidated Financial Statements
USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	<u>Fuels</u>	<u>Polymers - Carmel Olefins</u>	<u>Aromatics</u>	<u>Polymers - Ducor</u>	<u>Total reportable segments</u>	<u>Others</u>	<u>Adjustments to consolidated</u>	<u>Consolidated</u>
Three months ended March 31, 2017 (unaudited)								
Revenue from external sources	940,217	163,978	34,158	54,845	1,193,198	11,949	--	1,205,147
Revenue from inter-segment sales	97,023	2,140	3,270	--	102,433	48	(102,481)	--
Segment revenue	<u>1,037,240</u>	<u>166,118</u>	<u>37,428</u>	<u>54,845</u>	<u>1,295,631</u>	<u>11,997</u>	<u>(102,481)</u>	<u>1,205,147</u>
Accounting EBITDA	<u>64,451</u>	<u>40,748</u>	<u>(821)</u>	<u>6,984</u>	<u>111,362</u>	<u>989</u>	<u>4,197</u>	<u>116,548</u>
Depreciation and amortization	<u>(19,802)</u>	<u>(11,391)</u>	<u>(1,249)</u>	<u>(162)</u>	<u>(32,604)</u>	<u>(120)</u>	<u>25</u>	<u>(32,699)</u>
Accounting EBITDA less depreciation and amortization								83,849
Amortization of excess cost arising on acquisition of subsidiaries								<u>(3,105)</u>
Operating profit								80,744
Financing expenses, net								(47,021)
Group's share in losses of associates, net of tax								<u>(543)</u>
Income before taxes on income								<u>33,180</u>

Adjusted EBITDA in the fuel segment for the three months ended March 31, 2017 - USD 22,049 thousand.

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Notes to the Consolidated Financial Statements
USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	<u>Fuels</u>	<u>Polymers - Carmel Olefins</u>	<u>Aromatics</u>	<u>Polymers - Ducor</u>	<u>Total reportable segments</u>	<u>Others</u>	<u>Adjustments to consolidated</u>	<u>Consolidated</u>
Three months ended March 31, 2016 (unaudited)								
Revenue from external sources	641,960	140,436	84,963	46,271	913,630	11,421	--	925,051
Revenue from inter-segment sales	125,162	2,093	7,305	--	134,560	66	(134,626)	--
Segment revenue	767,122	142,529	92,268	46,271	1,048,190	11,487	(134,626)	925,051
Accounting EBITDA	38,358 (1)	50,055	4,807	7,008	100,228	2,752	(6,594)	96,386
Depreciation and amortization	(19,074)	(7,719)	(1,250)	(1,066)	(29,109)	(279)	--	(29,388)
Accounting EBITDA less depreciation and amortization								66,998
Amortization of excess cost arising on acquisition of subsidiaries								(2,668)
Operating profit								64,330
Financing expenses, net								(36,015)
Group's share in losses of associates, net of tax								(217)
Income before taxes on income								28,098

Adjusted EBITDA in the fuel segment for the nine months ended March 31, 2016: USD 65,153 thousand.

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Notes to the Consolidated Financial Statements
USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	<u>Fuels</u>	<u>Polymers - Carmel Olefins</u>	<u>Aromatics</u>	<u>Polymers - Ducor</u>	<u>Total reportable segments</u>	<u>Others</u>	<u>Adjustments to consolidated</u>	<u>Consolidated</u>
	<u>Year ended December 31, 2016</u>							
Revenue from external sources	3,185,686	533,317	365,829	194,067	4,278,899	41,969	--	4,320,868
Revenue from inter-segment sales	507,953	5,395	29,504	--	542,852	240	(543,092)	--
Segment revenue	3,693,639	538,712	395,333	194,067	4,821,751	42,209	(543,092)	4,320,868
Accounting EBITDA	280,478 (1)	174,338	16,515	27,950	499,280	(1,326)	(4,502)	493,452
Depreciation and amortization	(81,765)	(39,517)	(4,892)	(1,874)	(128,048)	(722)	97	(128,672)
Accounting EBITDA less depreciation and amortization								364,780
Other revenues, net								990
Impairment loss								(13,700)
Voluntary redundancy expenses								(9,854)
Amortization of excess cost arising on acquisition of subsidiaries								(12,677)
Operating profit								329,539
Financing expenses, net								(131,589)
Group's share in losses of associates, net of tax								(56)
Income before taxes on income								197,894

Adjusted EBITDA in the fuel segment 2016: USD 213,774 thousand

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Notes to the Consolidated Financial Statements
USD thousands

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

A. Contingent liabilities

1. Further to Note 20B to the Annual Statements, there were no significant changes in lawsuits, other contingent liabilities, and administrative procedures of Bazan Group in and subsequent to the reporting period, other than the following:

A) Commercial claims

In the reporting period, the Court dismissed the Company's claim of 2009 against Haifa Port for declaratory relief and accepted the monetary claim of Haifa Port for payment of infrastructure fees for unloading crude oil at the Kiryat Haim sea terminal in 2007-2009. Subsequent to the reporting date, the Company appealed the ruling.

The Company's financial statements as at December 31, 2016 included provisions for the full amount awarded in favor of Haifa Port and for the full amount of infrastructure fees for the period since the claim was filed, including for interest and linkage differences, amounting to USD 47 million, paid in and subsequent to the reporting period. Accordingly, bank guarantees provided by the Company for most of the infrastructure fees, which amounted to USD 33 million as at March 31, 2017, were released subsequent to the reporting date, after repayment.

B) Proceedings with local authorities, including local taxation claims and indirect taxation

Further to Note 20B(2) to the Annual Financial Statements regarding demands from the municipality of Haifa and Mei Carmel for the payment of development levies and sewage services, the Company believes, based on the estimate of its legal counsel in this matter, that the Company has included provisions (including for interest and linkage differences recognized in financing expenses in the statement of income) that adequately reflect the costs for these requirements, which will more likely than not be paid.

C) Liabilities relating to environmental quality

- 1)
 - 1) In the reporting period, Carmel Olefins received a warning for claims of a deviation from the values measured in one of the plant stacks, compared to values set out in the emission permit. Carmel Olefins submitted a detailed response to the warning. At this preliminary stage, Carmel Olefins is unable to estimate the exposure for the warning.
 - 2) Further to Note 20B(3) to the Annual Statements regarding the notice of the Ministry of Environmental Protection of its intention to impose a financial sanction on Carmel Olefins for alleged offenses of the emission permit in three technical issues, the Ministry started - concurrently - to investigate the events underlying the financial sanction. The Company is unable to estimate the results of the investigation. The Company believes, based on the opinions of its legal counsel representing it in this matter, that the Company has included an appropriate provision that reflects the costs for the demand for financial sanction that will more likely than not be paid.
2. As set out in Note 20B(3) to the Annual Financial Statements, there are legal, administrative, and other proceedings against Bazan Group regarding environmental quality (including a claim filed in the amount of NIS 753 million with a motion for its certification as a class action, for the fire that broke out in the intermediate materials storage tank on the Company's premises in December 2016). For some of these claims, based on the opinion of the legal counsel of the Company and its subsidiaries, the Company estimates that, at this stage, it is not possible to assess their effect, if any, on the financial statements as at March 31, 2017. Accordingly, no provision regarding this matter was included in the financial statements.

Notes to the Consolidated Financial Statements
USD thousands

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

B. Agreements

Further to Note 21C to the Annual Statements, there were no significant changes in the Group's agreements in and subsequent to the reporting period, other than the new inventory availability agreement described below:

In March 2017, the Company signed an agreement ("the Agreement") for the availability of raw material inventory, mainly crude oil ("Crude Oil"), with an international company ("the Second Party") The Agreement is expected to come into effect in the second quarter of 2017.

The main terms of the agreement are as follows:

1. The Company will have available access, over three years ("the Agreement Period") to up to 1.8 million barrels (245 thousand tons) of different types of Crude Oil, owned by the Second Party, by way of exchange with the same quantity of different types of Crude Oil owned by the Company at that date or within short periods as set out in the Agreement.
2. The Company will pay periodic payments to the Second Party ("Availability Fees") for its undertakings in the agreement. The Availability Fees will be recognized as an operating expense in the statement of income over the Agreement Period, and they are expected to amount to millions of US dollars per year (and considering the amounts that the Company would have covered if it would have held similar quantities of crude oil inventory itself, the additional cost is immaterial).
3. To fulfill its obligations under the Agreement, the Second Party will store the Crude Oil in the facilities of an infrastructure supplier, and it will have the option of storing inventory of up to 750,000 barrels on the Company's premises, under the terms of the storage agreement with the infrastructure supplier and the availability and storage agreements with the Company.
4. Under the agreement, the Company granted the Second Party a put option, whereby the Second Party may sell to the Company, at the end of the Agreement Period, crude oil as set out in the Agreement (up to 1.8 million barrels) at the market price of crude oil at the end of the Agreement Period. At the reporting date, based on spot market price of crude oil, the value of the inventory in the Agreement is estimated at USD 95 million.
5. To secure its obligations under the Agreement, subsequent to the reporting date, the Company provided a bank guarantee of USD 10 million to the Second Party.
6. Each party may terminate the Agreement before the end of the Agreement Period, under certain circumstances. If the Company terminates the Agreement before the end of the Agreement Period, it may be required to pay cancellation fees as set out in the Agreement.
7. The Agreement allows the Company to reduce, over the period of the Agreement, quantities in its crude oil inventory that it would have held in the absence of an inventory availability transaction, resulting in optimal management of its operating inventory as well as to benefit from the financial advantages arising from smaller inventory of 1.8 million barrels, release of cash amounting to USD 95 million, and diversification of financing sources.

Notes to the Consolidated Financial Statements
USD thousands

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

B. Agreements (contd.)

Since the Second Party bears the yields and material risks relating to ownership of the inventory relevant to the agreement, and controls the inventory, this inventory is not recognized in the Company's financial statements, but is treated as contract performance (an off-balance sheet agreement).

It should be noted that subsequent to the reporting period, before the Agreement came into effect, the inventory availability agreement set out in sections 20C(5)a) and 20C(5)b) to the Annual Financial Statements came to an end, and under the put option provided by the Second Party to the Agreement, the Company acquired inventory of 2.25 million barrels, in a financial scope of USD 120 million, based on the spot market price of crude oil at the termination date of the Agreement, instead of the acquisition of inventory in the ordinary course of its business. On the other hand, the bank guarantee provided by the Company for the inventory availability agreement, which amounted to USD 55 million, was released.

C. Guarantees and liens

Further to Note 20A to the Annual Statements, there were no significant changes in the Group's guarantees and liens in and subsequent to the reporting period, other than the following: (1) changes in the ordinary course of business in the amount of open short-term documentary letters of credit to suppliers; (2) release of bank guarantees for infrastructure fees for Haifa Port amounting to USD 33 million, as set out in section A1(a) above; (3) provision of a bank guarantee for the new inventory availability agreement amounting to USD 10 million, as set out in section B above; (4) release of the bank guarantee for the inventory availability agreement that ended, amounting to USD 55 million, as set out in section B above.

NOTE 6 - FINANCIAL COVENANTS

A. The Company

Further to Note 13C(1) to the Annual Statements, the following financial covenants, as defined in the Note, apply to the banks by virtue of the syndication agreement and to the holders of private debentures as at March 31, 2017:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated adjusted equity (USD million)	>	750	987.7
Consolidated adjusted equity to total consolidated statement of financial position	>	20.0%	28.5%
Consolidated ratio (net financial debt + factoring receivables) to consolidated adjusted EBITDA	>	5.0	3.2
Consolidated principal and interest cover ratio	>	1.1	2.6
Separate cash statement (USD millions)	>	75	223.7

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Notes to the Consolidated Financial Statements
USD thousands

NOTE 6 - FINANCIAL COVENANTS (CONTD.)**A. The Company (contd.)**

In addition, as set out in Note 13C(2) and 14C to the Annual Statements, as at March 31, 2017, the Company is subject to financial covenants under a long-term loan agreement with a foreign bank that provided financing for establishment of the hydrocracker and under the deeds of trust of the debentures (Series D-G). Definitions and calculation of the covenants for the loan and for debentures (Series D-G) are similar to the definitions and calculation of the covenants in the syndication agreement as set out above. Given the covenants applicable to the Company in the syndication agreement and the financial covenants set out for the loan from the foreign bank and the deeds of trust for the debentures (Series D-G), the Company believes that it is unlikely that the covenants with the foreign bank or with the debenture holders (Series D-G) will be breached without breaching the covenants in the syndication agreement.

As at March 31, 2017, the Company is in compliance with the financial covenants for the bank agreements, private debentures and debentures (Series D-G).

Further to Note 14C to the Annual Statements, for the Company's debentures (Series G) only, the following financial covenants (as defined in the Note) apply to Carmel Olefins as at March 31, 2017:

	<u>Required</u>	<u>Required ratio/amount</u>	<u>Actual ratio/amount</u>
Equity (USD millions)	>	200	540.4
Total separate financial debt (USD millions)	>	550	178.0
Consolidated principal and interest cover ratio	>	1	8.3

B. Carmel Olefins

Further to Note 13D(1) to the Annual Statements, the following financial covenants, as defined in the Note, apply to the banks as at March 31, 2017:

	<u>Required</u>	<u>Required ratio/amount</u>	<u>Actual ratio/amount</u>
Consolidated intangible equity (USD million)	>	220	524.6
Consolidated tangible equity of net consolidated tangible total balance sheet	>	24%	62.5%
Financial debt to consolidated EBITDA	>	4.5	1.1
Consolidated principal and interest cover ratio	>	1.1	8.3

As at March 31, 2017, Carmel Olefins is in compliance with the financial covenants that were set, including for the Company's debentures (Series G), as set out in section A above.

Notes to the Consolidated Financial Statements
USD thousands

NOTE 6 - FINANCIAL COVENANTS (CONTD.)**C. Gadiv**

Further to Note 13E to the Annual Statements, the following financial covenants, as defined in the Note, apply to Gadiv as at March 31, 2017:

	<u>Required</u>	<u>Required ratio/amount</u>	<u>Actual ratio/amount</u>
Net financial debt to EBITDA	≥	4.5	1.8
Tangible equity to tangible balance sheet	>	25%	64.8%
Tangible equity (USD millions)	>	75	120.2

As at March 31, 2017, Gadiv is in compliance with the financial covenants that were established.

D. Ducor

Further to Note 13A(1)b to the Annual Statements, subsequent to the reporting date, the preconditions in the financing agreement between Ducor and a bank were fulfilled and the agreement came into force.

Notes to the Consolidated Financial Statements
USD thousands

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, deposits, financial derivatives, bank overdraft, short-term loans and borrowings, trade payables, other payables, a liability for a finance lease and marketable debentures (with the exception of Series D-F), 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:

	<u>Adjusted par value</u>	<u>March 31, 2017</u>		
		<u>Carrying amount</u>	<u>Fair value level 1</u>	<u>Fair value level 2</u>
Financial liabilities				
Private debentures ⁽³⁾	10,155	10,155	--	10,705
Marketable debentures (Series F) ⁽¹⁾⁽³⁾	310,706	315,246	348,490	--
Marketable debentures (Series D-E) ⁽¹⁾⁽⁴⁾	365,865	378,497	413,785	--
Bank loans ⁽²⁾	506,369	492,377	--	525,079
	<u>1,193,095</u>	<u>1,196,275</u>	<u>762,275</u>	<u>535,784</u>

- (1) The fair value and the adjusted par value are based on the TASE price as at March 31, 2017.
- (2) The carrying amount is presented net of costs of raising the loans.
- (3) The carrying amount of the private debentures and of debentures (Series E) is presented at amortized cost (net of raising costs and premium/discounting).
- (4) The carrying amount of debentures (Series D and E) is presented at amortized cost (net of raising costs and premium/discounting) after application of fair-value hedge accounting.

	<u>March 31, 2017</u>	
	<u>Liability value (par value)</u>	<u>Carrying amount</u>
Debentures at fair value:		
Marketable debentures (Series A)	229,399	244,604
Marketable debentures (Series G) (*)	105,014	113,818
	<u>334,413</u>	<u>358,422</u>

- (*) In accordance with the provisions of the deed of trust, a total of USD 35 million for payments of the principal of debentures (Series G) will be redeemed on April 1, 2018, instead of on March 31, 2018, which is not a business day, and accordingly, was recognized under long-term liabilities.

Notes to the Consolidated Financial Statements
USD thousands

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

	March 31, 2016			
	Par value Adjusted	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Private debentures ⁽³⁾	14,280	14,280	--	15,130
Marketable debentures (Series F) ⁽¹⁾⁽³⁾	234,913	237,035	256,184	--
Marketable debentures (Series D-E) ⁽¹⁾⁽⁴⁾	311,260	319,056	344,189	--
Bank loans ⁽²⁾	669,005	655,636	--	672,555
	<u>1,229,458</u>	<u>1,226,007</u>	<u>600,373</u>	<u>687,685</u>

(1) The fair value and the adjusted nominal value are based on the TASE price as at March 31, 2016.

(2) The carrying amount is presented net of costs of raising the loans.

(3) The carrying amount of the private debentures and of debentures (Series E) is presented at amortized cost (net of raising costs and premium/discounting).

(4) The carrying amount of debentures (Series D and E) is presented at amortized cost (net of raising costs and premium/discounting) after application of fair-value hedge accounting.

	March 31, 2016	
	Liability value (par value)	Carrying amount
Debentures at fair value:		
Marketable debentures (Series A)	283,288	300,636
Marketable debentures (Series G)	134,487	144,902
	<u>417,775</u>	<u>445,538</u>

	December 31, 2016			
	Adjusted par value	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Private debentures ⁽³⁾	10,727	10,727	--	11,273
Marketable debentures (Series F) ⁽¹⁾⁽³⁾	310,706	315,522	333,351	--
Marketable debentures (Series D-E) ⁽¹⁾⁽⁴⁾⁽⁵⁾	345,598	370,422	377,752	--
Bank loans ⁽²⁾	482,057	467,119	--	475,946
	<u>1,149,088</u>	<u>1,163,790</u>	<u>711,103</u>	<u>487,219</u>

(1) The fair value of the marketable debentures and the adjusted nominal value are based on the TASE price as at March 31, 2016.

(2) The carrying amount is presented net of costs of raising the loans.

(3) The carrying amount of the private debentures and of debentures (Series E) is presented at amortized cost (net of raising costs and premium/discounting).

(4) The carrying amount of debentures (Series D and E) is presented at amortized cost (net of raising costs and premium/discounting) after application of fair-value hedge accounting.

(5) The carrying amount includes principal payment of USD 18 million, which was postponed until January 1, 2017, as set out in Note 14B to the Annual Statements.

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Notes to the Consolidated Financial Statements
USD thousands

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

	December 31, 2016		
	Adjusted par value	Carrying amount	Fair value
Debentures at fair value:			
Marketable debentures (Series A) ⁽¹⁾	217,125	260,265	229,247
Marketable debentures (Series G)	132,527	142,886	142,886
	<u>349,652</u>	<u>403,151</u>	<u>372,133</u>

(1) As at December 31, 2016, the fair value of the marketable debentures (and the balance of the adjusted nominal value, respectively), which is determined by the quoted TASE price, does not correspond with the carrying amount of the principal of USD 31 million, the payment date of which was postponed to January 1, 2017 as set out in Note 14B to the Annual Statements.

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

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 Statements.

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Derivatives used for accounting hedging				
CCIRS	--	19,728	--	19,728
Derivatives for margins	--	--	3,131	3,131
Derivatives that are not used for accounting hedging				
CCIRS	--	14,628	--	14,628
Interest rate swaps	--	196	--	196
Derivatives for inventory	4,991	--	--	4,991
Derivatives for margins	--	--	755	755
	<u>4,991</u>	<u>34,552</u>	<u>3,886</u>	<u>43,429</u>
<u>Financial liabilities</u>				
Non-derivative				
Marketable debentures (Series A, G)	358,422	--	--	358,422
Derivatives used for accounting hedging				
CCIRS	--	1,274	--	1,274
Derivatives for inventory (*)	7,850	--	--	7,850
Derivatives that are not used for accounting hedging				
CCIRS	--	6,726	--	6,726
Derivatives for inventory and margins	1,899	7,409	--	9,308
Forward contracts	--	3,311	--	3,311
Interest rate swaps	--	37	--	37
	<u>368,171</u>	<u>18,757</u>	<u>--</u>	<u>386,928</u>

(*) Further to Note 3 above, in the reporting period, a loss of USD 10 million (before tax) for the effective share of the fair value change of futures on Brent was recognized as a hedging reserve.

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Notes to the Consolidated Financial Statements
USD thousands

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

	March 31, 2016			Total
	Level 1	Level 2	Level 3	
<u>Financial assets</u>				
Derivatives used for accounting hedging				
CCIRS	--	7,816	--	7,816
Derivatives that are not used for accounting hedging				
CCIRS	--	11,554	--	11,554
Derivatives for inventory and margins	369	--	1,475	1,844
Financial assets at fair value through other comprehensive income				
Marketable shares	55	--	--	55
	<u>424</u>	<u>19,370</u>	<u>1,475</u>	<u>21,269</u>
<u>Financial liabilities</u>				
Non-derivative				
Marketable debentures (Series A, G)	445,538	--	--	445,538
Derivatives used for accounting hedging				
CCIRS	--	2,519	--	2,519
Derivatives for inventory	2,715	--	--	2,715
Derivatives that are not used for accounting hedging				
CCIRS	--	19,162	--	19,162
Derivatives for inventory	5,680	4,890	--	10,570
Forward contracts	--	6,431	--	6,431
Interest rate swaps	--	691	--	691
	<u>453,933</u>	<u>33,693</u>	<u>--</u>	<u>487,626</u>

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Notes to the Consolidated Financial Statements
USD thousands

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

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Derivatives used for accounting hedging				
CCIRS	--	4,212	--	4,212
Derivatives for inventory	2,371	--	--	2,371
Derivatives that are not used for accounting hedging				
CCIRS	--	8,187	--	8,187
Interest rate swaps	--	201	--	201
Forward contracts	--	1,689	--	1,689
Derivatives for margins	--	--	5,595	5,595
	<u>2,371</u>	<u>14,289</u>	<u>5,595</u>	<u>22,255</u>
<u>Financial liabilities</u>				
Non-derivative				
Marketable debentures (Series A, G) (*)	403,151	--	--	403,151
Derivatives used for accounting hedging				
CCIRS	--	8,719	--	8,719
Derivatives that are not used for accounting hedging				
CCIRS	--	20,901	--	20,901
Derivatives for inventory and margins	2,639	6,150	--	8,789
Interest rate swaps	--	45	--	45
	<u>405,790</u>	<u>35,815</u>	<u>--</u>	<u>441,605</u>

(*) As at December 31, 2016, the carrying amount of the Debentures (Series A) includes a principal of USD 31 million, the payment date of which was postponed to January 1, 2017

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

- A.** On January 5, 2017, the general meeting approved, after the approval of the Company's Board of Directors, the distribution of a dividend amounting to USD 85 million on the basis of the Company's financial statements as at September 30, 2016, and on January 22, 2017, the dividend was paid. Further to Note 16F(1) to the Annual Statements, on February 15, 2017, the Company paid a tax liability of NIS 30 million (approximately USD 8 million) for the distribution of a gross dividend of NIS 120 million (approximately USD 32 million) arising from exempt earnings. Accordingly, the Group recognized tax expenses of USD 8 million in the financial statements. The balance of the distributed dividend (beyond the net amount of NIS 90 million) is not from profits that were entitled to benefits by virtue of the Encouragement of Capital Investments Law, 1959.
- B.** As set out in Notes 27B(3) and 27B(5) to the Annual Statements, in the reporting period, the Company's compensation committee and Board of Directors approved bonuses for the chairman of the Board of Directors, Ovadia Eli and the CEO of the Company, Avner Maimon for 2016, amounting to NIS 993 thousand and NIS 1,489 thousand, respectively. The Company recognized these expenses in the annual financial statements as at December 31, 2016.

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Notes to the Consolidated Financial Statements
USD thousands

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

- C. For information about the developments in agreements, legal claims and other contingencies, including in environmental quality and changes in guarantees, in and subsequent to the reporting period, see Note 5.
- D. On April 9, 2017, S&P Maalot upgraded the Company's rating and the rating of its public debentures, from ilBBB+ to ilA- with stable outlook.
- E. On April 26, 2017, the Company issued NIS 625,207,000 par value debentures (Series I) linked to the USD. The proceeds from the offering, net of costs of raising the capital, amounted to USD 170 million. Debentures (Series I) were rated ilA- by S&P Maalot with stable outlook.

The debentures (Series I) are repayable in 16 unequal semi-annual payments, payable on March 31st and September 30th of each of the years 2018-2025. For each of the first to the sixth payments (inclusive), 2.5% of the principal will be repaid, for the seventh and the eighth payments, 7.5% of the principal will be repaid, for each of the ninth to the twelfth payments (inclusive), 2.5% of the principal will be repaid, and in each of the thirteenth to the last payments, 15% of the principal will be repaid.

The Debentures (Series I) bear fixed annual interest at a rate of 4.7% and are linked to the US dollar.

The interest on the unpaid balance of the debenture principal will be paid twice a year on March 31st and September 30th of each of the years 2017-2025 (inclusive), with the first interest payment due on September 30, 2017 and the final payment due together with the final principal repayment on September 30, 2025.

The financial covenants, grounds for calling for immediate repayment, early redemption rules and the restrictions on distribution of a dividend, as well as other terms in the deed of trust of Debentures (Series I), are fundamentally the same as the terms of debentures (Series E-F) set out in Note 14C to the Annual Statements.

- F. As at March 31, 2017, an impairment loss of USD 4.5 million was recognized, mainly attributable to fuel products in the fuel segment.
- G. Further to Note 6 to the Annual Statements regarding the factoring agreements of the Company and its subsidiaries, in the reporting period, Carmel Olefins signed an agreement with a bank for the non-recourse sale of certain trade receivables, which are secured by credit insurance, in a maximum amount of USD 15 million, such that as at the reporting date, Carmel Olefins has agreements for the sale of trade receivables under factoring agreements in a maximum cumulative amount of USD 90 million. As at March 31, 2017, the Company, Carmel Olefins and Gadiv derecognized an amount of USD 148 million, USD 63 million and USD 6 million, respectively, from their trade receivables, in accordance with IFRS 9.
- H. Subsequent to the reporting period, binding agreements were reached between the Company and most of its insurers, according to which the Company will receive insurance indemnification for loss of profits amounting to USD 5.5 million due to the malfunction in the hydrocracker in prior years. Accordingly, the Company will recognize revenue for this indemnification in the second quarter of 2017.
- I. On April 20, 2017, the Company received notice of the declaration of a labor dispute in the Company and its subsidiaries, in accordance with section 5A and 5B of the Settlement of Labor Disputes Law (in this section below: "the Law"). The Company and the employees' representatives are negotiating the issues underlying the notification of the labor dispute, in which the workers' union of the subsidiary Carmel Olefins Ltd. notified the Company's management that it had notified the Histadrut New Federation of Labor of its withdrawal from the labor dispute. As at the publication date of this report, the cooling-off period set out in the Law has passed and the negotiations have not yet come to an end. To date, the Company's employees have not taken any organizational steps.

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Bazan Ltd.

**Condensed Separate Interim
Financial Information
As at March 31, 2017**

(Unaudited)

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



Somekh Chaikin
7 Nachum Het Street
P.O Box 15142
Haifa 3190500.
04 861 4800

To
the Shareholders of Bazan Ltd.

Dear Sirs,

Re: Special auditors' report on the separate interim financial information pursuant to Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 1970

Introduction

We have reviewed the separate interim financial information presented pursuant to Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 1970, of Bazan Ltd. ("the Company") as at March 31, 2017 and for the three months then ended. The separate interim financial information is the responsibility of the Company's management and board of directors. Our responsibility is to express an opinion on the separate interim financial information based on our review.

Review scope

We conducted our review in accordance with Accounting Standard No. 1 – 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 separate 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 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 separate interim financial information is not prepared, in all material respects, in accordance with the provisions of Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our above opinion, we draw attention to Note 3 to the separate financial information (including by way of reference to Note 5 to the separate financial information for 2016 and to Note 20 to the consolidated financial statements of the Company for 2016) with regard to legal, administrative and other proceedings, other contingencies and laws and regulations relating to environmental protection. Based on the opinions of their legal counsels, the Company's management believes that it is not possible at this stage to assess the foregoing impact on the results of operations and on the financial situation, if any, and therefore no provision regarding this matter was included in the financial statements.

Somekh Chaikin
Certified Public Accountants

Haifa, May 21, 2017

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Bazan Ltd.

Condensed Separate Interim Information on Financial Position
USD thousands

	At		
	March 31, 2017	March 31, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	188,580	229,166	249,899
Deposits	40,383	52,018	80,370
Customers	244,229	270,119	305,347
Other receivables	50,227	47,532	15,424
Current maturities of bank loans	10,882	33,622	44,014
Financial derivatives	7,653	3,401	3,932
Inventories	499,699	271,255	446,270
Total current assets	<u>1,041,653</u>	<u>907,113</u>	<u>1,145,256</u>
Non-current assets			
Investments with respect to investees, net	827,288	754,032	805,484
Loan to Haifa Early Pensions Ltd.	47,666	50,838	48,178
Long term loans and debit balances	355	15,891	6,777
Loans to Carmel Olefins	152,816	107,386	149,428
Financial derivatives	26,881	14,889	9,137
Deferred tax assets, net	24,813	44,175	22,066
Property, plant and equipment, net	1,291,016	1,241,247	1,278,725
Intangible assets and deferred expenses, net	10,610	10,049	10,638
Total non-current assets	<u>2,381,445</u>	<u>2,238,507</u>	<u>2,330,433</u>
Total assets	<u>3,423,098</u>	<u>3,145,620</u>	<u>3,475,689</u>

Ovadia Eli
Chairman, Board of Directors

Avner Maimon
CEO

Yisrael Lederberg
CFO

Date of approval of the separate interim financial information: May 21, 2017

The additional information attached to the separate interim financial information is an integral part thereof.

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Bazan Ltd.

Condensed Separate Interim Information on Financial Position
USD thousands

	At		
	March 31, 2017	March 31, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current liabilities			
Loan to subsidiary (including current maturities)	158,424	288,651	237,765
Trade payables	703,413	435,629	657,359
Other payables	109,447	105,758	105,487
Financial derivatives	18,543	16,641	20,013
Provisions	35,626	28,268	31,379
Total current liabilities	<u>1,025,453</u>	<u>874,947</u>	<u>1,052,003</u>
Non-current liabilities			
Liabilities to banks, net	410,672	414,061	403,944
Debentures, net	963,137	877,707	918,834
Other long-term liabilities	20,027	25,156	18,315
Financial derivatives, net	9,395	18,309	15,109
Employee benefits, net	32,186	31,555	30,387
Total non-current liabilities	<u>1,435,417</u>	<u>1,366,788</u>	<u>1,386,589</u>
Total liabilities	<u>2,460,870</u>	<u>2,241,735</u>	<u>2,438,592</u>
Capital			
Share capital	805,282	805,282	805,282
Share premium	31,962	31,962	31,962
Capital reserves	32,486	37,542	41,286
Retained earnings	92,498	29,099	158,567
Total capital	<u>962,228</u>	<u>903,885</u>	<u>1,037,097</u>
Total liabilities and capital	<u>3,423,098</u>	<u>3,145,620</u>	<u>3,475,689</u>

The additional information attached to the separate interim financial information is an integral part thereof.

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Bazan Ltd.

Condensed Separate Interim Information on Separate Interim Comprehensive Income
USD thousands

	Three months ended		Year ended
	March 31, 2017	March 31, 2016	December 31, 2016
	(Unaudited)		(Audited)
Revenue	1,037,240	767,122	3,693,639
Cost of sales	979,916	730,325	3,437,583
Gross income	57,324	36,797	256,056
Selling and marketing expenses	6,427	7,766	27,693
General and Administrative Expenses:	6,248	9,697	29,650
Other expenses, net	--	--	1,419
Voluntary redundancy (revenue) expenses	--	(1,501)	4,422
Operating profit	44,649	20,835	192,872
Financing revenues	(4,288)	(21,218)	(13,199)
Finance expenses	46,012	51,030	122,412
Financing expenses, net	41,724	29,812	109,213
Company's share in profits (losses) of investees, net of tax	22,907	32,109	88,626
Income before taxes on income	25,832	23,132	172,285
Taxes on income (tax benefit)	6,901	(4,996)	14,441
Profit for the period	18,931	28,128	157,844
Items of other comprehensive income (loss) after initial recognition in comprehensive income is transferred to profit or loss			
Other comprehensive income (loss) for investees, net of tax	(935)	(574)	616
Effective share of the change in fair value of cash flow hedging, net of tax	(8,923)	--	574
Changes in fair value hedging costs, net of tax	(1,150)	1,464	3,544
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	(11,008)	890	4,734
Items of other comprehensive income (loss) not transferred to profit or loss			
Reclassification of defined benefit plan, net to tax	--	--	(34)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	1,857	704	(929)
Other comprehensive loss for investees, net of tax	--	--	(214)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	5	14	(3)
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	1,862	718	(1,180)
Total income for the period	9,785	29,736	161,398

The additional information attached to the separate interim financial information is an integral part thereof.

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Bazan Ltd.

Condensed Separate Interim Information of Cash Flows
USD thousands

	Three months ended		Year ended
	March 31,	March 31,	December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
Cash flows from operating activities			
Profit for the period	18,931	28,128	157,844
Adjustments to cash flows from operating activities:			
Revenue and expenses not involving cash flows (Appendix A – section A)	40,763	4,716	126,979
	59,694	32,844	284,823
Changes in assets and liabilities (Appendix A – section B)	55,216	(38,205)	(53,351)
Net income tax paid	(8,072)	(178)	(794)
Net cash flows from (used for) operating activities	106,838	(5,539)	230,678
Cash flows from investment activities			
Interest received	4,939	6,394	16,618
Decrease (increase) in deposits, net	35,528	(18,824)	(48,857)
Dividend received from investees	299	43,179	52,589
Repayment of long-term loans from others, net	11	22	132
Repayment of loan from Carmel Olefins	36,942	32,880	34,350
Loans provided to Carmel Olefins	--	--	(57,335)
Loans provided to an investee	(23,497)	--	--
Repayment of loan from Haifa Early Pensions Ltd.	--	--	4,035
Investments in property plant and equipment (including periodic maintenance) (**)	(29,580)	(13,496)	(104,988)
Purchase of intangible assets and deferred expenses	(272)	(251)	(1,725)
Net cash from (used for) investing activities	24,370	49,904	(105,181)
Cash flow from financing activities			
Short-term borrowing, net	(525)	(3,844)	(3,220)
Receipt of deposits from customers, net	12,731	2,373	8,747
Interest paid (*)	(42,601)	(15,788)	(79,679)
Derivative transactions, net	1,053	(376)	(10,551)
Decrease in cash from funding activities with investees, net	(1,760)	(25,385)	(72,511)
Receipt of long-term bank loans	16,457	25,000	411,613
Repayment of long-term bank loans	(8,250)	(18,313)	(458,622)
Repayment of debentures (*)	(84,987)	(34,754)	(69,106)
Issue of debentures (less issuance expenses)	--	--	144,607
Dividend paid	(85,000)	--	--
Net cash used in finance activities	(192,882)	(71,087)	(128,722)
Net decrease in cash and cash equivalents	(61,674)	(26,722)	(3,225)
Effect of exchange rate fluctuations on cash and cash equivalents	355	1,473	(1,291)
Cash and cash equivalents at beginning of period	249,899	254,415	254,415
Cash and cash equivalents at end of period	188,580	229,166	249,899

(*) As of December 31, 2016, principal and interest payments in respect of debentures in the amount of USD 48,804 and USD 27,186 thousand, respectively, were deferred pursuant to the provisions of the deeds of trust to January 1, 2017, as their contractual maturity date was not a business day.

(**) In the first quarter of 2017 periodic maintenance services were conducted on part of the Company's plants, including the CCR plant, the direct cost of which amounted to USD 26 million. As of March 31, 2017 the amount of USD 15 million is yet to be paid. For further information regarding the cost of the periodic maintenance services carried out in 2016, see Note 11A to the annual consolidated financial statements.

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Bazan Ltd.

Condensed Separatre Interim Information of Cash Flows (contd.)
USD thousands

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

	Three months ended		Year ended
	March 31, 2017	March 31, 2016	December 31, 2016
	(Unaudited)		(Audited)
A. Income and expenses not included in cash flows			
Depreciation and amortization	19,802	19,099	81,765
Financing expenses, net	48,440	20,301	106,126
Net changes in fair value of derivatives	(7,062)	(1,688)	(3,108)
Changes in fair value of a loan to Haifa Early Pensions Ltd.	(3,249)	(2,446)	(1,079)
Share in earnings of investees, net	(22,907)	(32,109)	(88,626)
Other expenses	--	--	1,419
Loss (gain) and change in inventory hedge deposits, net	(1,377)	6,190	14,752
Share-based payments	215	365	1,289
Taxes on income (tax benefit)	6,901	(4,996)	14,441
	<u>40,763</u>	<u>4,716</u>	<u>126,979</u>
B. Changes in assets and liabilities			
Decrease (increase) in trade receivables	61,118	(38,723)	(76,694)
Decrease (increase) in other receivables	(7,167)	(4,820)	23,681
Decrease (increase) in inventory	(53,339)	78,350	(93,361)
Increase (decrease) in trade payables	46,377	(75,516)	124,261
Increase (decrease) in other payables and provisions	6,466	1,375	(31,095)
Increase (decrease) in employee benefits, net	1,761	1,129	(143)
	<u>55,216</u>	<u>(38,205)</u>	<u>(53,351)</u>

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Additional Information to the Condensed Separate Interim Financial Information
USD thousands

ADDITIONAL INFORMATION

1. General

A. The condensed separate interim financial information of the Company as at March 31, 2015 are presented in accordance with the provisions of Regulation 9C and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970 relating to the condensed separate interim financial information of a company. This information should be read in conjunction with the separate financial information as at December 31, 2016 (the "Annual Reports") and the condensed interim consolidated financial statements as at March 31, 2017 ("the Consolidated Financial Statements").

B. Definitions:

The Company - Bazan Ltd.

Investees: Subsidiaries and companies in which the Company's investment is stated in the financial statements on the equity basis

2. Significant Accounting Standards applied in the Separate Interim Financial Information

The accounting standards applied in these condensed interim separate financial information are in accordance with the accounting standards set out in Note 2 to the Annual Reports and Note 3 to the Consolidated Financial Statements.

3. Contingent Liabilities, Agreements, Guarantees, and Liens

For details see Note 5 to the Consolidated Financial Statements.

4. Financial covenants

For details see Note 6 to the Consolidated Financial Statements.

5. Significant events during and subsequent to the reporting period

For details see Notes 5 and 8 to the Consolidated Financial Statements.