OIL REFINERIES LTD

Condensed Consolidated Interim Financial Statements as of March 31, 2018

(Unaudited)

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

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Bazan Ltd.

Contents

Directors' Report on the State of the Company's Affairs for the Period ended March 31, 2018

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, 2018 ("the Reporting Period"). This report is presented under the assumption that the entire interim report and the entire 2017 Periodic Report, including the description of the Corporation's business for 2017, are also 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 - Carmel Olefins (through Carmel Olefins), Aromatics (through Gadiv) and Polymers - Ducor (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).

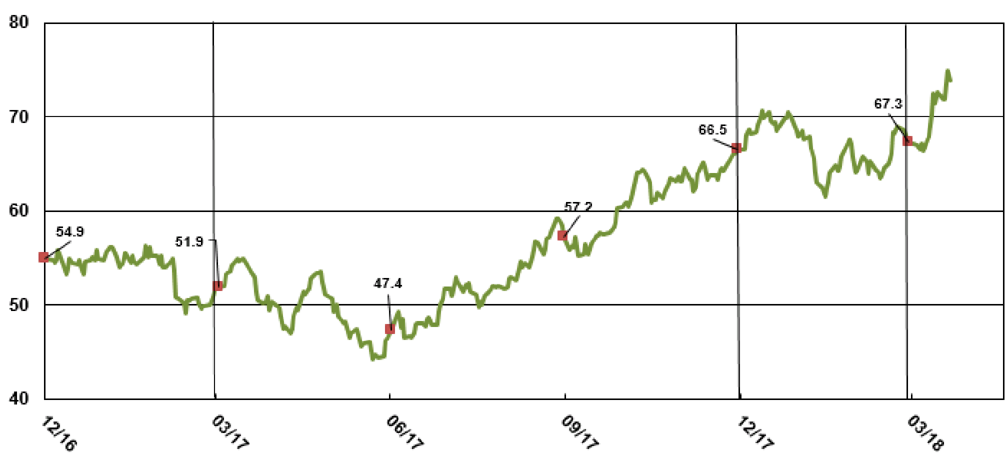
The subsidiaries' plants (with the exclusion of Ducor, which is located in the Netherlands) are downstream facilities of the Company and they receive most or all of the required feedstock from the Company on an ongoing basis through pipelines, and return all or part of the products of their facilities 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 2017-2018 (USD/barrel)



Source: Reuters

Average price of Brent crude (USD/barrel)

1-3.2018	1-3.2017	Change
66.8	53.7	24%

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In the first quarter of 2018, the upward trend in the price of Brent crude oil (“Brent"), which began in the second half of 2017 and was affected mainly by the decision of OPEC member states to limit oil production and other countries that also adopted this decision, such as Russia, and their compliance with the target limits. At the same time, increase in oil production by non-OPEC countries continues, especially the US, which is curbing the rise in oil prices. In the Reporting Period, Brent traded at between USD 60 - USD 70 per barrel.

At the end of the first quarter of 2018, the Brent price was set at $ 67 per barrel. Subsequent to Reporting Date, the Brent price rose to above USD 70 per barrel following the ratification of OPEC production limitations and the tensions in the Middle East and Far East. Close to Reporting Date, the Brent price was fixed at USD 79 per barrel.

In the Reporting Period the price of Ural crude, which is heavy crude oil, weakened compared to the price of Brent (which is light crude oil), with average disparity of USD 1.7 per barrel, compared with USD 1.5 in the corresponding period last year. The difference in the price of heavy crude compared with light crude was extremely volatile, ranging between USD 0 and USD 2.7 per barrel, and is mainly due to the increase in the supply of Ural crude oil substitutes.

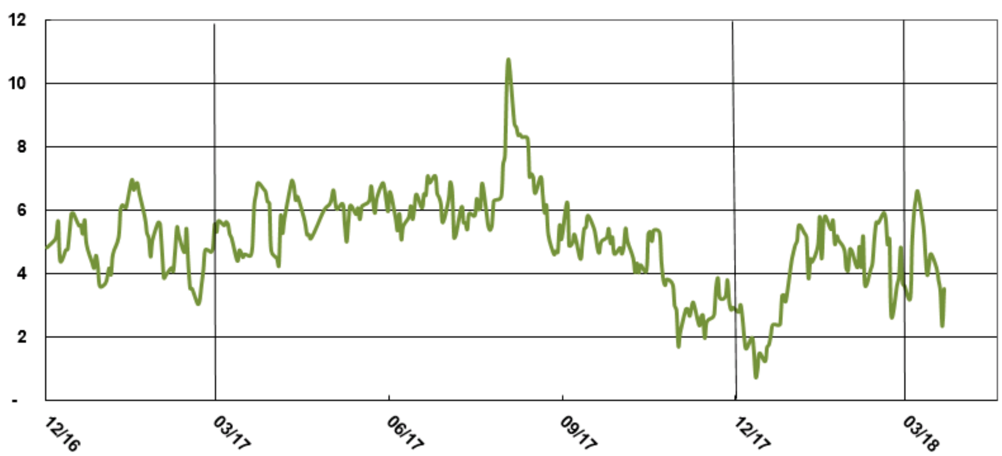
In the first quarter of 2017, the futures market for crude oil remained contango at average rate of USD 0.3 per barrel per month. As of the second quarter of 2017, there has been a backwardation shift in the market, and this trend continued in the Reporting Period at an average rate of USD 0.3 per barrel per month. Subsequent to Reporting Date, the market retreated at an average rate of USD 0.5 per barrel per month, mainly as a result of the sharp rise in oil prices.

<u>Refining margin</u>

Reuters Ural Margin

The Reuters Ural margin is a reference margin published by Reuters for a typical Mediterranean refinery that only cracks Ural crude, has no hydrocracking capacity, does not make full use of natural gas, and purchases crude oil and sells its refined products on the same day. Therefore, there may be significant differences between the Reuters Ural margin and the Company’s refining margins. Comparison this margin could provide insight into the developing trends of the Company's refining margin, and does not constitute an accurate parameter for estimating the Company's refining margin in the short term.

Reuters Ural Margin[1] in 2017-2018 (USD per barrel)



Source: Reuters

[1] The Reuters Ural margin is a reference margin published by Reuters for a typical refinery in the Mediterranean region with the capability of cracking Ural crude oil.

Average Reuters Ural margin (USD/barrel)

1-3.2018	1-3.2017	Change
4.0	5.0	- 20%

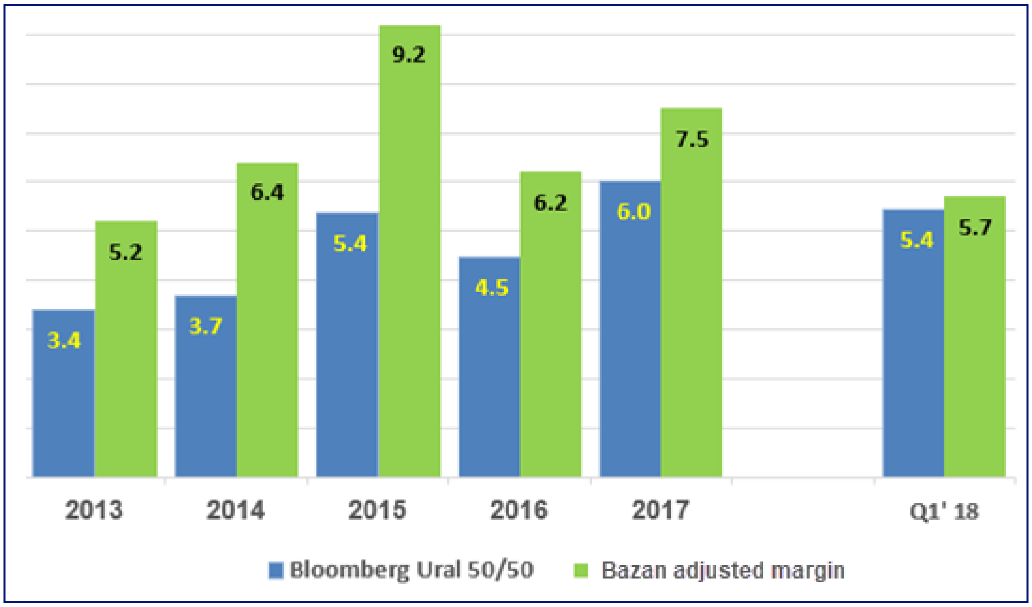
The Reuters Ural margin weakened in the Reporting Period compared with the corresponding period last year. The main cause is the sharp rise in the price of oil, which led to a temporary decline in margins. Subsequent to Reporting Date and until close to date of publication of the report, the average Reuters Ural margin was USD 3 per barrel.

Weighted Bloomberg Ural Margin

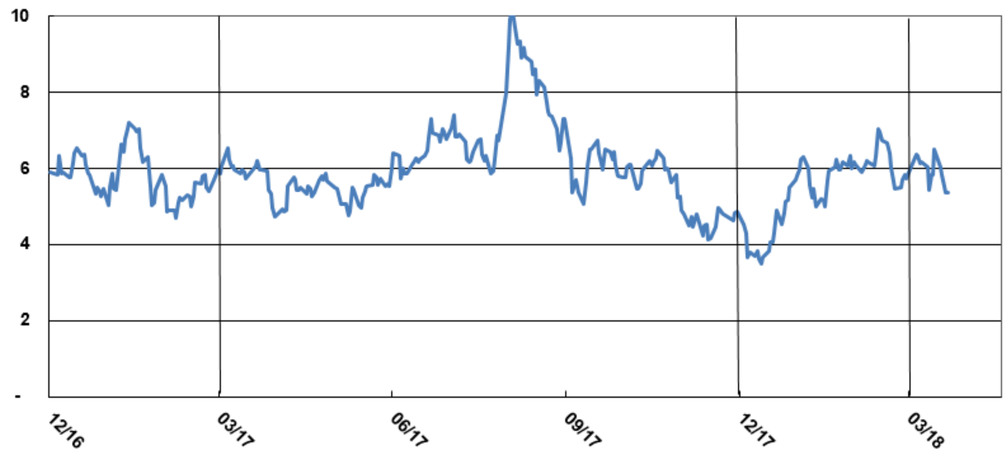
In September 2017 the Bloomberg Media Group began publishing regional refinery margins, including Mediterranean region margins. These margins are calculated for a variety of crude oil types and distillation configurations. Since publication began, the Company has considered whether the margins published by Bloomberg are appropriate for the nature of its operations, and based on its review the Company believes that the margin that probably provides a better understanding of the development of the Company's refining margin is a weighted average (50/50) of two Mediterranean Ural refining margins: (1) Med Urals HY Margin - Hydrocracking; and (2) Med Urals FCC Margin - Fluid catalytic cracking ("Weighted Bloomberg Ural margin").

Unlike the Reuters Ural margin, the Weighted Bloomberg Ural margin (based on the data published by Bloomberg) includes partial hydrocracking capacity and full use of natural gas as source of energy. Nonetheless, there may be significant disparity between the Bloomberg Ural margin and the Company's refining margins, among other things, because Bazan's refining facility is different, it refines a variety of types of crude oil and interim materials by optimization of its facilities, as well as the prices of natural gas, crude oil and distillates, which are different from those used for calculating the Bloomberg Ural margin. Therefore, the comparison with this margin does not constitute an accurate benchmark for estimating the Company's refining margin, particularly for short periods.

Chart of the Weighted Bloomberg Ural margins and Bazan's adjusted refining margin (USD per barrel) from the beginning of 2013 (date the hydrocracker became operable and the transition to the use of natural gas):



Weighted Bloomberg Ural Margin in 2017-2018 (USD per barrel)



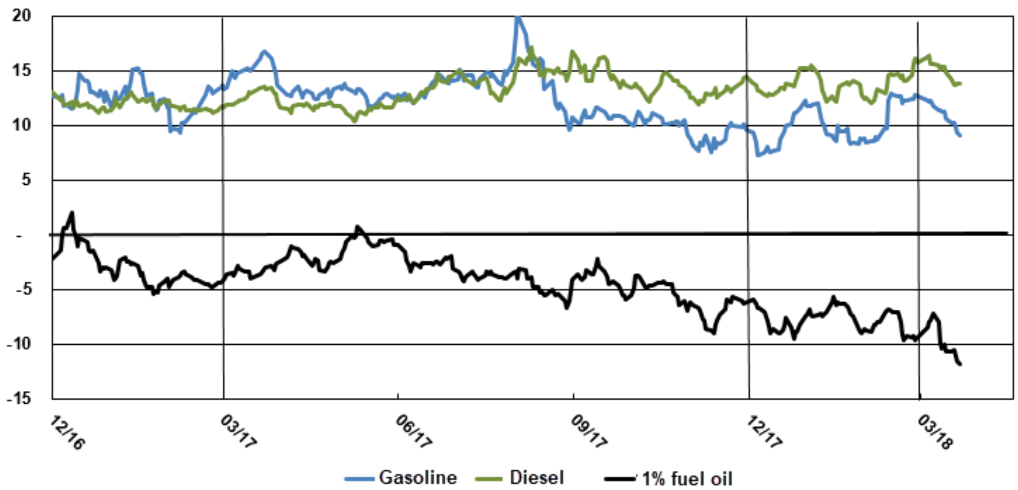
Source: Bloomberg

Average Weighted Bloomberg Ural margin (USD/barrel)

1-3.2018	1-3.2017	Change
5.4	5.8	- 7%

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

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



Source: Reuters

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

	1-3.2018	1-3.2017	Change
Gasoline	10.0	12.5	- 20%
Diesel fuel	13.7	11.9	16%
1% Fuel oil	- 7.8	- 3.0	156%

Domestic market consumption of distillates

Domestic consumption of distillates (transportation, industrial and heating fuels) remained unchanged in the Reporting Period, compared to the corresponding period last year. Consumption of transportation fuels (gasoline, diesel and kerosene) decreased by 2% in the Reporting Period compared to the corresponding period last year.

Refining volume

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

	1-3.2018	**1-3.2017**	**Change**
Utilization of refining plants	100%	74% (*)	26%
Refining volume	2,433	1,802	631
Import of HVGO, net	171	134	37
Total	**2,604**	**1,936**	**668**

The increase in the refining volume in the Reporting Period is mainly due to a 100% utilization compared to the corresponding period last year, during which some of the Company's facilities, including the continuous catalytic discharge facility ("CCR") and Gadiv facilities, were shut down affecting the refining facilities and the Company's downstream facilities. For further information regarding the effect of the periodic maintenance work on the margins in the Reporting Period, see section 2.1.2 below.

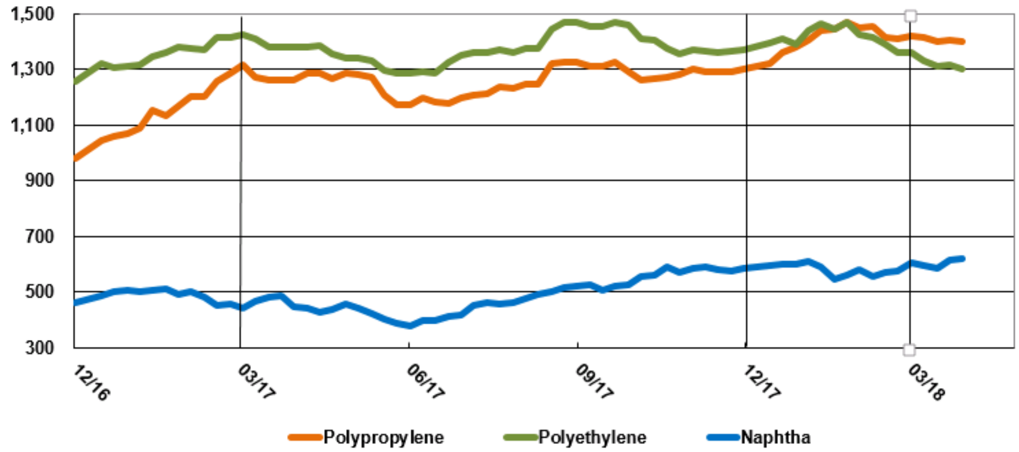
(*) Utilization of the refining facilities, without the foregoing periodical maintenance work, on the assumption that 17.5 million barrels of crude oil and interim materials are processed every year (about 70 million barrels per year) is estimated to be 93%.

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

	1-3.2018	**1-3.2017**	**Change**
Diesel fuel	934	661	273
Gasoline	526	232	294
Kerosene	166	120	46
Fuel oil	595	460	135
others	312	425	(113)
Total	**2,533**	**1,898**	**635**

Polymers Segment - Carmel Olefins

Polymer and naphtha prices in 2017-2018 (USD /ton)



Source: ICIS

Average polymer and naphtha prices (USD / ton)

	1-3.2018	1-3.2017	Change
Naphtha	584	485	20%
Polypropylene	1,415	1,175	20%
Polyethylene	1,408	1,367	3%

Raw material prices

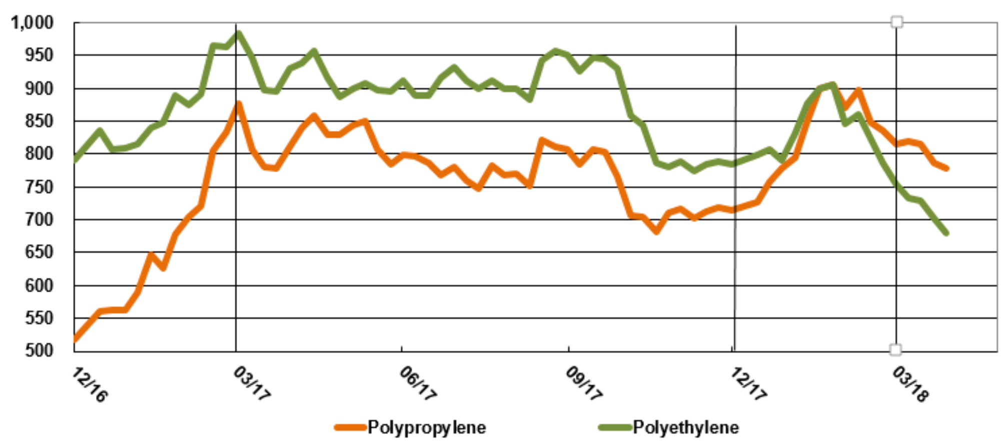
Raw material prices, particularly naphtha prices, increased in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices.

Polymer 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. The increase in the prices of polypropylene compared with polyethylene is higher, among other things, due to the different behavior of propylene and ethylene prices, the raw materials used for manufacturing polymers in Europe.

Margins

Difference between polymer and naphtha prices in 2017-2018 (USD /ton)



Source: ICIS

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

	1-3.2018	1-3.2017	Change
Polypropylene	831	690	20%
Polyethylene	824	882	- 7%

In the Reporting Period the difference between the price of polypropylene and the price of naphtha was higher compared with the corresponding period last year and the difference between the price of polyethylene and the price of naphtha was lower compared to the corresponding period last year. This, while the volatility of the polypropylene and polyethylene prices are affected, among other things, by the prices of the raw materials for the production of polymers in Europe (propylene and ethylene) and the increase in naphtha prices.

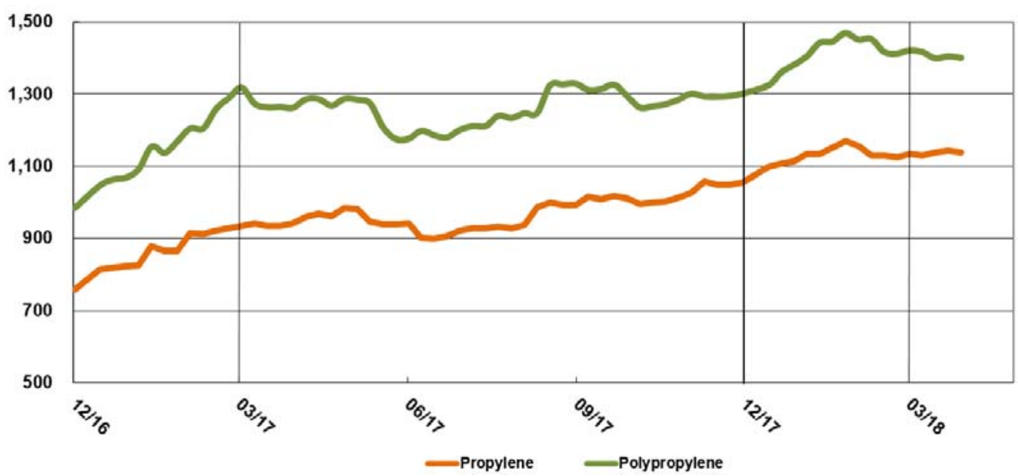
Polymer output volume (thousand tons)

	1-3.2018	1-3.2017	Difference
Polymers	108	134	(26)

The decrease in volume of polymer production at Carmel Olefins in the Reporting Period is mainly due to planned maintenance work on the monomer facility. For further information regarding the estimated loss of profits in the period due to this maintenance work and income from insurance indemnification relating to loss of profits, see section 2.1.2 below.

<u>Polymers Segment - Ducor</u>

Polypropylene and propylene prices in 2017-2018 (USD /ton)



Source: ICIS

Average polypropylene and propylene prices (USD / ton)

	1-3.2018	1-3.2017	Change
Polypropylene	1,415	1,175	20%
Propylene	1,132	880	29%

<u>Raw material prices</u>

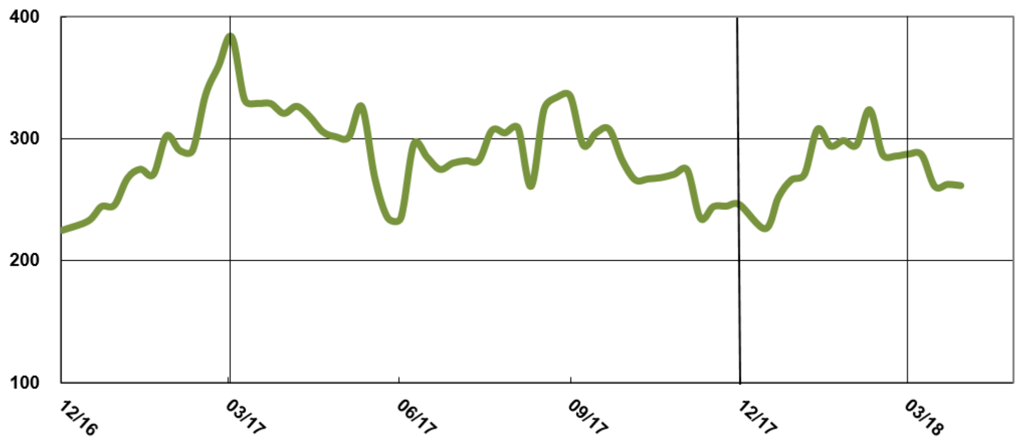
The prices of Ducor's primary raw material, propylene, increased in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices and balanced supply and demand.

Polypropylene prices

Polypropylene prices increased in the Reporting Period compared to the corresponding period last year, concurrent with the rise in the prices of raw materials and energy, but the increase was not as sharp as the rise in the prices of raw material, propylene.

Margins

Difference between polypropylene and propylene prices in 2017-2018 (USD /ton)



Source: ICIS

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

	1-3.2018	1-3.2017	Change
Difference in price	283	295	- 4%

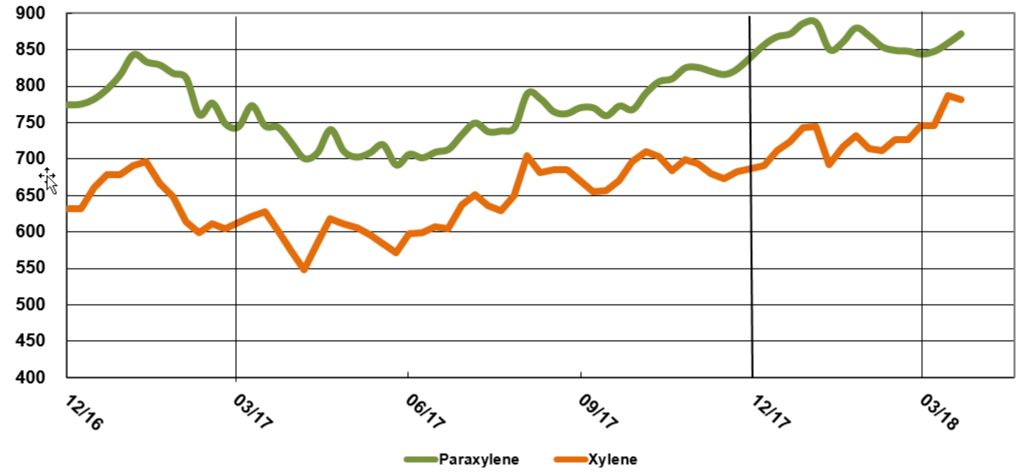
The difference between the price of polypropylene and the price of propylene in the Reporting Period was lower than in the corresponding period last year, mainly as a result of the decline in the polypropylene price compared with the propylene price due to the sharp rise in propylene prices.

Polypropylene output volume (thousand tons)

	1-3.2018	1-3.2017	Difference
Polypropylene	33	40	(7)

Aromatics Segment - Gadiv

Xylene and paraxylene prices in 2017-2018 (USD /ton)



Source: Reuters

Average xylene and paraxylene prices (USD / ton)

	1-3.2018	1-3.2017	Change
Xylene	722	646	12%
Paraxylene	863	795	9%

Raw material prices

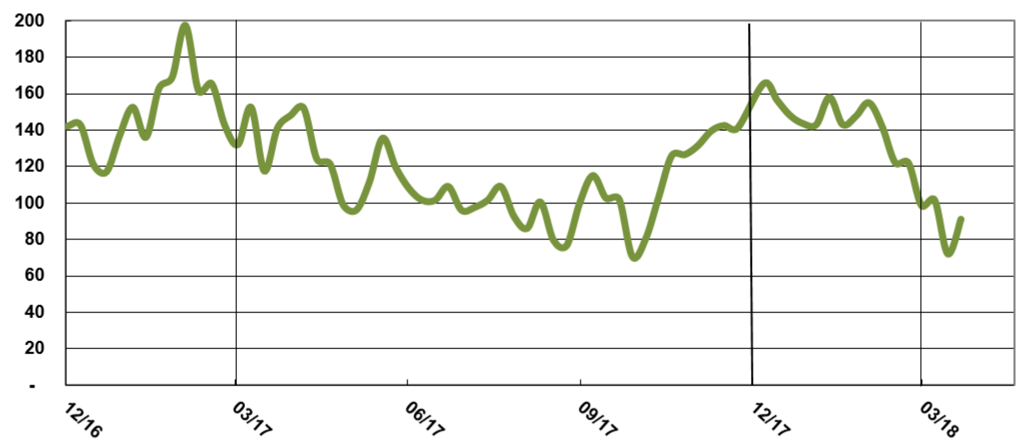
Raw material prices, particularly naphtha, increased sharply in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices.

Aromatics prices

The prices of aromatic products, mainly paraxylene, increased in the Reporting Period compared to the corresponding period last year, due to the shutdown of production facilities in Europe, and parallel to an increase in raw material and energy prices.

Margins

Difference between paraxylene and xylene prices in 2017-2018 (USD /ton)



Source: Reuters

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

	1-3.2018	1-3.2017	Change
Difference in price	141	149	- 5%

The difference between the paraxylene and xylene prices decreased in the Reporting Period. compared with the corresponding period last year, mainly as a result of an increase of the price of the raw material, xylene, that exceeded the increase in paraxylene prices, which was affected by high supply from the Middle East and India.

Aromatics output volume (thousand tons)

	1-3.2018	1-3.2017	Change
Aromatics	141	23	118

The increase in aromatic production in the Reporting Period is mainly due to the shutdown of all Gadiv plants in the corresponding period for periodic maintenance work. For further information regarding the effect of the periodic maintenance work on the margins in the corresponding period last year see section 2.1.2 below.

2 Results of Bazan Group operations in the first quarter

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

Selected figures from the reported consolidated statements of income and after adjustment for accounting effects for the first quarter (USD millions):

	1-3.2018	1-3.2017	Change
Revenue	1,646	1,205	+ *37%*
EBITDA	**156**	**116**	***+ 34%***
Depreciation	(42)	(32)	
Other income (expenses), net	1	(3)	
Operating profit	**115**	**81**	***+ 42%***
Finance expenses, net	(26)	(47)	
Company's share in losses of investees	-	(1)	
Taxes on income	(15)	(14)	
Net profit	**74**	**19**	***+ 289%***
Fuel segment adjustments (*)	(36)	(42)	
Adjusted EBITDA	**120**	**74**	***+ 62%***
Adjusted operating profit	**79**	**39**	***+ 103%***
Adjusted net income (loss)	**38**	**(23)**	

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

	1-3.2018	1-3.2017	Change
Fuels Segment:	86	64	*+ 34%*
Polymers Segment:			
Polymers - Carmel Olefins	50	41	*+ 22%*
Polymers - Ducor	3	7	*- 57%*
Total Polymers Segment	53	48	*+ 10%*
Aromatics Segment - Gadiv	7	(1)	
Other segments and adjustments	10	5	
Total EBITDA	**156**	**116**	***+ 34%***
Fuel segment adjustments (*)	(36)	(42)	
Fuels Segment - adjusted	50	22	*+ 127%*
Total adjusted EBITDA	**120**	**74**	***+ 62%***

(*) For further information about the adjustment components, see section 2.1.2 below.

2.1 Analysis of the results of Bazan Group operations in the first quarter

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

2.1.1 <u>Sales turnover by operating segment</u>

	Revenue USD million			Average price of product mix in USD/ton		
	1-3.2018	**1-3.2017**	**Difference**	**1-3.2018**	**1-3.2017**	**Difference**
Fuels Segment:	1,440	1,037	403	549	474	75 (1)
Polymers Segment - Carmel Olefins	177	166	11 (2)	1,406	1,247	159
Polymers Segment - Ducor	55	55	-	1,515	1,219	296
Total Polymers Segment	232	221	11			
Aromatics Segment - Gadiv	133	37	96 (3)	826	680	146
Adjustments and others	(159)	(90)	(69)			
Total consolidated income	1,646	1,205	441			

(1) Mainly due to an increase in energy prices together with increase in the price of crude oil.

(2) Mainly due to an increase in prices and revenues from insurance indemnification for loss of profits which were offset by a decrease in the sales volume, among other things, following planned maintenance work on the ethylene facility.

(3) Mainly due to an increase in sales volume following periodic maintenance work on all of Gadiv's facilities in the corresponding period last year.

2.1.2 Consolidated adjusted EBITDA by operating segments

Below is a description of the main reasons for the increase in the adjusted consolidated EBITDA for the operating segments in the quarter, in the amount of USD 46 million (USD million):

	Fuels Segment:	Polymers			Aromatics	Others	Consolidated
		Carmel Olefins	Ducor	Total			
Increase (decrease) in the margin/contribution (1)	(31)	15 (2)	(1)	14	2	5	(10)
Increase (decrease) in sales quantities	11	(8)	(2)	(10)	-	-	1
Decrease in loss of profits due to periodic maintenance work (3)	61	4	-	4	4	-	69
Increase in other revenue	-	-	-	-	5	-	5
Increase in operating expenses (including fixed, general and administrative expenses) (4)	(13)	(2)	(1)	(3)	(3)	-	(19)
Total	**28**	**9**	**(4)**	**5**	**8**	**5**	**46**

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

(2) In the Reporting Period, Carmel Olefins carried out planned maintenance work in the ethylene facility, for which loss of profits is covered by insurance. Accordingly, the net effect of this maintenance work on the results of the quarter is immaterial.

(3) For further information regarding the estimated loss of comprehensive profits to the Group as a result of periodic maintenance performed at some of the Group's production facilities in the first quarter of 2017, see section 2.1.2 of the financial statements as at December 31, 2017.

(4) Mainly due to the effect of the appreciation of the NIS against the USD on NIS expenses, the discounting of payroll expenses for periodic maintenance in a lower amount compared to the corresponding period last year, an increase in authorization fees due to improved profitability and an increase in electricity expenses.

Adjustment components in the fuels segment

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

	1-3.2018	**1-3.2017**
Accounting EBITDA	**89**	**64**
Expenses (income) from timing differences (1)	(14)	(6)
Expenses (income) from adjusting value of inventory to market value, net (2)	(16)	(26)
Effect of changes in fair value of derivatives and disposals (3)	(6)	(10)
Total adjustments	**(36)**	**(42)**
Adjusted EBITDA	**53**	**22**

(1) Expenses (income) arising from changes in the value of unhedged inventory. In accordance with the Company's policy, the Company does not engage in hedging contracts for inventory of up to 730 thousand tons, other than the inventories under the available inventory transaction as set out in Note 20C5 to the consolidated financial statements, As at March 31, 2018, the volume of inventory not hedged with contracts is 480 thousand tons.

(2) Expenses (income) arising from changes in the accounting provision for adjustment of hedged inventory 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, such as hedging of refining margins. The cumulative profit or loss with regard to these positions will be attributed to the adjusted EBITDA when disposed.

Analysis of the Company's Fuels segment refining margins and comparison with the various benchmark margins

Breakdown of the Company’s refining margins and Reuters and Weighted Bloomberg Ural margins:

	1-3.2018	1-3.2017
Accounting margin (USD/ton)	**53.3**	**55.2**
Adjustments in the fuels segment (USD/ton)	(13.3)	(21.6)
Adjusted margin (USD/ton)	**40.0**	**33.6**
Adjusted margin (USD/barrel)	**5.5**	**4.6**
Average Weighted Bloomberg Ural margin (USD/barrel)	**5.4**	**5.8**
Average Reuters Ural margin (USD/barrel)	**4.0**	**5.0**

As set out in section 1.2 above, in the Reporting Period there was a substantial increase in the discount on Ural crude compared with both Brent and other heavy crudes refined by the Company in the Reporting Period. Ural crude, which the Company did not process during the Reporting Period, is the crude oil on which both Reuters and Bloomberg margins are based. Furthermore, due to the sharp rise in the price of crude oil that was partially reflected in the Company’s margins in the Reporting Period and the effect of backwardation minimized the difference between the adjusted margin of the Company and the benchmark margins.

For information regarding the differences between the Company's refining margin and the Ural margins, see section 2.1.1.2 above.

2.1.3 **Adjusted consolidated operating profit**

The adjusted consolidated operating profit in the first quarter of 2018 amounted to USD 79 million, compared to USD 39 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.

Depreciation (without amortization of excess costs)

Depreciation expenses in the first quarter of 2018 amounted to USD 42 million compared with USD 32 million in the corresponding period of the previous year. The increase in depreciation expenses is mainly due to the effects of the initial application of IFRS 16. For further information see Note 3C to the Consolidated Financial Statements.

Other income (expenses)

In the first quarter of 2018, other net income amounted to USD 1 million and consisted mainly of other income of USD 4 million, offset by amortization of excess costs in an amount of USD 3 million. In the corresponding period last year, other expenses amounted to USD 3 million and were mainly made up of amortization of excess costs in the amount of USD 3 million.

2.1.4 **Net profit**

The accounting consolidated net profit in the first quarter of 2018 amounted to USD 74 million, compared with USD 19 million in the corresponding period last year.

The net adjusted consolidated operating profit in the first quarter of 2018 amounted to USD 38 million, compared to USD 23 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 2.2.3 above, are financing expenses and income tax.

Financial expenses

Net consolidated financing expenses in the first quarter of 2018 amounted to USD 26 million compared to USD 47 million in the corresponding period last year. Principal changes in financing expenses, based on financial analysis (USD millions):

	1-3.2018 compared to 1-3.2017
Decrease in interest on short term credit and for working capital items	(1)
Increase in interest on loans and debentures (*)	2
Effect of exchange differences on financial items, net	(18)
Changes in fair value of hedge transactions	(2)
Others	(2)
Total	**(21)**

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

Taxes on income

In the first quarter of 2018, tax expenses amounted to USD 15 million, compared with USD 14 million in the corresponding period last year, mainly due to an increase in pre-tax profit in the period compared to the corresponding period last year and offset by tax expenses in the amount of USD 8 million in respect of dividends distributed during the corresponding period last year.

3 Analysis of financial position

	Mar 31, 2018	Dec 31, 2017	Increase (Steam)	Percentage change
	USD millions			
Cash and deposits	534	403	131	33%
Trade and other receivables (1)	418	496	(78)	- 16%
Financial derivatives	18	12	6	50%
Inventory (2)	674	693	(19)	- 3%
Total current assets	**1,644**	**1,604**	**40**	**2%**
Property plant and equipment, net (3)	2,382	2,298	84	3.7%
Loan to Haifa Early Pensions	45	50	(5)	- 10%
Financial derivatives	48	56	(8)	- 14%
Other	6	7	(1)	- 14%
Total non-current assets	**2,481**	**2,411**	**70**	**3%**
Total assets	**4,125**	**4,015**	**110**	**3%**
Loans and borrowings (including current maturities) (4)	280	236	44	19%
Trade and other payables (5)	843	909	(66)	- 7%
Provisions	36	35	1	3%
Financial derivatives	7	24	(17)	- 71%
Total current liabilities	**1,166**	**1,204**	**(38)**	**-3%**
Bank loans, net	368	374	(6)	- 2%
Debentures, net (6)	1,052	1,000	52	5%
Financial derivatives	1	-	1	100%
Employee benefits, net	54	57	(3)	- 5%
Deferred tax liabilities, net (7)	148	132	16	12%
Other (3)	119	44	75	170%
Total non-current liabilities	**1,742**	**1,607**	**135**	**8%**
Total equity (8)	**1,217**	**1,204**	**13**	**1%**
Total liabilities and capital	**4,125**	**4,015**	**110**	**3%**

(1) Mainly due to a decrease in trade receivables due to a decrease in sales volume offset by an increase in payables in respect of insurance indemnification and an increase in prepaid expenses.

(2) Due to a decrease in volume which was offset by price increase.

(3) Mainly due to the initial application of IFRS 16 regarding leases. See Note 3C to the Consolidated Financial Statements.

(4) Mainly due to deferral of principal payments for debentures in the amount of USD 42 million from March 31, 2018 to the following quarter.

(5) Mainly due to a decrease in trade payables as a result of decrease in volume, which was offset by an increase in price, a decrease in other payables due to payment of USD 73 million for development leases due to the judgment described in Note 20B2 to the annual consolidated financial statements, offsetting of the effect of initial application of IFRS 16 with regard to leases in the amount of USD 25 million, as set out in Note 3C to the consolidated financial statements, and an increase in interest payable to the amount of USD 20 million.

(6) Mainly due to the expansion of debentures (Series E and I) in the Reporting Period in the amount of USD 115 million and offsetting the increase in current contingencies and the effect of depreciation, including fair value adjustments. For further information see Note 8G to the Consolidated Financial Statements.

(7) Mainly due to utilization of carryforward losses for tax purposes. For further information see Note 16D to the Consolidated Annual Financial Statements.

(8) Mainly due to profit for the period in the amount of USD 74 million, net of dividends declared and paid of 65 million (for information, see Note 8A to the consolidated financial statements).

4 Liquidity analysis

Total current assets less current liabilities as at March 30, 2018 amounted to a balance of USD 478 million compared to a balance of USD 400 million as at December 31, 2017.

The current ratio at March 31, 2018 is 1.41 and as at December 31, 2017 it was 1.33.

Analysis the Group's liquidity:

	1-3.2018	1-3.2017
	USD millions	
Profit in cash	142	117
Decrease in working capital (1)	56	21
Income tax payments less	-	(8)
Cash Stemming from Current Operations	**198**	**130**
Investments in property plant and equipment (including periodic maintenance) (2)	(86)	(49)
Other	3	36
Cash used for investment activities	**(83)**	**(13)**
Short-term borrowing, net	-	(1)
Issue of debentures and receipt of long-term loans (3)	115	31
Repayment of debentures and long-term loans (4)	(11)	(95)
Interest paid (2) (4)	(18)	(44)
Dividend paid (5)	(65)	(85)
Other	(4)	13
Cash stemming from (used in) financing activities	**17**	**(181)**
Increase (decrease) in cash and cash equivalents in the period	**132**	**(64)**
Effect of exchange rate volatility on cash and cash equivalents	**-**	**-**

(*) Net cash flows from operating activities net of interest paid in the Reporting Period and the corresponding period last year amounted to USD 180 million and USD 86 million, respectively.

(1) The decrease in trade receivables of USD 107 million is mainly due to an increase in payables of USD 27 million, a decrease in inventory of USD 20 million, a decrease million in trade payables of USD 30 and decrease in other payables and provisions in the amount of USD 12 million.

(2) Mainly principal and interest payment in respect of development levies in the amount of USD 67 million and USD 6 million, respectively. For details see Note 5A1 to the Consolidated Financial Statements.

(3) In respect of the expansion of debentures (Series E and I). For further information see Note 8G to the Consolidated Financial Statements.

(4) As of December 31, 2018, principal and interest payments in respect of debentures, in the amounts of USD 42 million and USD 8 million, respectively, were deferred pursuant to the provisions of the deeds of trust to the following quarter as the contractual maturity date was not a business day.

(5) For further information see Note 8A to the Consolidated Financial Statements.

5 Total credit from financial institutions

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

	Mar 31, 2018	Dec 31, 2017
Bank loans [(1)]	442	451
Debentures [(1)]	1,228	1,136
Hedging transactions on debentures [(2)]	(22)	(35)
Liquid financial assets [(3)]	(534)	(402)
Total net financial debt	**1,114**	**1,150**

(1) Including current maturities Presented according to the liability value (without borrowing costs).

(2) According to the Group's hedging policy, principal and interest swap transactions were carried out against the issuance of NIS bonds. The transactions are presented in the table above, concurrently with the presentation of the debentures, at their liability value, net of the addition of the related long-term deposits.

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

For details regarding the Group's short-term secured credit facilities for 2018, see Note 13A to the annual consolidated financial statements.

Average volume of sources of finance in the Reporting Period

Long term loans and debentures (including current maturities, based on the method of presenting them according to the accounting standards in the financial statements and without the costs of capital raising) of USD 1,657 million, net operating capital of USD 265 million (of which the average for trade receivables is USD 424 million and trade payables is USD 707 million).

6 Exposure to market risk and risk management methods

In the Reporting Period there were no significant changes in market risks to which the Company is exposed, in the policies for managing these risks and in those charged with managing them compared with the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2017.

7 Corporate governance

7.1 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.

7.2 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.

7.3 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, 2017.

8 Disclosure of financial reporting

8.1 Additional information contained in the auditors' report to shareholders

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

The provisions of Note 5A to the financial statements (including by way of reference to Note 20B (3), (5) and (6) to the separate financial information) with regard to administrative and other proceedings, other contingencies and laws and regulations relating to environmental protection which, based on the opinions of their legal counsels, the managements of the Company and its subsidiaries believe that it is not possible at this stage to assess the foregoing impact on the results of operations and on the financial position, if any, and therefore no provision regarding this matter was included in the financial statements.

8.2 Use of estimates and judgments

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

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

In the Reporting Period there were no changes with regard to the disclosure given in this regard in the 2017 Periodic Report.

9 Details of outstanding debentures

In the Reporting Period, there were no changes in the details of the existing series of debentures issued by the Company and offered to the public under a prospectus, in the details of the debenture trustees, in the conditions for call for immediate redemption of the debentures, in the Company's compliance with these conditions, and in the collateral for the debentures as described in the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2017 and in the notes to the financial statements for that year. For further information regarding the expansion of debentures (Series E and I) in the Reporting Period, see Note 8G to the consolidated financial statements. For further information concerning the financial covenants, see Note 6A to the consolidated statements.

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

For information regarding the upgrade of the Company's rating by Maalot (S&P) to ilA- with a positive outlook subsequent to the Reporting Period, see Note 8D to the consolidated financial statements.

10 Significant subsequent events

A. For details see Note 8 to the Consolidated Financial Statements.

B. Effect of changes in exchange rates and prices of crude oil

1) **Changes in exchange rates**: from the end of the Reporting Period through date of approval of the financial statements, the shekel-dollar exchange rate depreciated. The Company uses hedging transactions to partially offset this exposure, as part of its risk management policy. A depreciation of 2% subsequent to the results of the hedging transactions, had an insignificant effect on the business results of the Group.

2) **Changes in crude oil prices**: The price of oil, which was USD 67 per barrel as at the Reporting Date, was USD 79 per barrel shortly before the publication date of the financial statements.

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

Ovadia Eli	**Yashar ben Mordechai**
Chairman of the Board of Directors	**CEO**

May 16, 2018

Revision to the Description of the Company's Businesses in the Periodic Report as at December 31, 2017

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:

- Further to section 1.12.8 of Chapter A of the Periodic Report as at December 31, 2017, on April 8, 2008, the master plan for the land on which the facilities of the Group companies are located, went into effect after having been published as required for validation. An appeal was filed with the Supreme Court against the decision of the District Court to dismiss petitions filed against the approval of the plan, which has not yet been heard.
- Further to that stated in Section 1.19.7 of Chapter A of the Periodic Report as at December 31, 2017, the business licenses and temporary permits issued by the Haifa Municipality for all of the Group companies were extended until December 31, 2018.
- Further to the content of section 1.18.2.1 of Chapter A of the Periodic Report, on May 13, 2018 the Company received a letter from the Prime Minister's Office, the highlights of which are as follows: The National Economic Council has in recent years acted to promote regional economic development in Israel, with emphasis on the development of the Haifa, Beer Sheva and Jerusalem metropolitan areas as a lever for developing the outlying regions. The future of the Haifa Bay was identified as one of the key elements of the Haifa metropolitan area. Due to government actions regarding the reduction of air pollution and for reducing environmental risks in the Haifa Bay area, the National Economic Council was required to review the future of Bazan Group in the Bay area. For this purpose, an inter-ministerial taskforce made up of senior representatives of the Ministries of Economy, Energy, Finance, Environmental Protection and the Israel Lands Administration and the Planning Authority was set up to review several key alternatives. In the letter, a meeting was requested with the Company's CEO in order to present their proposed project to him, to discuss its objectives and the various alternatives. The Company welcomes the government's intention to hold strategic discussion at the national level, in cooperation with all relevant government bodies, concerning the future of Bazan Group in the Haifa Bay region. As at date of approval of the report, the Company has no way of estimating the results of the taskforce's review, if at all, and what effect they will have on the Company, if any.

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

Upon completion of the arrangement to replace Carmel Olefins debentures with debentures (Series G) of the Company, 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 consolidated financial statements, Carmel Olefins ceased to be a reporting corporation and all its reporting obligations have 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), without notes and unaudited or reviewed, as the case may be.

Below are the condensed consolidated financial statements of Carmel Olefins used in the preparation of the Company's consolidated financial statements (audited or reviewed, accordingly):

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

	As at		
	March 31, 2018	March 31, 2017	December 31, 2017
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	68,652	30,596	49,550
Trade receivables	121,600	86,171	128,054
Other receivables	19,840	16,653 (*)	1,697
Financial derivatives	7,868	3,633	3,169
Inventories	71,747	59,530	76,706
Total current assets	289,707	196,583	259,176
Non-current assets			
Financial derivatives	-	5,262	-
Receivables and other long term receivables	5,132	4,725 (*)	5,292
Fixed assets, net	652,436	665,318	652,273
Right of use assets (1)	11,067	-	-
Intangible assets and deferred expenses, net	11,266	13,304 (*)	11,834
Total non-current assets	679,901	688,609	669,399
Total assets	969,608	885,192	928,575

(*) Reclassified

(1) The effect of the initial application of IFRS 16 regarding leases.

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

	As at		
	March 31, 2018	**March 31, 2017**	**December 31, 2017**
	(Unaudited)		**(Audited)**
Current liabilities			
Current maturities of bank loans	-	10,882	-
Current maturities and borrowings	5,750	6,277	5,750
Trade payables	70,024	31,898	78,256
Other payables	87,667	15,703	79,987
Financial derivatives	-	505	836
Provisions	4,160	7,400	4,202
Total current liabilities	167,601	72,665	169,031
Non-current liabilities			
Liabilities to banks, net	11,062	16,812	12,500
Loan from the parent company, net	-	152,816	-
Other long-term liabilities (1)	18,307	9,980	11,239
Employee benefits, net	18,898	18,554	19,825
Deferred tax liabilities, net	79,741	73,937	78,847
Total non-current liabilities	128,008	272,099	122,411
Total liabilities	295,609	344,764	291,442
Equity			
Share capital	116,997	116,997	116,997
Capital reserves	(6,322)	(12,153)	(11,514)
Capital surplus	563,324	435,584	531,650
Total capital	673,999	540,428	637,133
Total liabilities and capital	969,608	885,192	928,575

(1) The effect of the initial application of IFRS 16 regarding leases.

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

	Three months ended March 31, 2018	Three months ended March 31, 2017	Year ended December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
Revenue	228,609	219,131	904,702
Cost of sales	(177,956)	(172,128)	(698,034)
Gross profit	50,653	47,003	206,668
Sales and Marketing Expenses	(6,496)	(7,292)	(28,460)
General and Administrative Expenses	(4,115)	(3,969)	(16,279)
Other expenses	-	-	(247)
Operating profit	40,042	35,742	161,682
Financing revenues	14	1,235 (*)	1,180
Financial expenses	(2,626)	(5,323) (*)	(14,930)
Finance expenses, net	(2,612)	(4,088)	(13,750)
Profit before income tax	37,430	31,654	147,932
Income tax	(5,144)	(5,506)	(25,328)
Net profit for the period	**32,286**	**26,148**	**122,604**
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	4,642	(947)	(1,451)
Foreign currency translation differences for foreign operations	451	12	930
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	**5,093**	**(935)**	**(521)**
Items of other comprehensive income (loss), net of tax, not transferred to profit or loss			
Reclassification of defined benefit plan, net to tax	412	-	(238)
Items of other comprehensive income (loss), net of tax, not transferred to profit or loss	**412**	**-**	**(238)**
Total income for the period	**37,791**	**25,213**	**121,845**

(*) Reclassified

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

	Three months ended		Year ended
	March 31, 2018	March 31, 2017	December 31, 2017
	(Unaudited)		(Audited)
Cash flows from operating activities			
Profit for the period	32,286	26,148	122,604
Adjustments to cash flows from operating activities:			
Revenue and expenses not involving cash flows (Appendix A – section A)	17,509	26,663	85,040
	49,795	52,811	207,644
Changes in assets and liabilities items (Appendix A - section B)	(24,039)	(19,408)	(9,061)
Interest paid, net	(2,182)	(6,042)	(19,014)
Income tax paid to the tax authorities	(34)	(44)	(269)
Accounting for the utilization of the parent company's carryforward losses	(3,637)	-	(7,466)
Net cash from operating activities	19,903	27,317	171,834
Cash flow used for investing activities			
Change in deposits, net	-	585	(1)
Loans to employees, net	(29)	8	17
Investments in property plant and equipment and periodic maintenance work (including development permits)	(18,939)	(700)	(11,068)
Net cash used in investing activities	(18,968)	(107)	(11,052)
Cash flow from financing activities			
Receipt of short-term credit from parent company, net	19,133	-	41,332
Repayment of short-term loan, net	-	(293)	(843)
Repayment of a long-term loan from banks	(1,438)	(1,438)	(5,750)
Long-term loan received from banking corporations	-	15,000	15,000
Proceeds (payments) from currency exchange transactions and interest, net	-	(1,214)	10,680
Payment of liability for lease	(44)	-	-
Repayment (including early repayment) of long-term loans from the parent company	-	(36,942)	(201,249)
Net cash from (used for) finance activities	17,651	(24,887)	(140,830)
Increase in cash and cash equivalents	18,586	2,323	19,952
Effect of exchange rate fluctuations on cash and cash equivalents	516	112	1,437
Cash and cash equivalents at beginning of period	49,550	28,161	28,161
Cash and cash equivalents at end of period	**68,652**	**30,596**	**49,550**

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, 2018	March 31, 2017	December 31, 2017
		(Unaudited)		(Audited)
A.	**Income and expenses not that do not involve cash flows:**			
	Amortization and depreciation	12,684	11,990	49,467
	Net financing expenses (income) recognized in profit or loss	(407)	12,535	19,825
	Net changes in fair value of derivative financial instruments	(11)	(3,456)	(9,893)
	Share-based payment of parent company	99	88	313
	Income tax	5,144	5,506	25,328
		17,509	26,663	85,040
B.	**Changes in assets and liabilities**			
	Decrease (increase) in trade receivables	7,058	12,631	(27,171)
	Decrease (increase) in other receivables	(18,069)	(14,398)	621
	Decrease (increase) in inventory	5,456	(8,196)	(23,615)
	Increase (decrease) in trade payables	(15,149)	(8,730)	35,843
	Increase (decrease) in other accounts payable	(2,871)	(1,405)	3,575
	Increase (decrease) in employee benefit liabilities, net	(464)	690	1,686
		(24,039)	(19,408)	(9,061)

Somekh Chaikin
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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, 2018 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.

Highlight

Without qualifying our above conclusion, we draw attention to Note 5A to the financial statements (including by way of reference to 20B3, 20B5, and 20B6 to the annual financial statements) regarding 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, and therefore no provisions for the aforesaid were included in the financial statements.

Somekh Chaikin
Certified Public Accountants

Haifa, May 16, 2018

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	March 31, 2018	March 31, 2017	December 31, 2017
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	458,879	227,215	326,471
Deposits	75,382	40,383	76,058
Trade receivables	367,806	333,619	481,772
Other receivables	49,513	37,073	14,344
Financial derivatives	18,336	11,286	11,845
Inventory	674,234	588,092	693,272
Total current assets	1,644,150	1,237,668	1,603,762
Non-current assets			
Loan to Haifa Early Pensions Ltd.	44,976	47,666	50,228
Long term loans and receivables	5,554	6,698 (*)	6,797 (*)
Financial derivatives	47,658	32,143	55,782
Fixed assets, net	2,207,555	2,279,076	2,269,302
Right of use assets (1)	146,444	-	-
Intangible assets and deferred expenses, net	29,041	29,424	29,284
Total non-current assets	2,481,228	2,395,007	2,411,393
Total assets	4,125,378	3,632,675	4,015,155

*) Reclassified, see Note 2C

For information about the effect of initial application of IFRS 16, Leases, see Note 3C.

Ovadia Eli	**Yashar Ben Mordechai**	**Israel Lederberg**
Chairman of the Board	**CEO**	**CFO**

Approval date of the condensed interim financial statements: May 16, 2018

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

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	March 31, 2018	March 31, 2017	December 31, 2017
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings (including current maturities)	280,329	164,701	235,703
Trade payables	691,472	741,017	721,682
Other payables (1)	151,355	126,060	187,188
Financial derivatives	6,592	19,111	24,161
Provisions	36,332	50,893	35,032
Total current liabilities	1,166,080	1,101,782	1,203,766
Non-current liabilities			
Liabilities to banks, net	367,900	427,484	374,397
Debentures, net	1,052,203	963,137	999,503
Other long-term liabilities (1)	119,240	30,007	43,794
Financial derivatives	1,100	9,395	-
Employee benefits, net	54,228	53,196	57,039
Deferred tax liabilities, net	147,236	85,446	132,222
Total non-current liabilities	1,741,907	1,568,665	1,606,955
Total liabilities	2,907,987	2,670,447	2,810,721
Capital			
Share capital	805,771	805,282	805,770
Share premium	31,980	31,962	31,979
Capital reserves	35,239	32,486	24,102
Retained earnings	344,401	92,498	342,583
Total capital	1,217,391	962,228	1,204,434
Total liabilities and capital	4,125,378	3,632,675	4,015,155

(1) For information about the effect of initial application of IFRS 16, Leases, see Note 3C.

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

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

	Three months ended		Year ended
	March 31, 2018	**March 31, 2017**	**December 31, 2017**
	(Unaudited)		**(Audited)**
Revenue	1,645,856	1,205,147	5,623,744
Cost of sales	(1,495,742)	(1,092,507)(*)	(5,010,261)
Gross profit	150,114	112,640	613,483
Selling and marketing expenses	(27,693)	(20,398)(*)	(95,400)
General and administrative expenses	(11,851)	(11,498)	(54,145)
Other financing income (expenses), net	4,389	-	(247)
Operating profit	114,959	80,744	463,691
Financing income	9,636	1,767 (*)	21,010
Financing expenses	(35,300)	(48,788)(*)	(156,732)
Financing expenses, net	(25,664)	(47,021)	(135,722)
Company's share in profits (losses) of associates (net of tax)	-	(543)	(240)
Income before taxes on income	89,295	33,180	327,729
Income tax	(15,125)	(14,249)	(65,814)
Net income for the period	**74,170**	**18,931**	**261,915**
Items of other comprehensive income (loss) transferred to profit or loss			
Foreign currency translation differences for foreign operations	486	12	1,096
Effective share of the change in fair value of cash flow hedging, net of tax	8,553	(9,870)	(558)
Change in fair value hedging costs, net of tax	(1,226)	(1,150)	(6,666)
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	7,813	(11,008)	(6,128)
Items of other comprehensive income (loss) not transferred to profit or loss			
Remeasurement of a defined benefit plan, net of tax	1,559	-	(1,304)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	2,997	1,857	(3,306)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	(7)	5	12
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	4,549	1,862	(4,598)
Comprehensive income for the period	**86,532**	**9,785**	**251,189**
Earnings per share (USD)			
Basic and diluted earnings per 1 ordinary share	0.023	0.006	0.082

(*) Reclassified, see also Note 2C

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

Condensed Consolidated 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, 2018 (unaudited)									
Balance as at January 1, 2018 (audited)	**805,770**	**31,979**	**4,594**	**6,736**	**(6,798)**	**28,478**	**(1,049)**	**(7,859)**	**342,583**	**1,204,434**
Effect of initial application of IFRS 9(2014) (1)	-	-	-	-	-	-	-	-	**(8,911)**	**(8,911)**
Balance as at January 1, 2018 subsequent to initial application	**805,770**	**31,979**	**4,594**	**6,736**	**(6,798)**	**28,478**	**(1,049)**	**(7,859)**	**333,672**	**1,195,523**
Profit for the period	-	-	-	-	-	-	-	-	**74,170**	**74,170**
<u>Other comprehensive income (loss):</u>										
Foreign currency translation differences for foreign operations	-	-	-	486	-	-	-	-	-	486
Change in fair value hedging costs, net of tax	-	-	-	-	-	-	(1,226)	-	-	(1,226)
Effective share of the change in fair value of cash flow hedging, net of tax	-	-	-	-	-	-	8,553	-	-	8,553
Remeasurement of a defined benefit plan, net of tax	-	-		-	-	-	-	-	1,559	1,559
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	-	-	-	-	-	-	-	2,997	-	2,997
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	-	-	-	-	(7)	-	-	-	-	(7)
Total other comprehensive income (loss) for the period, net of tax	-	-	-	**486**	**(7)**	-	**7,327**	**2,997**	**1,559**	**12,362**
Total comprehensive income (loss) for the period	-	-	-	**486**	**(7)**	-	**7,327**	**2,997**	**75,729**	**86,532**
Dividend declared and paid (see Note 8A)	-	-	-	-	-	-	-	-	**(65,000)**	**(65,000)**
Exercised share options	**1**	**1**	**(2)**	-	-	-	-	-	-	-
Share-based payment	-	-	**336**	-	-	-	-	-	-	**336**
Balance as at March 31, 2018	**805,771**	**31,980**	**4,928**	**7,222**	**(6,805)**	**28,478**	**6,278**	**(4,862)**	**344,401**	**1,217,391**

(1) For information about the effect of initial application of IFRS 9 (2014), Financial Instruments, see Note 3A.

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

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, 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**
Other comprehensive income (loss):										
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 comprehensive income (loss) for the period	**-**	**-**	**-**	**12**	**5**	**-**	**(11,020)**	**1,857**	**18,931**	**9,785**
Dividend declared and 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

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
	Year ended December 31, 2017 (audited)									
Balance as at January 1, 2017	**805,282**	**31,962**	**12,356**	**5,640**	**(6,810)**	**28,478**	**6,175**	**(4,553)**	**158,567**	**1,037,097**
Income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**261,915**	**261,915**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	-	-	-	1,096	-	-	-	-	-	1,096
Change in fair value hedging costs, net of tax	-	-	-	-	-	-	(6,666)	-	-	(6,666)
Remeasurement of a defined benefit plan, net of tax	-	-	-	-	-	-	-	-	(1,304)	(1,304)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	-	-	-	-	-	-	-	(3,306)	-	(3,306)
Effective share of the change in fair value of cash flow hedging, net of tax	-	-	-	-	-	-	(558)	-	-	(558)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	-	-	-	-	12	-	-	-	-	12
Total other comprehensive income (loss) for the year, net of tax	**-**	**-**	**-**	**1,096**	**12**	**-**	**(7,224)**	**(3,306)**	**(1,304)**	**(10,726)**
										-
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**1,096**	**12**	**-**	**(7,224)**	**(3,306)**	**260,611**	**251,189**
Share-based payment	**-**	**-**	**1,148**	**-**	**-**	**-**	**-**	**-**	**-**	**1,148**
Exercised share options	**488**	**17**	**(505)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Expired options	**-**	**-**	**(8,405)**	**-**	**-**	**-**	**-**	**-**	**8,405**	**-**
Dividend declared and paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(85,000)**	**(85,000)**
Balance as at December 31, 2017	**805,770**	**31,979**	**4,594**	**6,736**	**(6,798)**	**28,478**	**(1,049)**	**(7,859)**	**342,583**	**1,204,434**

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

Condensed Consolidated Interim Statements of Cash Flows
USD thousands

	Three months ended		Year ended
	March 31, 2018	March 31, 2017	December 31, 2017
	(Unaudited)		(Audited)
Cash flows from operating activities			
Profit for the period	74,170	18,931	261,915
Adjustments to cash flows from operating activities:			
Revenue and expenses not involving cash flows (Appendix A – section A)	67,611	98,026	316,705
	141,781	116,957	578,620
Changes in assets and liabilities (Appendix A – section B)	56,066	20,824	(187,565)
Net income tax paid	(242)	(8,169)	(9,399)
Net cash from operating activities	197,605	129,612	381,656
Cash flow used for investment activities			
Interest received	1,079	377	3,956
Decrease (increase) in deposits, net	(4)	36,113	(4,723)
Dividend received from investees	569	299	701
Consideration from the sale on an investment in an associate (see Note 8H)	2,005	-	-
Change in long-term loans from others, net	(27)	20	101
Repayment of loan from Haifa Early Pensions Ltd.	-	-	3,663
Acquisition of fixed assets including periodic maintenance (see also Note 5A1) (1)	(85,833)	(48,996)	(120,195)
Purchase of intangible assets and deferred expenses	(681)	(345)	(2,830)
Net cash used for investment activities	(82,892)	(12,532)	(119,327)
Cash flow from financing activities			
Short-term borrowing, net	-	(818)	(1,467)
Change in deposits from customers and others, net	(210)	12,731	29,015
Interest paid (2)	(18,255)	(44,201)	(141,042)
Derivative transactions, net	2,534	(161)	4,871
Receipt of long-term bank loans, net of raising costs	-	31,457	31,457
Repayment of long-term bank loans	(9,688)	(9,688)	(64,893)
Repayment of debentures (2)	(1,221)	(84,987)	(177,262)
Issue of debentures, net of raising costs (see Note 8G)	114,996	-	170,188
Payment of liabilities for lease (3)	(5,912)	-	-
Dividend paid (see Note 8A)	(65,000)	(85,000)	(85,000)
Net cash from (used for) financing activities	17,244	(180,667)	(234,133)
Net increase (decrease) in cash and cash equivalents	131,957	(63,587)	28,196
Effect of exchange rate fluctuations on cash and cash equivalents	451	403	7,876
Cash and cash equivalents at beginning of period	326,471	290,399	290,399
Cash and cash equivalents at the end of the period	458,879	227,215	326,471

(1) In the first quarter of 2018, planned maintenance was carried out at Carmel Olefins, at an estimated direct cost of USD 6 million. As at March 31, 2018, a total of USD 4 million has not yet been paid.

(2) As at March 31, 2018, principal and interest payments on the debentures in the amount of USD 42 million and USD 8 million, respectively (for the three months ended March 31, 2018, including an amount of USD 49 million and USD 27 million, respectively, deferred from December 31, 2018) were deferred to the following quarter under the provisions of the deeds of trust, since the contractual repayment date was not a business day.

(3) For information about the effect of initial application of IFRS 16, Leases, see Note 3C.

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

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, 2018	March 31, 2017	December 31, 2017
		(Unaudited)		(Audited)
A.	**Income and expenses not included in cash flows:**			
	Depreciation and amortization (3)	45,260	35,804	155,958
	Other revenue	(4,389)	-	-
	Financing expenses, net	27,856	58,709	84,466
	Net changes in fair value of derivatives for inventory and margins	(20,449)	(6,999)	7,342
	Changes in fair value of the loan to Haifa Early Pensions Ltd.	81	(3,249)	(1,460)
	Share in losses of associates	-	543	240
	Loss (gain) and change in inventory hedge deposits, net	3,791	(1,377)	3,197
	Share-based payments	336	346	1,148
	Income tax	15,125	14,249	65,814
		67,611	98,026	316,705
B.	**Changes in assets and liabilities**			
	Decrease (increase) in trade receivables	106,502	44,457	(101,624)
	Decrease (increase) in other receivables	(27,164)	(16,338)	3,034
	Decrease (increase) in inventory	19,534	(56,515)	(160,028)
	Increase (decrease) in trade payables	(29,860)	45,408	17,337
	Increase (decrease) in other payables and provisions	(11,947)	1,205	48,882
	Increase (decrease) in employee benefits, net	(999)	2,607	4,834
		56,066	20,824	(187,565)

(3) For information about the effect of initial application of IFRS 16, Leases, see Note 3C.

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

NOTE 1 – GENERAL

A. Reporting entity

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

B. The interim condensed consolidated interim financial statements as at March 31, 2018 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, 2017 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 16, 2018.

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. Change in classification

As at December 31, 2017 and March 31, 2017, the investment in associates in the amount of USD 2 million was reclassified to long-term loans and receivables, due to the insignificant amounts. In addition, in the three months ended March 31, 2017, certain expenses amounting to USD 2 million were reclassified from cost of sales to selling and marketing expenses, for consistency and for an appropriate reflection of their nature.

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:

Initial application of new standards

A. IFRS 9 (2014), Financial Instruments

As from January 1, 2018, the Group applies IFRS 9 (2014), Financial Instruments (“IFRS 9 (2014)”). This is the final version of IFRS 9 (2014), and it includes updated guidelines for classification and measurement of financial instruments, as well as a new model for measuring impairment of financial assets. These provisions are in addition to IFRS 9 (2013) published in 2013, which was early adopted by the Group.

Principal changes in the Group's accounting policies following application of IFRS 9 (2014) and the expected effects:

1. Impairment of financial assets not measured at fair value through profit or loss

IFRS 9 (2014) includes a new model for recognition of expected credit losses for financial debt assets that are not measured at fair value through profit or loss. The new model presents a dual measurement approach based on whether there has been significant change in credit risk since initial recognition. The Group's major financial debt assets, which are measured at amortized cost, are short-term deposits and trade receivables. For this change, the provision of for the Group’s expected credit losses was increased by USD 7 million, net of tax, against retained earnings as at January 1, 2018.

2. Change in terms of financial liabilities

According to IFRS 9 (2014), if the change in the terms of financial liabilities is immaterial and does not lead to derecognition, the new cash flows should be discounted at the original effective interest rate, with the difference between the present value of the financial liability having the new terms and the present value of the original financial liability being recognized in profit or loss. As a result of applying the new standard, the carrying amount of the syndicated loan whose terms were changed, was recalculated and the effect on the retained earnings as at January 1, 2018, net of tax, is a decrease of USD 2 million.

B. IFRS 15, Revenue from Contracts with Customers

As from January 1, 2018, the Group applies IFRS 15, Revenue from Contracts with Customers (“IFRS 15”). IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. Furthermore, IFRS 15 provides new and more extensive disclosure requirements. The new standard does not have a material effect on the Group's financial statements.

The principal changes in the Group's accounting policies regarding recognition of income, due to the application of IFRS 15, are as follows:

Revenue

The Group recognizes revenue when the customer gains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Initial application of new standards (contd.)

B. IFRS 15, Revenue from Contracts with Customers (contd.)

Determining the transaction price

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Group takes into account the effects of all the following elements when determining the transaction price, to the extent relevant: Variable consideration, the existence of a significant financing component in the contract, non-cash consideration, and consideration payable to the customer.

Variable consideration

The transaction price includes fixed amounts and amounts that may change as a result of discounts, refunds, credits, price concessions, incentives, performance bonuses, penalties, claims and disputes and contract modifications that the consideration in their respect has not yet been agreed by the parties.

The Group includes variable consideration, or part of it, in the transaction price only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. At the end of each reporting period and if necessary, the Group revises the amount of the variable consideration included in the transaction price.

C. Early adoption of IFRS 16, Leases

As from January 1, 2018, the Group early adopts IFRS 16, Leases (“IFRS 16”), which replaces IAS 17 and its related interpretations. The principal effect of early adoption of IFRS 16 is the use of a unified model for the accounting treatment of all leases according to which the lessee has to recognize a right-of-use asset and a lease liability in its financial statements.

Further to Note 19A to the Annual Statements, prior to the initial application date of IFRS 16, the Group as a lessee accounted for the following principal leases as operating leases (since it did not substantially assume all the risks and rewards of the assets): (1) short-term shipping agreements; (2) land under the assets agreement (authorization fees); (4) land at Ducor.

In addition, the Group is a party to arrangements that award it the right-of-use for certain assets, without awarding it control over an identifiable asset for a specified period of time. Accordingly, these arrangements do not constitute a lease and are not accounted for in accordance with IFRS 16.

The Group elected to apply the transitional provision and recognized a lease liability as at January 1, 2018, amounting to USD 99 million, of which an amount of USD 28 million was reclassified as other payables and the balance as other long-term liabilities, according to the present value of the future lease payments, discounted at the relevant incremental borrowing rate of the lessee at that date, corresponding to the balance of the lease period (weighted average of 3.5%), and concurrently recognizing a right-of-use asset at the same amount. Accordingly, application of IFRS 16 had no effect on retained earnings as at January 1, 2018. In addition, assets accounted for by the Group prior to the initial application date of IFRS 16 as leased under a finance lease, with a balance of USD 54 million as at January 1, 2018, and presented in the past under fixed assets, were classified under "right-of-use assets".

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Initial application of new standards (contd.)

C. Early adoption of IFRS 16, Leases (contd.)

As from the date of initial application of IFRS 16, depreciation expenses for the right-of-use assets are recognized (instead of leasing expenses included in EBITDA), which are mainly presented at cost of sales, as well as financing expenses for a lease liability. The effect is an increase of USD 7 million in consolidated EBITDA in the first quarter of 2018. The effect on net profit in the quarter is immaterial.

In addition, in initial application, the Group applies the following practical expedients, as permitted by IFRS 16:

1. Relying on a previous definition and/or assessment of whether an arrangement is a lease in accordance with current guidance with respect to agreements that exist at the date of initial application

2. Not applying the requirement regarding the recognition and measurement of leases of certain groups of assets for a period of up to one year

3. Not applying the requirement regarding the recognition and measurement of leases where the underlying asset has a low value

4. Not separating non-lease components from lease components and instead accounting for all the components as a single lease component

5. Using hindsight when determining the lease term if the contract includes an extension or termination option

6. Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application

The right-of-use assets in sections 2 and 3 above, in immaterial amounts, will continue to be recognized as a current expense over the lease term without recognizing the right-of-use asset and lease liability in the statement of financial position.

Following initial application, there were no significant changes in the principal financial ratios of the Group or in its ability to comply with the financial covenants applicable to it by virtue of the financing agreements and deeds of trust, as set out in Notes 13 and 14 to the financial statements.

Below are the main new accounting policies for leases that are applied as from January 1, 2018 following early application of IFRS 16:

1. Determining whether an arrangement contains a lease

At the inception of the arrangement, the Group determines whether the arrangement is or contains a lease, and examines whether the arrangement transfers the right to control the use of an identifiable asset for a period of time in return for payment. When assessing whether the asset awards control over the use of an identifiable asset, the Group estimates, over the lease term, whether it has both rights set out below:

- The right to essentially obtain all the economic rewards associated with the use of the identifiable asset
- The right to direct the use of the identifiable asset

For lease contracts that include non-lease components, such as services or maintenance, which are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Initial application of new standards (contd.)

C. Early adoption of IFRS 16, Leases (contd.)

2. Leased assets and lease liability

Contracts that award the Group the right to control the use of an identifiable asset over a period of time for a consideration are accounted for as leases. At initial recognition, the Group recognizes a liability at the present value of the future minimum lease payments (these payments do not include variable lease payments that are not linked to the CPI or to any currency), and concurrently, the Group recognizes a right-of-use asset at the amount of the liability, adjusted for lease payments paid in advance or accrued, plus direct costs incurred in the lease. If the interest rate inherent in the lease cannot be determined, the Group makes use of its incremental interest rate.

Subsequent to initial recognition, a right-of-use asset is accounted for using the cost model and it is amortized over the lease term or the useful life of the asset, whichever is earlier. The Group has elected to apply the practical expedient, which determines that lease payments associated with short-term leases of up to one year, or leases for which the underlying asset is of low-value, are recognized in profit or loss on a straight-line basis over the lease term, without recognizing the asset and/or liability in the statement of financial position.

The balance of the right-of-use assets also includes direct costs attributable to assets, including levies, and in respect of lease of land at Ducor, costs for dismantling and removal at the end of the lease term.

3. Term of the lease

The term of the lease is determined as the period in which it is not possible to cancel the lease, together with the periods covered by an option to extend or cancel the lease if it is reasonably certain that the lessee will choose to exercise or not to exercise the option, respectively.

4. Variable lease payments

Variable lease payments that depend on an index or a currency rate are initially measured using the index or currency rate at the inception of the lease and are included in the measurement of the lease liability. When there is a change in the cash flows of the future lease payments arising from the change in the index or currency rate, the liability is adjusted against the right-of-use asset. Other variable lease payments that are not included in measurement of the liability are recognized in profit or loss at the date the payment terms are fulfilled.

5. Subleases

In leases in which the Group sublets the underlying asset, the Group assesses the classification of the sublease as a finance or operating lease, for the right-of-use received from the primary lease.

6. Amortization of right-of-use asset

Estimated useful life of the right-of-use asset as at January 1, 2018:

	Years
Ships	Year
Land and buildings in Israel	38-87 years (mainly 87 years)
Land - Holland	26 years

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.

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Polymers - Ducor	Total polymers	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Three months ended March 31, 2018 (unaudited)								
Revenue from external sources - Israel	701,394	104,580	-	104,580	7,058	813,032	8,751	-	821,783
Revenue from external sources - other countries	572,087	69,115	54,653	123,768	117,462	813,317	10,756	-	824,073
Total revenue from external sources	1,273,481	173,695	54,653	228,348	124,520	1,626,349	19,507	-	1,645,856
Revenue from inter-segment sales (1)	166,044	2,981	-	2,981	8,508	177,533	53	(177,586)	-
Segment revenue	1,439,525	176,676	54,653	231,329	133,028	1,803,882	19,560	(177,586)	1,645,856
Accounting EBITDA (3)	85,307(2)	49,390	3,349	52,739	7,344	145,390	7,080	3,360	155,830
Depreciation and amortization (3)	(20,901)	(11,291)	(887)	(12,178)	(2,880)	(35,959)	(6,118)	-	(42,077)
Accounting EBITDA less amortization and depreciation									113,753
Amortization of excess cost arising on acquisition of subsidiaries									(3,183)
Other revenues, net									4,389
Operating profit									114,959
Financing expenses, net (2)									(25,664)
Income before taxes on income									89,295

(1) Mainly in Israel
(2) Adjusted EBITDA in the fuel segment for the nine months ended March 31, 2018: USD 49,743 thousand.
(3) For information about the effect of initial application of IFRS 16, Leases, see Note 3C.

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Polymers - Ducor	Total polymers	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Three months ended March 31, 2017 (unaudited)								
Revenue from external sources	940,217	163,978	54,845	218,823	34,158	1,193,198	11,949	--	1,205,147
Revenue from inter-segment sales	97,023	2,140	-	2,140	3,270	102,433	48	(102,481)	--
Segment revenue	1,037,240	166,118	54,845	220,963	37,428	1,295,631	11,997	(102,481)	1,205,147
Accounting EBITDA	64,451 (1)	40,748	6,984	47,732	(821)	111,362	989	4,197	116,548
Depreciation and amortization	(19,802)	(11,391)	(162)	(11,553)	(1,249)	(32,604)	(120)	25	(32,699)
Accounting EBITDA less amortization and depreciation									83,849
Amortization of excess cost arising on acquisition of subsidiaries									(3,105)
Operating profit									80,744
Financing expenses, net									(47,021)
Group's share in losses of associates, net of tax									(543)
Income before taxes on income									33,180

(1) Adjusted EBITDA in the fuel segment for the three months ended March 31, 2017: USD 22,049 thousand.

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Polymers - Ducor	Total polymers	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Year ended December 31, 2017 (audited)								
Revenue from external sources	4,324,329	673,974	229,657	903,631	349,647	5,577,607	46,137	-	5,623,744
Revenue from inter-segment sales	583,257	8,943	-	8,943	31,030	623,230	279	(623,509)	-
Segment revenue	4,907,586	682,917	229,657	912,574	380,677	6,200,837	46,416	(623,509)	5,623,744
Accounting EBITDA	388,185 (1)	189,704	21,732	211,436	15,947	615,568	4,084	244	619,896
Depreciation and amortization	(85,088)	(45,339)	(2,274)	(47,613)	(10,318)	(143,019)	(443)	48	(143,414)

Accounting EBITDA less amortization and depreciation	476,482
Other expenses, net	(247)
Amortization of excess cost arising on acquisition of subsidiaries	(12,544)
Operating profit	463,691
Financing expenses, net	(135,722)
Group's share in losses of associates, net of tax	(240)
Income before taxes on income	327,729

(1) Adjusted EBITDA in the fuel segment in 2017: USD 320,631 thousand

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

A. Contingent liabilities

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

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

Further to Note 20B2 to the Annual Statements, in the reporting period, the Company paid NIS 251 million (USD 73 million) for development levies. In addition, the Company included provisions for interest (against financing expenses) that reflect the evolving settlement between the parties. The provision did not have a material effect on the operating results in the reporting period.

B) Liabilities relating to environmental quality

Further to Note 20B3, 20B5, and 20B6 to the Annual Statements, there are legal, administrative and other proceedings against Bazan Group companies regarding environmental quality and various warnings have been received from the Ministry of Environmental Protection, which is investigating various issues. For some of these, the Company believes, based on the opinion of its legal counsel and the legal counsel of the subsidiaries, that at this stage, it is not possible to estimate their effect, if any, on the financial statements as at March 31, 2018. Accordingly, no provision regarding this matter was included in the financial statements.

C) Derivative claims

Further to Note 20B4 to the Annual Statements, in the reporting period, a shareholder of the Company (KRNA) petitioned the Tel Aviv District Court for recognition of a claim filed as a derivative claim on behalf of the Company against OPC, Israel Chemicals, Israel Corporation, its controlling shareholders and directors who served in the Company in 2012 (when the transaction with Tamar was approved), and/or who served in the Company in 2017 (when the transaction with Energean was approved), in the matter of transactions for the purchase of natural gas from Tamar and from Energean, claiming that the transactions were not approved as required and that both transactions are not in favor of the Company and are not in market terms.

The Company believes, based on the opinion of its legal counsel representing it in this case, that at this early stage it is not possible to estimate the chances of the motion for certification, but in any event, the Company will not be required to pay any amounts claimed in the motion.

B. Agreements

1. Further to Note 20C1e to the Annual Statements, in the reporting period, the general meeting approved the Company's engagement in an agreement for the purchase of natural gas from Energean. The agreement is subject to the fulfillment of preconditions. As at the approval date of the financial statements, some of the preconditions have not yet been fulfilled.

2. Further to Note 20C3 to the Annual Statements, in the reporting period, a ruling was handed down dismissing the administrative petition filed by some of the opponents of the decisions of the National Council for Planning and Construction. Appeals have been filed against the judgment at the Supreme Court. Subsequent to the reporting date, the outline plan for the Bazan site came into force, after due completion of publication process.

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

B. Agreements (contd.)

3. As set out in Note 27B6 to the Annual Statements, in the reporting period, the compensation committee and the Board of Directors of the Company approved the employment terms of Yashar Ben Mordechai, and subsequent to the reporting period, the employment terms were approved by the general meeting.

In this context, Yashar Ben-Mordechai will be allocated 13.5 million options of the Company under the existing option plan, as set out in Note 21B to the Annual Statements, which will vest over a period of three years as from November 30, 2017, in three equal portions, at the end of each year during the three years.

The options that vest in the first lot will be exercisable for two years from their vesting date, and the options that vest in each of the two additional lots will be exercisable for one year from the vesting date.

If the employment of Yashar Ben-Mordechai is terminated at the Company's initiative, less than two years from the date he started his employment with the Company, the vesting of the second lot will be accelerated.

If control of the Company is transferred within two years from the date his employment commenced, and within six months from the transfer of control of the Company, Yashar Ben-Mordechai's employment in the Company is terminated, including at his initiative, the vesting period of the options that did not vest until that date will be accelerated.

The remaining terms of the options will be in accordance with the Company's 2007 options plan.

Below is a summary of the terms of the options and the information used to determine the fair value of the benefit:

No. of instruments (millions)	Vesting period (years)	Life of options (years)	Average interest rate	Expected fluctuations	Exercise supplement	Share price as a basis for option price	Share value of the options (*)
			%		NIS		NIS thousands
13.5	1-3	2.7-3.7	0.39-0.58	20.6-22.8	1.775	1.664	3,105

(*) Shortly before the approval date of the Board of Directors

C. Guarantees and liens

Further to Note 20A to the Annual Statements, there were no material changes in the Group's guarantees and liens in and subsequent to the reporting period, other than changes in the normal course of business in the amount of open short-term documentary letters of credit to suppliers.

NOTE 6 - FINANCIAL COVENANTS

A. The Company

Further to Note 13C1 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, 2018:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated adjusted equity (USD million)	>	750	1,169.5
Consolidated adjusted equity to total consolidated statement of financial position	>	20.0%	32.3%
Consolidated ratio (net financial debt + factoring receivables) to consolidated adjusted EBITDA	>	5.0	2.3
Consolidated principal and interest cover ratio	>	1.1	2.8
Separate cash statement (USD millions)	>	75	457.5

In addition, as set out in Note 13C2 and 14C to the Annual Statements, as at March 31, 2018, 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, E, F, G, and I). Definitions and calculation of the covenants for the loan and for the debentures 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, the Company believes that it is unlikely that the covenants with the foreign bank or with the debenture holders will be breached without breaching the covenants in the syndication agreement.

As at March 31, 2018, the Company is in compliance with the financial covenants for the bank agreements, private debentures and Debentures (Series D, E, F, G, and I).

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, 2018:

	Required	Required ratio/amount	Actual ratio/amount
Equity (USD millions)	>	200	674.0
Total separate financial debt (USD millions)	>	550	83.6
Consolidated principal and interest cover ratio	>	1	49.0

NOTE 6 - FINANCIAL COVENANTS (CONTD.)

B. Carmel Olefins

Further to Note 13D1 to the Annual Statements, the following financial covenants, as defined in the Note, apply to the banks as at March 31, 2018:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated intangible equity (USD million)	>	220	662.7
Consolidated tangible equity of net consolidated tangible total balance sheet	>	24%	74.5%
Financial debt to consolidated EBITDA	>	4.5	0.4
Consolidated principal and interest cover ratio	>	1.1	49.0

As at March 31, 2018, 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.

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, 2018:

	Required	Required ratio/amount	Actual ratio/amount
Net financial debt to EBITDA	<	4.5	1.7
Tangible equity to tangible balance sheet	>	25%	56.8%
Tangible equity (USD millions)	>	75	127.0

As at March 31, 2018, Gadiv is in compliance with the financial covenants that were established.

D. Ducor

Further to Note 13A1b to the Annual Statements, as at March 31, 2018, Ducor has not utilized credit facilities and it has no debt balances for which discounting has been made, and it is in compliance with the financial covenants.

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, liabilities for a lease and marketable debentures (with the exception of Series D, E, F, and I), are the same as or proximate to their fair value.

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

		March 31, 2018		
	Adjusted par value	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Private debentures (3)	5,625	5,625	-	5,867
Marketable Debentures (Series F and I) (1)(3)	534,745	538,214	548,564	-
Marketable Debentures (Series D-E) (1)(4)	408,777	428,609	463,001	-
Bank loans (2)	441,476	432,793	-	466,134
	1,390,623	1,405,241	1,011,565	472,001

(1) The fair value and the adjusted par value are based on the closing TASE price. For Debentures (Series I), as at March 31, 2018, the carrying amount and adjusted par value include a principal of USD 6 million, which was postponed to April 1, 2018.

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

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

(4) The carrying amount is presented at amortized cost (net of raising costs and premium/discounting) after application of fair-value hedge accounting, as the case may be.

	March 31, 2018		
	Adjusted par value	Carrying amount	Fair value
Debentures at fair value:			
Marketable Debentures (Series A)	169,699	180,994	180,994
Marketable Debentures (Series G) (1)	108,758	114,196	77,943
	278,457	295,190	258,937

(1) As at March 31, 2018, the carrying amount and adjusted par value of Debentures (Series G) include a principal of USD 36 million, which was postponed to April 1, 2018.

USD thousands

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

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

		March 31, 2017		
	Adjusted par value	**Carrying amount**	**Fair value level 1**	**Fair value level 2**
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
	1,193,095	1,196,275	762,275	535,784

(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 is presented at amortized cost (net of raising costs and premium/discounting).

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

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

USD thousands

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

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

	December 31, 2017				
	Adjusted par value	**Carrying amount**	**Fair value level 1**	**Fair value level 2**	**Discount rates used for determining fair value**
Financial liabilities					
Private debentures (3)	6,960	6,960	-	7,257	4.06% - 0.83%
Marketable Debentures (Series F and I) (1)(3)	482,043	484,755	517,779	-	
Marketable Debentures (Series D-E) (1)(4)	363,552	376,568	414,841	-	
Bank loans (2)	451,164	439,290	-	484,942	5.33% - 3.32%
	1,303,719	1,307,573	932,620	492,199	

(1) The fair value of the marketable debentures is based on the TASE price as at December 31, 2017.

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

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

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

	December 31, 2017	
	Adjusted par value	**Carrying amount**
Debentures at fair value:		
Marketable Debentures (Series A)	172,515	183,209
Marketable Debentures (Series G)	110,563	118,821
	283,078	302,030

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

USD thousands

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

B. Fair value hierarchy of financial instruments measured at fair value

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

	March 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivatives used for accounting hedging				
CCIRS (***)	-	32,554	-	32,554
Interest rate swaps (***)	-	1,556	-	1,556
Derivatives for inventory (*)	2,810	-	-	2,810
Derivatives for margins	-	-	6,775	6,775
Derivatives that are not used for accounting hedging				
CCIRS (***)	-	16,938	-	16,938
Interest rate swaps (***)	-	394	-	394
Forward contracts	-	1,553	-	1,553
Derivatives for margins	-	3,414	-	3,414
	2,810	56,409	6,775	65,994
Financial liabilities				
Non-derivative				
Marketable Debentures (Series A, G) (**)	295,190	-	-	295,190
Derivatives used for accounting hedging				
CCIRS (***)	-	3,939	-	3,939
Derivatives that are not used for accounting hedging				
CCIRS (***)	-	1,886	-	1,886
Forward contracts	-	377	-	377
Derivatives for inventory	1,490	-	-	1,490
	296,680	6,202	-	302,882

(*) In the reporting period, income (before tax) in the amount of USD 4 million was recognized in a hedge fund for the effective part of the change in the fair value of futures on Brent. Accordingly, as at March 31, 2018, the balance of the hedge fund (before tax) amounts to USD 5 million.

(*) As at March 31, 2018, the carrying amount of the Debentures (Series G) includes a principal of USD 36 million, the payment date of which was postponed to April 1, 2018

(***) Below are the main assumptions used to determine the fair value of the principal and interest swap contracts as at March 31, 2018:

- NIS interest (used for discounting the NIS component) 3.7% - (0.58%)
- CPI-linked NIS interest (used to discount the NIS-linked component): 4% - (3.9%)
- USD interest (used to discount the USD component) 1.7%-7.2%
- Exchange rate (NIS/USD) as at March 31, 2018

USD thousands

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

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

	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
	4,991	34,552	3,886	43,429
<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
	368,171	18,757	-	386,928

(*) In the first quarter of 2017, 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 in the reporting period.

USD thousands

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

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

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivatives used for accounting hedging				
CCIRS (**)	-	39,936	-	39,936
Derivatives for inventory (*)	2,868	-	-	2,868
Derivatives for margins	-	-	1,261	1,261
Interest rate swaps (**)	-	909	-	909
Derivatives that are not used for accounting hedging				
CCIRS (**)	-	22,401	-	22,401
Interest rate swaps	-	252	-	252
	2,868	63,498	1,261	67,627
Financial liabilities				
Non-derivative				
Marketable Debentures (Series A, G)	302,030	-	-	302,030
Derivatives used for accounting hedging				
CCIRS (**)	-	1,170	-	1,170
Derivatives that are not used for accounting hedging				
CCIRS (**)	-	1,145	-	1,145
Forward contracts	-	2,469	-	2,469
Derivatives for inventory	6,101	10,384	-	16,485
Derivatives for margins	-	2,892	-	2,892
	308,131	18,060	-	326,191

(*) In 2017, income (before tax) in the amount of USD 1 million was recognized in a hedge fund for the effective part of the change in the fair value of futures on Brent. Accordingly, as at December 31, 2017, the balance of the hedge fund (before tax) amounts to USD 1 million.

(**) Below are the main assumptions used to determine the fair value of the principal and interest swap contracts as at December 31, 2017:

- NIS interest (used for discounting the NIS component) 3.7% - (0.32%)
- CPI-linked NIS interest (used to discount the NIS-linked component): 4% - (1.04%)
- USD interest (used to discount the USD component) 1.4%-7.2%
- Exchange rate (NIS/USD) as at December 31, 2017

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

A. On November 15, 2017, the Company's Board of Directors approved the distribution of an interim dividend in the amount of USD 65 million, based on the Company's financial statements as at September 30, 2017, subject to the approval of the general meeting of the shareholders. On January 14, 2018, the general meeting approved the distribution of the dividend with a special majority and the dividend was paid on January 30, 2018. The dividend is from profits that are not eligible for benefits by virtue of the Encouragement of Capital Investments Law, 1959.

B. Further to Note 27B1 to the Annual Statements, on April 25, 2018, the general meeting approved a compensation policy that will be effective as from 2018.

C. Further to Note 27B3 and 27B5 to the Annual Statements, in the reporting period, the compensation committee and Board of Directors of the Company approved bonuses for 2017: (1) for the Chairman of the Board of Directors, Ovadia Eli, in the amount of NIS 1.8 million (this bonus was approved subsequent to the reporting period by the general meeting); (2) for the former CEO of the Company, Avner Maimon, in the amount of NIS 1 million. The Company reflected these expenses in the financial statements for 2017.

D. On April 3, 2018, Maalot S&P updated the rating of the Company and its public debentures to ilA- with positive outlook.

E. Further to Note 6B to the Annual Statements regarding the factoring agreements of the Company and its subsidiaries Carmel Olefins and Gadiv, as at March 31, 2018, the Company, Carmel Olefins and Gadiv derecognized an amount of USD 132 million, USD 62 million and USD 21 million, respectively, from their trade receivables, in accordance with IFRS 9.

F. In the reporting period, Carmel Olefins performed planned follow-up maintenance in the ethylene facility. In accordance with binding agreements between the Group companies and their insurers for insurance indemnification for loss of profits incurred by the Group due to the maintenance, in the reporting period, the Group recognized income for insurance indemnity in the amount of USD 15 million (the share of the Company is USD 2 million and the share of Carmel Olefins is USD 13 million). As at the reporting date, the insurance indemnification has not yet been received.

G. In the reporting period, the Company raised USD 115 million (net of issue costs) by way of expanding Debentures (Series E and I). Concurrently with the expansion of the Debentures (Series E), the Company entered into a principal and interest swap transaction (including fixing the USD interest) to reduce currency exposure and interest thereon, and elected to apply cash flow hedge accounting principles. The effective interest in the issuance (in terms of fixed USD interest after taking into account the swap transaction) is 4.3%.

H. In the reporting period, the Company completed a transaction for the sale of shares of an associate in consideration for USD 2 million, for which a profit of USD 1.5 million was recognized under other income.

I. 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.

J. Further to Note 21B to the Annual Statements, subsequent to the reporting period, the Chairman of the Board of Directors Ovadia Eli, exercised 8,000 thousand options on the Company's shares (1,312 thousand shares).

Bazan Ltd.

Condensed Separate Interim Financial Information

as of March 31, 2018

(Unaudited)

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

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

Somekh Chaikin
7 Nahum Het Street,
PO Box 15142
Haifa 31905
04-861 4800

Attn:
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, 2018 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.

Highlights

Without qualifying our above opinion, we draw attention to Note 3A to the separate financial information (including by way of reference to Note 5 to the separate financial information for 2017 and to Note 20B(3), (5) and (6) to the consolidated financial statements of the Company for 2017) with regard to legal, administrative and other proceedings, other contingencies and laws and regulations relating to environmental protection which, based on the opinions of their legal counsels, the 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 16, 2018

Condensed Separate Interim Information on Financial Position
USD thousands

	March 31, 2018	March 31, 2017	December 31, 2017
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	382,086	188,580	265,863
Deposits	75,382	40,383	76,058
Trade receivables	270,736	244,229	381,323
Other receivables	115,616	50,582	86,805
Current maturities of bank loans	-	10,882	-
Financial derivatives	18,213	7,653	11,845
Inventories	561,682	499,699	579,049
Total current assets	1,423,715	1,042,008	1,400,943
Non-current assets			
Investments with respect to investees, net	964,824	827,288	922,516
Loan to Haifa Early Pensions Ltd.	44,976	47,666	50,228
Long term loans to investees	10,000	152,816	10,000
Financial derivatives	47,658	26,881	55,782
Deferred tax assets, net	-	24,813	-
Fixed assets, net	1,243,350	1,291,016	1,297,146
Right of use assets (1)	108,846	-	-
Intangible assets and deferred expenses, net	12,456	10,610	12,087
Total non-current assets	2,432,110	2,381,090	2,347,759
Total assets	3,855,825	3,423,098	3,748,702

(1) For further information pertaining to the effect of initial application of IFRS 16 concerning leases, see Note 3C to the consolidated financial statements.

Ovadia Eli	**Yashar Ben Mordechai**	**Israel Lederberg**
Chairman, Board of Directors	**CEO**	**CFO**

Date of approval of the separate interim financial information: May 16, 2018

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

Condensed Separate Interim Information on Financial Position
USD thousands

	March 31, 2018	March 31, 2017	December 31, 2017
	(Unaudited)		(Audited)
Current liabilities			
Loan to subsidiary (including current maturities)	274,579	158,424	229,953
Trade payables	649,128	703,413	681,085
Other payables (1)	111,019	109,447	142,138
Financial derivatives	6,215	18,543	22,650
Provisions	24,583	35,626	23,641
Total current liabilities	1,065,524	1,025,453	1,099,467
Non-current liabilities			
Liabilities to banks, net	356,838	410,672	361,897
Debentures, net	1,052,203	963,137	999,503
Other long-term liabilities (1)	100,933	20,027	32,555
Deferred tax liabilities, net	29,221	-	16,457
Financial derivatives, net	1,100	9,395	-
Employee benefits, net	32,615	32,186	34,389
Total non-current liabilities	1,572,910	1,435,417	1,444,801
Total liabilities	2,638,434	2,460,870	2,544,268
Equity			
Share capital	805,771	805,282	805,770
Share premium	31,980	31,962	31,979
Capital reserves	35,239	32,486	24,102
Retained earnings	344,401	92,498	342,583
Total capital	1,217,391	962,228	1,204,434
Total liabilities and capital	3,855,825	3,423,098	3,748,702

For further information pertaining to the effect of initial application of IFRS 16 concerning leases, see Note 3C to the consolidated financial statements.

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

Condensed Separate Interim Information on Profit and Loss and Other Comprehensive Income
USD thousands

	Three months ended		Year ended
	March 31, 2018	March 31, 2017	December 31, 2017
	(Unaudited)		(Audited)
Revenue	1,439,525	1,037,240	4,907,586
Cost of sales	(1,355,906)	(977,751)(*)	(4,536,957)
Gross profit	83,619	59,489	370,629
Sales and Marketing Expenses	(13,044)	(8,592)(*)	(37,755)
General and Administrative Expenses	(6,169)	(6,248)	(31,967)
Other revenue, net	1,489	-	-
Operating profit	65,895	44,649	300,907
Financing revenues	9,506	3,098(*)	28,404
Financial expenses	(31,235)	(44,822)(*)	(145,544)
Finance expenses, net	(21,729)	(41,724)	(117,140)
Company's share in profits (losses) of investees, net of tax	37,610	22,907	115,968
Profit before income tax	81,776	25,832	299,735
Income tax	(7,606)	(6,901)	(37,820)
Profit for the period	**74,170**	**18,931**	**261,915**
Items of other comprehensive income (loss) after initial recognition in comprehensive income is transferred to profit or loss			
Foreign currency translation differences for foreign operations	36	-	-
Effective share of the change in fair value of cash flow hedging, net of tax	3,910	(8,923)	893
Changes in fair value hedging costs, net of tax	(1,226)	(1,150)	(6,666)
Other comprehensive income (loss) for investees, net of tax	5,093	(935)	(355)
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	7,813	(11,008)	(6,128)
Items of other comprehensive income (loss) not transferred to profit or loss			
Reclassification of defined benefit plan, net to tax	1,050	-	(922)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	2,997	1,857	(3,306)
Other comprehensive income (loss) for investees, net of tax	509	-	(382)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	(7)	5	12
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	4,549	1,862	(4,598)
Total income for the period	**86,532**	**9,785**	**251,189**

(*) For further information, see Note 2C to the consolidated financial statements.

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

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

Condensed Separate Interim Information of Cash Flows
USD thousands

	Three months ended		Year ended
	March 31, 2018	March 31, 2017	December 31, 2017
	(Unaudited)		(Audited)
Cash flows from operating activities			
Profit for the period	74,170	18,931	261,915
Adjustments to cash flows from operating activities:			
Revenue and expenses not involving cash flows (Appendix A – section A)	346	40,763	87,403
	74,516	59,694	349,318
Changes in assets and liabilities items (Appendi A - section B)	80,806	55,216	(151,453)
Net income tax paid	(185)	(8,072)	(8,981)
Net cash from operating activities	155,137	106,838	188,884
Cash flows from investment activities			
Interest received	971	377	4,014
Interest received from investees	1,116	4,562	17,924
Decrease (increase) in deposits, net	(4)	35,528	(4,721)
Proceeds from disposal of a subsidiary (see Note 8H to the consolidated financial statements)	2,005	-	-
Dividend received from investees	569	299	701
Repayment of long-term loans from others, net	-	11	77
Repayment of long-term loans from investees	-	36,942	201,249
Long term loans provided to investees	-	-	(10,000)
Decrease in cash from investment activities with investees, net	(11,402)	(23,497)	(65,473)
Repayment of loan from Haifa Early Pensions Ltd.	-	-	3,663
Purchase of property plant and equipment (including periodic maintenance) (1)	(59,613)	(29,580)	(71,284)
Purchase of intangible assets and deferred expenses	(667)	(272)	(2,731)
Net cash from (used for) investing activities	(67,025)	24,370	73,419
Cash flow from financing activities			
Short-term borrowing, net	-	(525)	(624)
Receipt (provision) of deposits from customers and others, net	(210)	12,731	29,015
Interest paid (2)	(14,017)	(42,585)	(136,819)
Interest paid to investees	(408)	(16)	(1,988)
Dividend paid	(65,000)	(85,000)	(85,000)
Derivative transactions, net	2,534	1,053	(5,809)
Decrease in cash from funding activities with investees, net	-	(1,760)	(1,760)
Receipt of long-term bank loans	-	16,457	16,457
Repayment of long-term bank loans	(8,250)	(8,250)	(59,143)
Repayment of debentures (**)	(1,221)	(84,987)	(177,262)
Issue of debentures, net (see Note 8G to the consolidated financial statements)	114,996	-	170,188
Payment of liability for lease	(31)	-	-
Net cash from (used in) finance activities	28,393	(192,882)	(252,745)
Net increase (decrease) in cash and cash equivalents	116,505	(61,674)	9,558
Effect of exchange rate fluctuations on cash and cash equivalents	(282)	355	6,406
Cash and cash equivalents at beginning of period	265,863	249,899	249,899
Cash and cash equivalents at end of period	382,086	188,580	265,863

(1) For further information regarding periodic maintenance carried out on part of the Company's plants in 2017, see Note 11A(4) to the consolidated financial statements.

(2) As of March 31, 2018, principal and interest payments in respect of debentures in the amount of USD 42 million and USD 8 million, respectively (for the three months ended March 31, 2017, including an amount of USD 49 million and USD 27 million, respectively, which were deferred from December 31, 2016), were deferred in accordance with the terms of the deeds of trust to the following quarter, as the contractual date of repayment is not a business day.

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

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

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

		Three months ed		Year ended
		March 31, 2018	March 31, 2017	December 31, 2017
		(Unaudited)		(Audited)
A.	**Income and expenses not that do not involve cash flows:**			
	Amortization and depreciation	20,899	19,802	87,279
	Financing expenses, net	28,153	48,440	68,589
	Net changes in fair value of derivatives	(21,275)	(7,062)	7,264
	Changes in fair value of a loan to Haifa Early Pensions Ltd.	81	(3,249)	(1,460)
	Share in earnings of investees, net	(37,610)	(22,907)	(115,968)
	Other revenue	(1,489)	-	-
	Loss (gain) and change in inventory hedge deposits, net	3,791	(1,377)	3,197
	Share-based payments	190	215	682
	Income tax	7,606	6,901	37,820
		346	40,763	87,403
B.	**Changes in assets and liabilities**			
	Decrease (increase) in trade receivables	102,586	61,118	(75,975)
	Decrease (increase) in other receivables	(7,228)	(7,167)	3,967
	Decrease (increase) in inventory	17,367	(53,339)	(132,779)
	Increase (decrease) in trade payables	(23,821)	46,377	6,442
	Increase (decrease) in other payables and provisions	(7,557)	6,466	44,086
	Increase (decrease) in employee benefits, net	(541)	1,761	2,806
		80,806	55,216	151,453

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

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 the 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.