OIL REFINERIES LTD

Condensed Consolidated Interim Financial Statements as at March 31, 2019

(Unaudited)

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

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Contents

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Directors' Report on the State of the Company's Affairs for the Period ended March 31, 2019

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, 2019 ("the Reporting Period"). This report is presented under the assumption that the entire interim report and the entire 2018 Periodic Report, including the description of the Corporation's business for 2018, are also available to the reader.

Chapter 1 - Description of the Company and its Business Environment

A. General

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

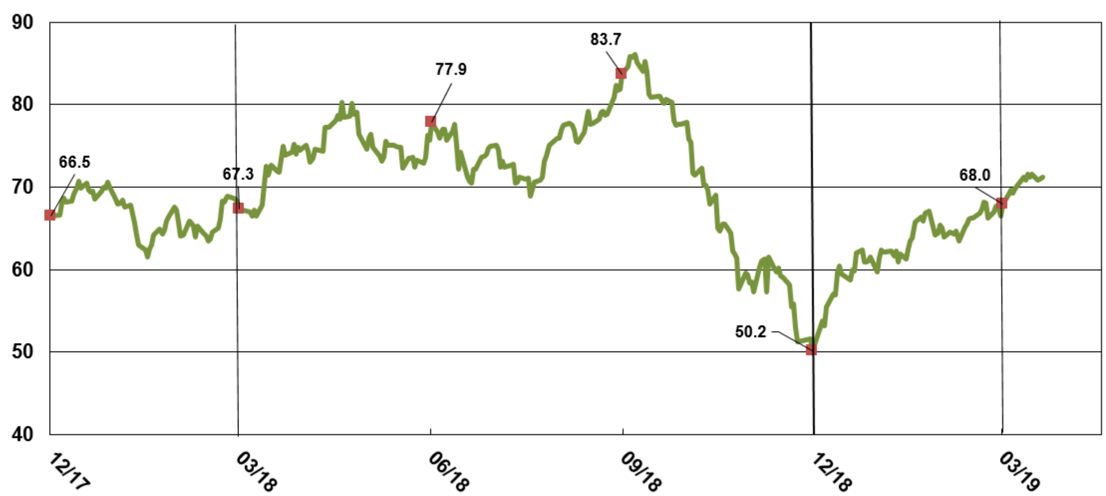
The subsidiaries' plants (with the exclusion of Ducor, which is located in the Netherlands) are downstream facilities of the Company and they receive most or all of the required feedstock from the Company on an ongoing basis through pipelines, and return all or part of the products of their facilities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

B. Business environment and Bazan Group profitability

1. Fuels Segment

The price of crude oil

Brent crude oil prices in 2018-2019 (USD/barrel)



Source: Reuters

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

B. Business environment and Bazan Group profitability - contd.

1. Fuels Segment – contd.

The price of crude oil - contd.

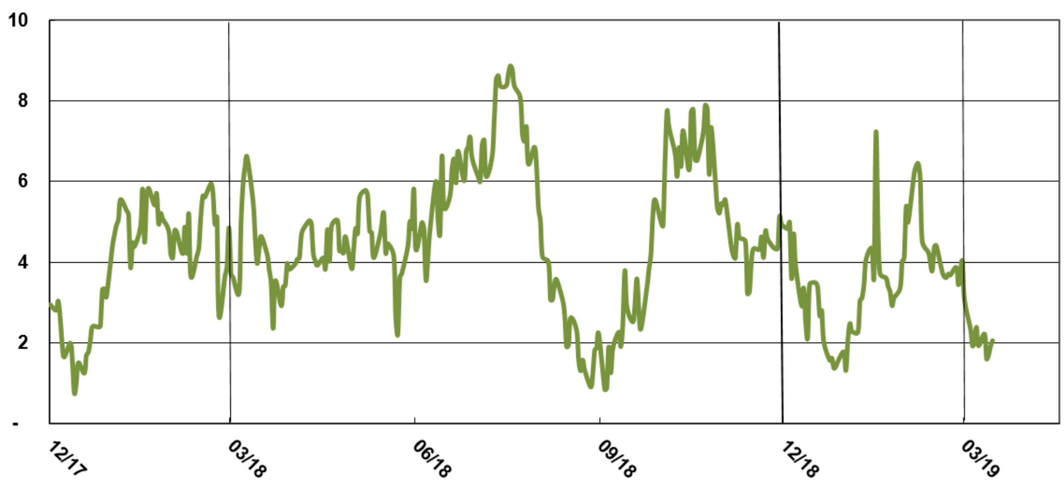
Average price of Brent crude (USD/barrel)

1-3.2019	1-3.2018	Change
63.1	66.8	- 6%

- The sharp rise in the Brent price during the Reporting Period is mainly due to OPEC's production reduction policy and US sanctions on Iran and Venezuela, which have reduced part of the supply on the market and tightened global supplies.
- Subsequent to Reporting Date, due to intensification of the sanctions against Iran, and against American pressure on other OPEC members to increase output, the Brent price continued to rise, so that its price close to the date of approval of this report was USD 72 per barrel.
- In the Reporting Period the price of Ural crude, which is heavy crude oil, compared to the price of Brent (which is light crude oil), was traded with a average premium of USD 0.3 per barrel, compared with a discount of USD 1.7 in the corresponding period last year. The relative strengthen in Ural was mainly due to the decrease in the supply of heavy crude oil following the sanctions on Iran and Venezuela, and increasing consumption for cracking to produce intermediate distillates (such as diesel fuel and kerosene) as demand increased. In addition, Ural crude supplied to Europe was recently found to be contaminated, which has increased the supply shortage.
- During the Reporting Period, the crude oil futures market was flat. As at Reporting Date, the market became backwardated at average of USD 0.3 per barrel per month.

Refining Margins - Reuters Ural Margin and Bloomberg Average Ural Margin [1]

Reuters Ural Margin in 2018-2019 (USD per barrel)



Source: Reuters

[1] As defined in the Company's Periodic Report for 2018.

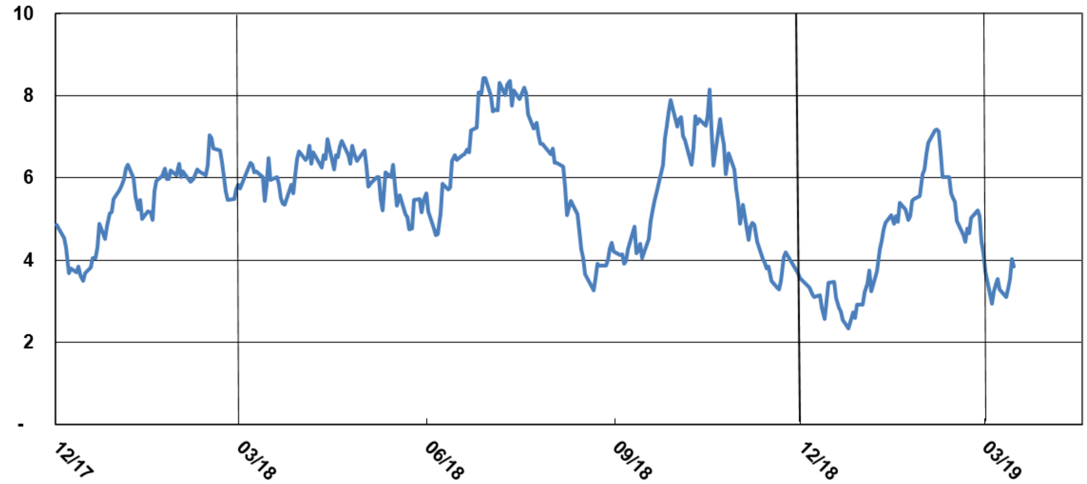
Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

1. Fuels Segment - contd.

Refining margins - contd.

Bloomberg Average Ural Margin in 2018-2019 (USD per barrel)



Source: Bloomberg

Bloomberg Average Ural Margin (USD/barrel)

	1-3.2019	1-3.2018	Change
Reuters Ural	3.6	4.0	- 10%
Bloomberg Average Ural	4.5	5.4	- 17%

- The main cause of the decline in the Ural margins in the Reporting Period compared to the corresponding period last year is the sharp rise in the Brent price and the strengthening Ural price compared with Brent, which led to a decrease in Ural margins.
- Subsequent to Reporting Date and up to the date of approval of the Report, the Reuters Ural margin was USD 1.9 per barrel and the Bloomberg Average Ural margin was USD 3.1 per barrel, among other things, due to the continued rise in Ural prices.

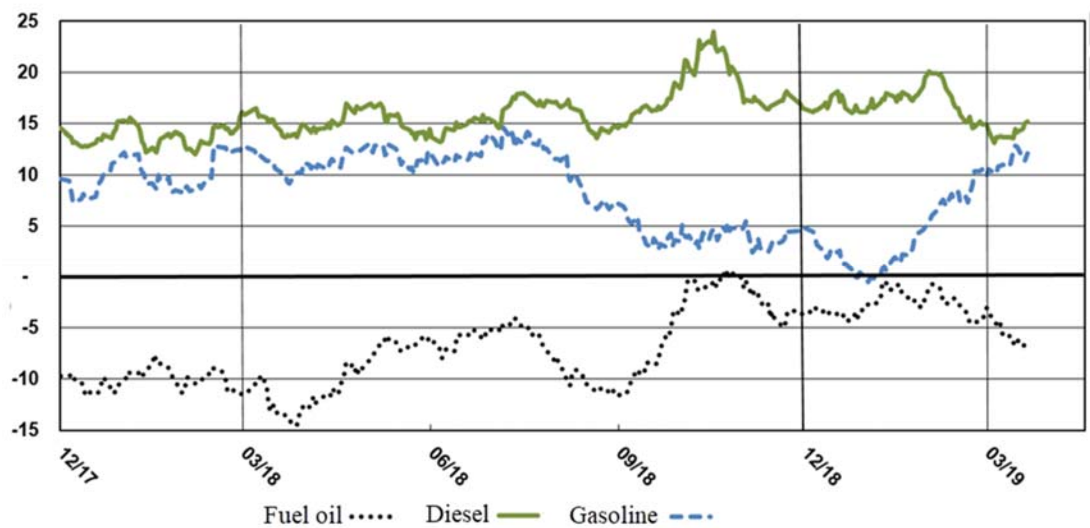
Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

1. Fuels Segment - contd.

<u>Refining margins - contd.</u>

Mediterranean Basin Diesel [(1)], Gasoline[(2)] and 3.5% Fuel Oil[(3)] margins compared to Brent crude oil[(4)] (USD per barrel)



Source: Reuters

(1) ULSD CIF Med

(2) Prem Unl CIF Med

(3) Fuel Oil 3.5% CIF Med

(4) Brent (Dated)

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

	1-3.2019	1-3.2018	Change
Diesel	17.0	13.7	24%
Gasoline	4.0	10.0	- 60%
3.5% Fuel oil	- 2.7	- 10.1	73%

- The Diesel margin continues to be stable by increasing compared to the corresponding period last year, mainly due to an increase in demand for transportation, heating and electricity.
- The Gasoline margin declined during the Reporting Period compared to the corresponding period last year, mainly as a result of seasonal decrease in demand and increase in supply in the US and in the Persian Gulf region.
- The fuel oil margin increased significantly in the Reported Period compared to the corresponding period last year, mainly due to demand for fuel oil for cracking, industry and marine transportation.

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

B. Business environment and Bazan Group profitability - contd.

1. Fuels Segment - contd.

Domestic market consumption of distillates (1)

Ktons	1-3.2019	10-12.2018	7-9.2018	4-6.2018	1-3.2018
Transportation Fuels (2)	1,875	1,921	1,985	1,947	1,828
Other distillates	705	719	669	739	664
Total	**2,580**	**2,640**	**2,654**	**2,686**	**2,492**

Source: Ministry of National Infrastructure

(1) Domestic consumption of distillates (transportation, industrial and heating fuels) rose by 4% compared to the corresponding period last year.

(2) Consumption of transportation fuels (gasoline, diesel and kerosene) increased by 3% 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)

	1-3.2019	1-3.2018
Utilization of crude oil refining facilities	95%	100%
Refining volume	2,299	2,433
Volume of HVGO processed	281	171
Total	**2,580**	**2,604**

In the Reporting Period, utilization of refining facilities was 95% due to the limited availability of crude oil at the Company's facilities during the winter months. Nonetheless, total product output was similar to the corresponding period last year.

Breakdown of the Company's output by main product groups in the Fuels segment

	1-3.2019	1-3.2018	1-3.2019	1-3.2018
	KTons		%	
Diesel	1,042	934	42%	36%
Gasoline	333	379	13%	15%
Kerosene	158	166	6%	7%
Fuel oil	465	580	18%	23%
Petrochemical products (1)	360	296	14%	12%
Others (2)	177	178	7%	7%
Total	**2,535**	**2,533**	**100%**	**100%**

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

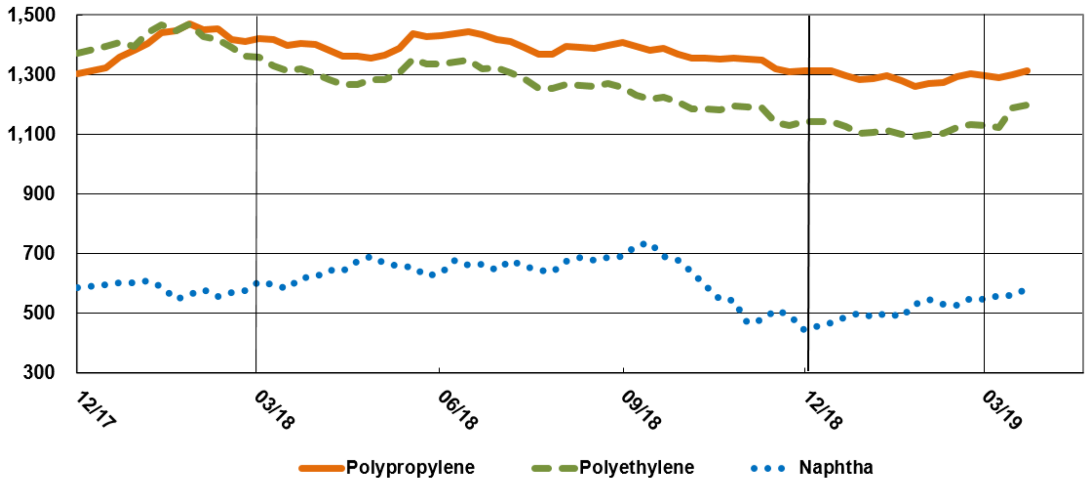
(2) Primarily includes: LPG and bitumen.

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

B. Business environment and Bazan Group profitability - contd.

2. Polymers Segment - Carmel Olefins

Polymers [(1)] and Naphtha [(2)] prices in 2018-2019 (USD /ton)



Source: ICIS

(1) Polyethylene - LDPE FD NEW Spot, Polypropylene - PP FD NEW Spot

(2) Naphtha CIF NEW

Average polymer and naphtha prices (USD / ton)

	1-3.2019	1-3.2018	Change
Naphtha	517	584	- 11%
Polypropylene	1,288	1,415	- 9%
Polyethylene	1,115	1,408	- 21%

- Raw material prices, particularly naphtha prices, decreased in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices.
- Polypropylene prices decreased in the Reporting Period compared with the corresponding period last year, parallel to the increase in raw material and energy prices.
- The price of polyethylene decreased more than the drop in raw material and energy prices as production from shale oil and natural gas products, at a lower cost, increased.

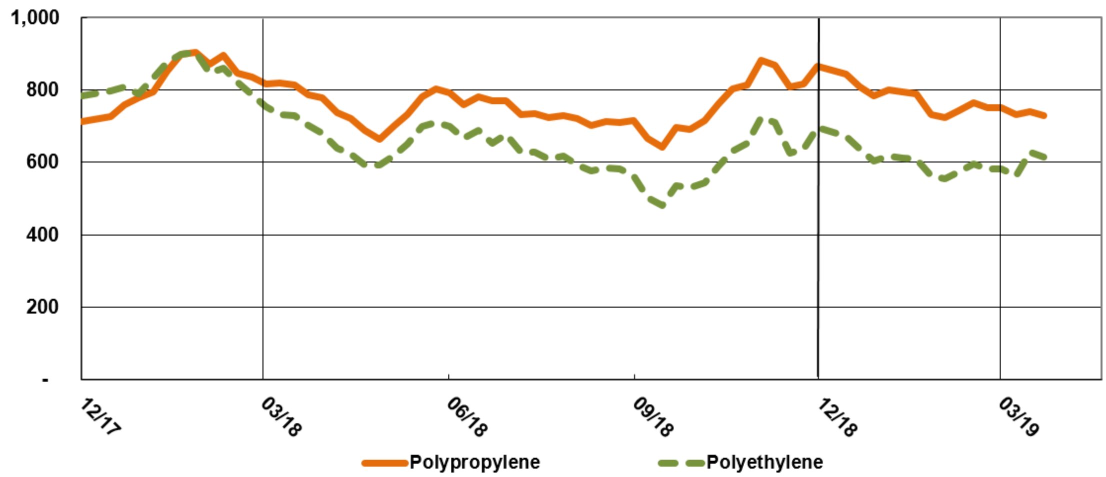
Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

2. Polymers Segment - Carmel Olefins - contd.

Margins

Difference between Polymers and Naphtha prices in 2018-2019 (USD /ton)



Source: ICIS

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

	1-3.2019	1-3.2018	Change
Polypropylene	771	831	- 7%
Polyethylene	598	824	- 27%

- In the Reporting Period, the difference between the price of Polypropylene, and especially of Polyethylene, and the price of naphtha was low compared to the corresponding period last year, due to the decline in polyethylene prices.

Polymer output volume (thousand tons)

	1-3.2019	1-3.2018
Polymers	139	108

- The increase in volume of polymer production at Carmel Olefins in the Reporting Period is mainly due to planned maintenance work on the ethylene facility carried out in the first quarter of 2018.

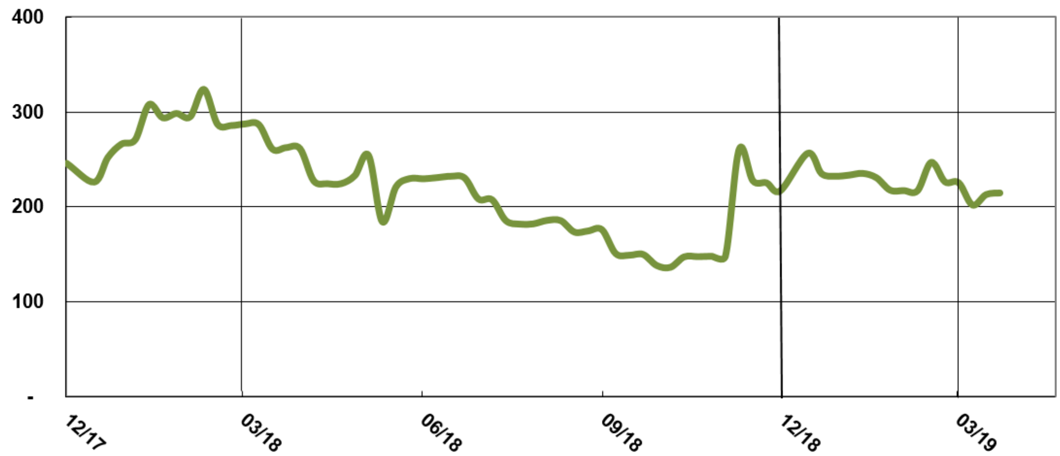
Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

3. Polymers Segment - Ducor

Margins

Difference between Polypropylene and Propylene prices in 2018-2019 (USD /ton)



Source: ICIS

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

	1-3.2019	1-3.2018	Change
Difference in price	229	283	- 19%

- In the Reporting Period, the difference between the Polypropylene and Propylene prices was lower than in the corresponding period last year, mainly due to strengthening of the propylene price, as a result of the decrease in supply, compared to the polypropylene price.

Polypropylene output volume (thousand tons)

	1-3.2019	1-3.2018
Polypropylene	38	33

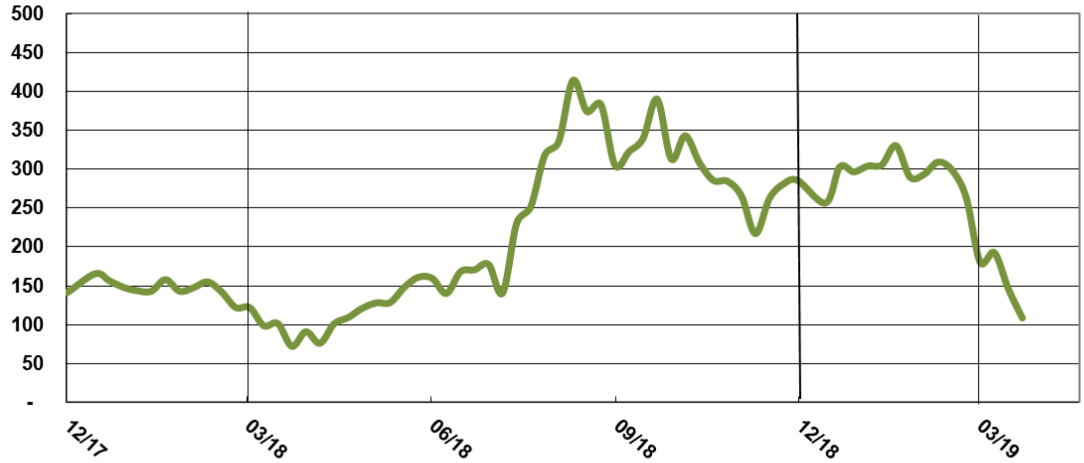
Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

4. Aromatics Segment - Gadiv

Margins

Difference between Paraxylene and Xylene prices in 2018-2019 (USD /ton)



Source: Reuters

Change in the average difference between the Paraxylene and Xylene prices (USD / ton)

	1-3.2019	1-3.2018	Change
Difference in price	278	141	97%

- The difference between the price of Paraxylene and the price of Xylene increased during the Reporting Period compared with the corresponding period last year, mainly as a result of the increase in the Paraxylene price together with the increase in demand, over the increase in the prices of raw material, Xylene.

Aromatics output volume (thousand tons)

	1-3.2019	1-3.2018
Aromatics	142	141

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

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

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.

	1-3.2019	1-3.2018	Change
Revenue	1,574	1,646	(4%)
Reported EBITDA	**148**	**156**	**(5%)**
Depreciation	(42)	(42)	0%
Other income (expenses), net (1)	(4)	1	(500%)
Operating profit	**102**	**115**	**(11%)**
Financing expenses, net (2)	(29)	(26)	12%
Income tax expenses (3)	(10)	(15)	(33%)(3)
Net profit	**63**	**74**	**(15%)**
Fuel segment adjustments (*)	5	(36)	
Adjusted EBITDA	**153**	**120**	**28%**
Adjusted operating profit	**107**	**79**	**36%**
Net adjusted profit	**68**	**38**	**80%**

(*) For further information about the adjustment components, see Chapter 2, section A2a below.

(1) Including amortization of excess cost

(2) Principal changes in financing expenses, based on financial analysis (USD millions):

	1-3.2019 compared to 1-3.2018
Financing expenses, net - 1-3.2018	**26**
Decrease in interest on loans and debentures (*)	(2)
Exchange differences	7
Changes in fair value of hedge transactions	2
Others	(4)
Financing expenses, net - 1-3.2019	**29**

(*) 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.

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

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

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

	1-3.2019	10-12.2018	7-9.2018	4-6.2018	1-3.2018
Fuels (adjusted)	93	61	71	86	50
Polymers (Carmel Olefins and Ducor)	50	38	44	54	53
Aromatics (Gadiv)	9	6	4	4	7
Other (other segments and adjustments)	1	9	4	7	10
Total adjusted EBITDA	**153**	**114**	**123**	**151**	**120**

A. Analysis of the results of Bazan Group operations in the first quarter

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

	Sales turnover USD million		Distribution of sales		Average products prices (USD / ton)	
	1-3.2019	1-3.2018	1-3.2019	1-3.2018	1-3.2019	1-3.2018
Fuels Segment (1)	1,201	1,273	76%	77%	527	549
Polymers Segment - Carmel Olefins (2)	189	174	12%	11%	1,237	1,406
Polymers Segment - Ducor	59	55	4%	3%	1,367	1,515
Aromatics Segment - Gadiv (3)	112	125	7%	8%	744	826
Others (4)	13	19	1%	1%		
Total	**1,574**	**1,646**	**100%**	**100%**		

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

(1) Mainly due to a decrease in energy prices together with a decrease in the price of crude oil

(2) Mainly an increase in volumes sold and planned maintenance work in the ethylene facility in the first quarter of 2018.

(3) Mainly due to a decrease in energy prices together with a decrease in the price of crude oil

(4) Including others

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

A. Analysis of the results of Bazan Group operations in the first quarter - contd.

2. Consolidated adjusted EBITDA by operating segments

Breakdown of the main reasons for the increase in the adjusted consolidated EBITDA for the operating segments in the Reporting Period compared to the corresponding period last year (USD million):

		Polymers					
	Fuels	**Carmel Olefins[(2)]**	**Ducor**	**Total**	**Aromatics**	**Others**	**Consolidated**
Increase (decrease) in the margin/contribution [(1)]	43	(6)	(3)	(9)	1	(9)	26
Increase (decrease) in sales quantities	(2)	4	2	6	–	–	4
Increase (decrease) in other income (including insurance indemnity)	–	–	–	–	1	–	1
Decrease in operating expenses [(3)]	2	–	–	–	–	–	2
Total	**43**	**(2)**	**(1)**	**(3)**	**2**	**(9)**	**33**

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

(2) In the first quarter of 2018, Carmel Olefins carried out planned maintenance work in the ethylene facility, for which loss of profits was covered by insurance.

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

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

A. Analysis of the results of Bazan Group operations in the first quarter - contd.

2. Consolidated adjusted EBITDA by operating segments - contd.

A. Adjustment components in the fuels segment

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

		1-3.2019	1-3.2018
Reported EBITDA		**88**	**86**
Effects of timing differences (1)		(5)	(14)
Effect of adjusting value of inventory to market value, net		10	(16)
Effect of changes in fair value of derivatives and disposals		–	(6)
Total adjustments (2)		**5**	**(36)**
Adjusted EBITDA		**93**	**50**
Refining margin	**Adjusted margin (USD/ton)**	**56.4**	**40.0**
	Adjusted margin (USD/barrel)	**7.7**	**5.5**

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

(2) As defined in the Company's Board of Directors' Report for 2018.

B. Refining margin (USD/barrel)

	1-3.2019	10-12.2018	7-9.2018	4-6.2018	1-3.2018
Bazan's adjusted refining margin	7.7	6.1	8.1(*)	7.8	5.5
Bloomberg Average Ural Margin	4.5	5.5	6.2	6.0	5.4
Reuters Ural Margin	3.6	4.7	5.2	4.4	4.0

(*) The refining margin is pro forma adjusted, as defined in the Board of Directors' Report for 2018. The pro forma adjusted refining margin for the third quarter of 2018, was USD 8.6 per barrel

Ural margins declined in the first quarter of 2019, mainly due to the increase in the price of Ural crude oil, which the Company did not processed in material volumes during the Reporting Period.

Chapter 3 - Analysis of financial position (USD millions)

	March 31, 2019	December 31, 2018	Change	Explanation
Trade and other receivables	443	380	17%	Mainly due to an increase in receivables as a result of the increase in price and volumes, offset by an increase in the discount rate and an increase in receivables as a result of an increase in prepaid expenses, an increase in the maturities in respect of a loan to Haifa Early Pensions Ltd. and an increase in institutions.
Inventory	677	565	20%	Mainly due to the increase in price and volumes resulting from increased supplies as a result of the limited availability of crude oil in the Company's facilities during the winter months.
Property, plant & equipment, net	2,360	2,365	(0.2%)	
Trade and other payables	865	759	14%	Mainly due to an increase in payables resulting from the increase in prices and extension of credit days and increased stock inventory, and an increase in accounts payable mainly due to an increase in lease liabilities in the amount of USD 11 million and increase in interest payments of USD 11 million.
Long-term loans and debentures (including current maturities)	1,454	1,384	5%	Mainly due to receipt of long-term loans in the amount of USD 100 million (for further information, see Note 7A), offset by principal repayments in the amount of USD 56 million.
Equity	1,399	1,320	6%	Mainly due to net income for the Period in the amount of USD 63 million and other comprehensive income for the Period in the amount of USD 16 million.
Shareholders equity to balance sheet ratio	34%	35%		

Chapter 4 - Liquidity Analysis

Working capital

Total current assets less current liabilities (USD millions)

March 31, 2019	Dec 31, 2018	Sept 30, 2018	Jun 30, 2018	Mar 31, 2018
513	377	549	534	478

Current ratio

The current ratio at March 31, 2019 is 1.45 and as at December 31, 2018 it was 1.37.

The Group's liquidity analysis is as follows:

Q1 Cash Flows	USD million
Cash balance at December 31, 2018	**384**
Profit in cash (1)	175
Receipt of long-term loan (2)	100
Increase in working capital (3)	(98)
Changes in deposits	(55)
Acquisition of property, plant & equipment	(31)
Interest paid, net	(15)
Repayment of long-term loans	(13)
Repayment of debentures	(43)
Other	9
Cash balance at March 31, 2019	**413**

(1) Cash based profit, net, less interest paid in the Reporting Period and the corresponding period last year amounted to USD 160 million and USD 125 million, respectively.

(2) For receipt of a long-term loan in the amount of USD 100 million from a bank. For further information see Note 7A to the consolidated financial statements.

(3) Primarily an increase in inventory of USD 112 million, increase in payables of USD 16 million, increase in trade receivables in the amount of USD 46 million, offsetting an increase in payables of USD 67 million.

Chapter 5 - Total credit from financial institutions

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

	March 31, 2019	Dec 31, 2018	Sept 30, 2018	Jun 30, 2018	Mar 31, 2018
Short-term borrowings (1)	8	8	11	2	-
Bank loans (2)	439	352	413	423	442
Debentures (2)	1,012	1,038	1,127	1,163	1,228
Liquid financial assets (3)	(511)	(428)	(516)	(511)	(534)
Hedging transactions on debentures (4)	(11)	(2)	(11)	(12)	(22)
Total net financial debt	**937**	**968**	**1,024**	**1,065**	**1,114**

(1) With regard to Ducor

(2) Including current maturities Presented at the liability value (without borrowing costs).

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

(4) Based on the Group's hedging policy, principal and interest swap transactions were carried out against the issuance of NIS bonds. The transactions presented in the foregoing table, parallel to the presentation of the debentures, at liability value, net of the relative additional long-term deposits.

For further information regarding the Group's secured short-term credit facilities for 2019, see Note 13A to the consolidated financial statements. As at March 31, 2019, the Group has unutilized secured credit facilities in the amount of USD 263 million (utilization is for letters of credit and guarantees only).

Financial leverage

	March 31, 2019	December 31, 2018
Financial leverage (*)	1.7	1.9

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

Average volume of sources of finance in the Reporting Period

Long term loans and debentures (including current maturities, based on the method of presenting them according to the accounting standards in the financial statements and without the costs of capital raising) of USD 1,430 million, net operating capital of USD 238 million (of which the average for trade receivables is USD 365 million and trade payables is USD 656 million).

Chapter 6 - Exposure to market risk and risk management methods

In the Reporting Period there were no significant changes in market risks to which the Company is exposed, in the policies for managing these risks and in those charged with managing them compared with the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2018.

As set out in Note 29D3 to the annual consolidated financial statements, in the Reporting Period the Company’s Board of Directors adopted a graded protection policy with regard to: (1) future cash flow exposure due to acquisition of inventory (basic) at the end of the inventory availability transaction, so that the number of future contracts held by the Company will derive from the future prevailing Brent price at any time at the date of termination of the availability transaction; and (2) the value of the inventory of subsidiaries, so that given certain Brent prices, Brent futures will be sold at a total volume of up to 100 thousand tons.

Chapter 7 - Corporate governance

There was no change in the minimum required number of directors with accounting and financial expertise, the minimum number of independent directors required by law and disclosure regarding the internal auditor of a reporting corporation, with regard to the description in the Board of Directors’ Report on the state of the Company’s business affairs for the period ended December 31, 2018.

Chapter 8 - Disclosure of financial reporting

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

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

The provisions of Notes 5A2 and 7F to the financial statements (including by way of reference to Notes 20A (3), (5), (6) and 20C (2) to the annual financial statements) 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.

B. Use of estimates and judgments

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

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

In the Reporting Period there were no changes with regard to the disclosure given in this regard in the 2018 Periodic Report.

Chapter 9 - Details of outstanding debentures

In the Reporting Period, there were no changes in the details of the existing series of debentures issued by the Company and offered to the public under a prospectus, in the details of the debenture trustees, in the conditions for call for immediate redemption of the debentures, in the Company's compliance with these conditions, and in the collateral for the debentures as described in the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2018 and in the notes to the financial statements for that year. 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 stable outlook subsequent to the Reporting Period, see Note 7I to the consolidated financial statements.

Chapter 10 – Significant subsequent events

For details see Note 7 to the Consolidated Financial Statements.

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 15, 2019

Revision of the Description of the Company's Businesses in the Periodic Report as at December 31, 2018

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:

A. Further to that stated in section 1.6.2.1.3 regarding the expected change in the marine fuel standard at the beginning of 2020, subsequent to the reporting period, the Company began marketing marine fuel that meets the requirements of the new standard.

B. Further to that stated in section 1.12.9 regarding the study conducted by the National Economic Council and the inter-ministerial task force for reviewing the future of Bazan Group in the Haifa Bay, in the Reporting Period several slides were presented to the Haifa Local Planning and Building Committee, though the Bazan plant is not within its jurisdiction, by the Haifa Municipality Chief Engineer, which the Israel Lands Authority (ILA) permitted him to present and which refers to a plan prepared at the request of the ILA and include an area of 36,500 dunams, to be used for the construction of 83,000 housing units, 6,500 dunams for industrial/commercial use and 9,000 dunams for parks and open spaces. This, among other things, by evacuating all factories located in the area of the plan, including the Bazan Group plants. The Haifa Local Planning and Building Committee decided that "The Committee adopts the 'Innovation Valley' program and announces that this plan, which represents a historic change, will serve as the foundation for future development of the Gulf... The Local Committee requests that the Government of Israel adopt this plan and implement it in the near future, with the cooperation of Government Ministries and the Local Authority." It should be noted that this is not a statutory process or a decision that has statutory status.

As at Reporting Date, the Company is unable to assess the outcome of the inter-ministerial task force's study, whether and when such outcome will be presented to the Government, nor the date and content of the Government's decision, if and when such decision is made on this matter.

C. Further to that stated in section 1.17.2.3 regarding benzene measurements at monitoring stations in the Haifa area, in the Reporting Period, the Ministry of Environmental Protection issued an administrative order to the Company and Gadiv for the prevention or reduction of air pollution, in which the companies were required to install means for reducing emissions in their storage tanks that contribute significantly to benzene emissions, and to replace equipment components through which benzene flows for components that comply with the best technique available, according to the time schedules set in the order, part of which do not coincide with the Company's planned shutdown dates, and this includes such replacement in the crude distillation unit CDU 4, the isomerization facility and the continuous catalytic reformer (CCR) by no later than August 31, 2020. The Company is preparing to implement the requirements of the administrative order and is in contact with the Ministry of Environmental Protection.

The Company's assessment of the effect of the measures for reducing benzene emissions on the actual measured concentrations regarding the companies' compliance with the provisions of the administrative order and its effect on the Company's operating results is forward-looking information that depends, inter alia, on the actual results achieved due to the measures adopted by the companies to reduce benzene emissions from their facilities, as well as the timing of implementing the required measures, and it may differ, if these results will be different from the current assessment.

D. Further to that stated in section 1.18.7 of Chapter A of the Periodic Report as at December 31, 2018, the business licenses and temporary permits issued by the Haifa Municipality for all of the Group companies were extended until June 30, 2019.

Appendix - 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 consolidated annual 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, consolidated financial statements of Carmel Olefins (Statements of Financial Position, Statements of Profit and Loss and Statements of Cash Flows).

Below are the 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)

-

	March 31, 2019	March 31, 2018	December 31, 2018
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	19,273	68,652	24,436
Customers	144,236	121,600	130,052
Other receivables	14,351	19,840	4,071
Financial derivatives	8,338	7,868	603
Inventories	79,670	71,747	89,728
Total current assets	**265,868**	**289,707**	**248,890**
Non-current assets			
Long term loans and debit balances	4,606	5,132	4,578
Long term loans to parent company	75,000	–	45,000
Fixed assets, net	628,941	652,436	635,890
Right of use assets, net	9,700	11,067	9,989
Intangible assets, net	8,661	11,266	9,301
Total non-current assets	**726,908**	**679,901**	**704,758**
Total assets	**992,776**	**969,608**	**953,648**

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

	March 31, 2019	March 31, 2018	December 31, 2018
	(Unaudited)		(Audited)
Current liabilities			
Short-term borrowings (including current maturities)	13,511	5,750	13,767
Trade payables	77,597	70,024	72,129
Other payables	20,663	87,667	18,113
Financial derivatives	–	–	440
Provisions	87	4,160	4,265
Total current liabilities	**111,858**	**167,601**	**108,714**
Non-current liabilities			
Liabilities to banks, net	5,312	11,062	6,750
Other long-term liabilities	16,587	18,307	16,940
Employee benefits, net	18,435	18,898	17,321
Deferred tax liabilities, net	72,960	79,741	74,650
Total non-current liabilities	**113,294**	**128,008**	**115,661**
Total liabilities	**225,152**	**295,609**	**224,375**
Equity			
Share capital	116,997	116,997	116,997
Capital reserves	(5,563)	(6,322)	(10,657)
Retained earnings	656,190	563,324	622,933
Total capital	**767,624**	**673,999**	**729,273**
Total liabilities and capital	**992,776**	**969,608**	**953,648**

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

	Six months ended		Year ended
	March 31, 2019	March 31, 2018	December 31, 2018
	(Unaudited)		(Audited)
Revenue	248,260	228,609	929,790
Cost of sales	(198,208)	(177,956)	(747,474)
Gross profit	**50,052**	**50,653**	**182,316**
Sales and Marketing Expenses	(9,414)	(6,496)	(30,335)
General and Administrative Expenses	(3,373)	(4,115)	(16,661)
Operating profit	**37,265**	**40,042**	**135,320**
Financing revenues	1,574	14	584
Financial expenses	(1,151)	(2,626)	(6,833)
Financing income (expenses), net	423	(2,612)	(6,249)
Profit before income tax	**37,688**	**37,430**	**129,071**
Income tax expenses	(3,892)	(5,144)	(24,263)
Net profit for the period	**33,796**	**32,286**	**104,808**
Items of other comprehensive income (loss) transferred to profit or loss			
Foreign currency translation differences for foreign operations	(152)	451	(535)
Effective share of the change in fair value of cash flow hedging, net of tax	5,232	4,642	1,221
Other comprehensive income for the period, transferred to profit or loss, net of tax	**5,080**	**5,093**	**686**
Items of other comprehensive income (loss) not transferred to profit or loss			
Reclassification of defined benefit plan, net to tax	(539)	412	265
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	**(539)**	**412**	**265**
Total income for the period	**38,337**	**37,791**	**105,759**

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

	Three months ended		Year ended
	March 31, 2019	**March 31, 2018**	**December 31, 2018**
	(Unaudited)		**(Audited)**
Cash flows from operating activities			
Profit for the period	33,796	32,286	104,808
Adjustments to cash flows from operating activities:			
Revenue and expenses not involving cash flows (Appendix A – section A)	15,326	17,509	88,069
	49,122	49,795	192,877
Changes in assets and liabilities items (Appendix A - section B)	(526)	(24,039)	(27,725)
Interest paid, net [(1)]	(526)	(2,182)	(7,922)
Income tax received (paid) to the tax authorities	1,642	(34)	(4,703)
Accounting for utilization of parent company's carryforward losses	(11,098)	(3,637)	(26,133)
Net cash from operating activities	**38,614**	**19,903**	**126,394**
Cash flow used for investing activities			
Long term loan to parent company	(30,000)	–	(45,000)
Change in debit balance of parent company	(7,557)	–	–
Purchase of property plant and equipment (including periodic maintenance) [(1)]	(7,097)	(18,939)	(49,005)
Other	–	(29)	–
Net cash used in investing activities	**(44,654)**	**(18,968)**	**(94,005)**
Cash flow from financing operations			
Change in short-term credit from parent company, net	2,814	19,133	(50,120)
Change in short-term loan, net	(102)	–	8,275
Repayment of a long-term bank loans	(1,438)	(1,438)	(5,750)
Payment of liability for lease	(42)	(44)	(170)
Dividend paid	–	–	(9,275)
Net cash from (used for) financing operations	**1,232**	**17,651**	**(57,040)**
Net increase (decrease) in cash and cash equivalents	**(4,808)**	**18,586**	**(24,651)**
Effect of exchange rate fluctuations on cash and cash equivalents	(355)	516	(463)
Cash and cash equivalents at beginning of period	24,436	49,550	49,550
Cash and cash equivalents at end of period	**19,273**	**68,652**	**24,436**

(1) In the first quarter of 2018, including principal payments and interest and linkage differentials in respect of development levies in the amount of USD 11 million and USD 1 million, respectively.

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, 2019	March 31, 2018	December 31, 2018
	(Unaudited)		(Audited)
A. Income and expenses not that do not involve cash flows:			
Amortization and depreciation	11,980	12,684	52,196
Financing expenses (income), net	470	(407)	6,461
Net change in fair value of inventory derivatives and margins	(1,030)	(11)	4,978
Payment transactions based on parent company shares	14	99	171
Income tax expenses	3,892	5,144	24,263
	15,326	**17,509**	**88,069**
B. Changes in assets and liabilities			
Change in trade receivables	(14,654)	7,058	(3,019)
Change in other receivables	(4,021)	(18,069)	(1,040)
Change in inventory	9,604	5,456	(12,360)
Change in payables	7,704	(15,149)	(7,369)
Change in other payables and provisions	392	(2,871)	(2,297)
Change in employee benefits, net	449	(464)	(1,640)
	(526)	**(24,039)**	**(27,725)**

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

Auditors Report to the Shareholders of Bazan Ltd.

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, 2019 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 conclusion, we draw attention to Note 5A(2) and 7F to the financial statements (including by way of reference to 20A(3), (5), (6), and 20C(2) to the annual financial statements) regarding administrative and other proceedings, other contingencies, and laws and regulations relating to environmental quality. Based on the opinion of the legal counsel of the Company and its subsidiaries, the managements of the Company and the subsidiaries believe that, at this stage, it is not possible to assess the effect of the aforesaid on the operating results and the financial position, in any, and therefore no provisions for the aforesaid were included in the financial statements.

Somekh Chaikin
Certified Public Accountants

Haifa, May 15, 2019

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

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

To whom it may concern,

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

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

1. Review report of the auditor of May 15, 2019 on the Company's condensed consolidated financial information as of March 31, 2019 and for the three months then ended.

2. Review report of the auditor of May 15, 2019, on the Company's condensed separate financial information as at March 31, 2019 and for the three months then ended in accordance with Regulation 38D of the Israel Securities Regulations (Periodic and Immediate Reports), 1970.

Yours sincerely,

Somekh Chaikin
Certified Public Accountants

Haifa, May 15, 2019

Bazan Limited.

Condensed Consolidated Interim Statements of Financial Position as at
USD thousands

	March 31, 2019	March 31, 2018	December 31, 2018
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	412,946	458,879	384,373
Deposits	98,004	75,382	45,073
Trade receivables	372,740	367,806	357,053
Other receivables	70,326	49,513	22,407
Financial derivatives	17,034	18,336	17,099
Inventory	677,067	674,234	565,071
Total current assets	**1,648,117**	**1,644,150**	**1,391,076**
Non-current assets			
Loan to Haifa Early Pensions Ltd.	39,005	44,976	40,538
Long term loans and receivables	5,633	5,554	8,144
Financial derivatives	19,715	47,658	10,377
Fixed assets, net	2,189,921	2,207,555	2,204,285
Right-of-use assets, net	142,616	146,444	132,660
Intangible assets and deferred expenses, net	27,851	29,041	27,787
Total non-current assets	**2,424,741**	**2,481,228**	**2,423,791**
Total assets	**4,072,858**	**4,125,378**	**3,814,867**

Ovadia Eli Chairman, Board of Directors	Yashar Ben Mordechai CEO	Ana Berenstein CFO

Approval date of the condensed consolidated interim financial statements: May 15, 2019

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

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

Bazan Limited.

Condensed Consolidated Interim Statements of Financial Position as at
USD thousands

	March 31, 2019	March 31, 2018	December 31, 2018
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings (including current maturities)	263,121	280,329	243,675
Trade payables	690,554	691,472	621,594
Other payables	167,686	151,355	109,010
Financial derivatives	7,668	6,592	11,174
Provisions	6,014	36,332	28,529
Total current liabilities	**1,135,043**	**1,166,080**	**1,013,982**
Non-current liabilities			
Liabilities to banks, net (see Note 7A)	349,182	367,900	277,280
Debentures, net	846,462	1,052,203	870,846
Other long-term liabilities	93,979	119,240	99,025
Financial derivatives	5,309	1,100	6,557
Employee benefits, net	53,821	54,228	49,883
Deferred tax liabilities, net	190,427	147,236	177,542
Total non-current liabilities	**1,539,180**	**1,741,907**	**1,481,133**
Total liabilities	**2,674,223**	**2,907,987**	**2,495,115**
Capital			
Share capital	807,356	805,771	807,081
Share premium	32,663	31,980	32,652
Capital reserves	38,724	35,239	20,781
Retained earnings	519,892	344,401	459,238
Total capital	**1,398,635**	**1,217,391**	**1,319,752**
Total liabilities and capital	**4,072,858**	**4,125,378**	**3,814,867**

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

Bazan Limited.

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

	Three months ended		Year ended
	March 31, 2019	**March 31, 2018**	**December 31, 2018**
	(Unaudited)		**(Audited)**
Revenue	1,574,215	1,645,856	6,675,621
Cost of sales	(1,431,746)	(1,495,742)	(6,199,007)
Gross profit	**142,469**	**150,114**	**476,614**
Selling and marketing expenses	(27,610)	(27,693)	(103,305)
General and administrative expenses	(12,428)	(11,851)	(51,254)
Other (expenses) income, net	(441)	4,389	919
Impairment loss from cash-generating units	–	–	(10,041)
Operating profit	**101,990**	**114,959**	**312,933**
Financing income	2,532	9,636	49,407
Financing expenses	(31,895)	(35,300)	(128,241)
Financing expenses, net	**(29,363)**	**(25,664)**	**(78,834)**
Profit before taxes on income	**72,627**	**89,295**	**234,099**
Income tax expenses	(9,979)	(15,125)	(46,998)
Net profit for the period	**62,648**	**74,170**	**187,101**
Items of other comprehensive income (loss) that will be transferred to profit or loss			
Foreign currency translation differences for foreign operations	(172)	486	(583)
Effective share of the change in fair value of cash flow hedging, net of tax	19,601	8,553	(6,412)
Change in fair value hedging costs, net of tax	(886)	(1,226)	1,192
Other comprehensive income (loss) for the period, that will be transferred to profit or loss, net of tax	**18,543**	**7,813**	**(5,803)**
Items of other comprehensive (loss) income not transferred to profit or loss			
Remeasurement of a defined benefit plan, net of tax	(2,080)	1,559	1,971
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	(281)	2,997	5,367
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	–	(7)	(3)
Other comprehensive (loss) income for the period, not transferred to profit or loss, net of tax	**(2,361)**	**4,549**	**7,335**
Comprehensive income for the period	**78,830**	**86,532**	**188,633**
Earnings per share (USD)			
Basic and diluted earnings per 1 ordinary share	**0.020**	**0.023**	**0.058**

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

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

Bazan Limited.

Condensed Consolidated Interim Statements of Changes in Equity
USD thousands

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

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

Bazan Limited.

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

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial assets at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Three months ended March 31, 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)	–	–	–	–	–	–	–	–	**(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**
Net profit for the period	–	–	–	–	–	–	–	–	**74,170**	**74,170**
Other comprehensive income (loss):										
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**
Share-based payment	–	–	**336**	–	–	–	–	–	–	**336**
Exercised share options	**1**	**1**	**(2)**	–	–	–	–	–	–	–
Dividend declared and paid	–	–	–	–	–	–	–	–	**(65,000)**	**(65,000)**
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**

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

Bazan Limited.

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

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial assets at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Year ended December 31, 2018 (audited)									
Balance as at January 1, 2018	**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)	–	–	–	–	–	–	–	–	**(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**
Net profit for the year									**187,101**	**187,101**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(583)	–	–	–	–	–	(583)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	1,192	–	–	1,192
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	(6,412)	–	–	(6,412)
Remeasurement of a defined benefit plan, net of tax	–	–	–	–	–	–	–	–	1,971	1,971
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	5,367	–	5,367
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(3)	–	–	–	–	(3)
Total other comprehensive income (loss) for the year, net of tax	**–**	**–**	**–**	**(583)**	**(3)**	**–**	**(5,220)**	**5,367**	**1,971**	**1,532**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**(583)**	**(3)**	**–**	**(5,220)**	**5,367**	**189,072**	**188,633**
Share-based payment	**–**	**–**	**596**	**–**	**–**	**–**	**–**		**–**	**596**
Exercised share options	**1,311**	**673**	**(1,984)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Expired share options			**(1,494)**						**1,494**	**–**
Dividend declared and paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(65,000)**	**(65,000)**
Balance as at December 31, 2018	**807,081**	**32,652**	**1,712**	**6,153**	**(6,801)**	**28,478**	**(6,269)**	**(2,492)**	**459,238**	**1,319,752**

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

Bazan Limited.

Condensed Consolidated Interim Statements of Cash Flows
USD thousands

	Three months ended		Year ended
	March 31, 2019	March 31, 2018	December 31, 2018
	(Unaudited)		(Audited)
Cash flows from operating activities			
Profit for the period	62,648	74,170	187,101
Adjustments to cash flows from operating activities:			
Revenue and expenses not involving cash flows (Appendix A – section A)	112,235	67,611	300,688
	174,883	141,781	487,789
Changes in assets and liabilities (Appendix A - section B)	(98,273)	56,066	115,790
Income tax received (paid), net	1,476	(242)	(5,692)
Net cash from operating activities	**78,086**	**197,605**	**597,887**
Cash flow used for investing activities			
Interest received	1,531	1,079	3,781
Change in deposits, net	(54,653)	(4)	39,577
Repayment of loan from Haifa Early Pensions Ltd.	–	–	3,894
Acquisition of fixed assets including periodic maintenance (1) (2)	(30,858)	(86,514)	(222,339)
Other	242	2,547	2,600
Net cash used for investing activities	**(83,738)**	**(82,892)**	**(172,487)**
Cash flow from financing activities			
Short-term borrowing, net	(102)	–	8,275
Change in deposits from customers and others, net	12,695	(210)	(15,597)
Interest paid (1) (3)	(16,672)	(18,255)	(132,891)
Derivative transactions, net	979	2,534	2,390
Receipt of long-term bank loans (see Note 7A)	100,000	–	–
Repayment of long-term bank loans, including early repayment	(13,094)	(9,688)	(98,808)
Repayment of debentures (3)	(42,537)	(1,221)	(153,920)
Issue of debentures (less issuance expenses)	–	114,996	114,996
Payment of liabilities for lease	(6,080)	(5,912)	(25,985)
Dividend paid	–	(65,000)	(65,000)
Net cash from (used for) financing activities	**35,189**	**17,244**	**(366,540)**
Net increase in cash and cash equivalents	**29,537**	**131,957**	**58,860**
Effect of exchange rate fluctuations on cash and cash equivalents	(964)	451	(958)
Cash and cash equivalents at beginning of period	384,373	326,471	326,471
Cash and cash equivalents at the end of the period	**412,946**	**458,879**	**384,373**

(1) In the first quarter of 2018, including principal payments and interest and linkage differentials for development levies in the amount of USD 67 million and USD 6 million, respectively.
(2) For information about the cost of periodic maintenance and planned maintenance in 2018, see Note 11A to the Annual Statements.
(3) As at March 31, 2018, principal and interest payments on the debentures in the amount USD 42 million and USD 8 million, respectively, were deferred under the deeds of trust to the next quarter, since the contractual repayment date was not a business day.

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

Bazan Limited.

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, 2019	March 31, 2018	December 31, 2018
	(Unaudited)		(Audited)
A. Income and expenses not included in cash flows:			
Depreciation and amortization	45,386	45,260	193,221
Other expenses (income), net	441	(4,389)	(919)
Impairment loss from cash-generating units	–	–	10,041
Financing expenses, net	28,347	27,856	90,842
Net changes in fair value and movement of deposits for derivatives for inventory margins	29,028	(16,658)	(40,654)
Changes in fair value of the loan to Haifa Early Pensions Ltd.	(999)	81	563
Share-based payments	53	336	596
Income tax expenses	9,979	15,125	46,998
	112,235	**67,611**	**300,688**
B. Changes in assets and liabilities			
Change in trade receivables	(16,158)	106,502	115,698
Change in other receivables	(45,645)	(27,164)	(5,272)
Change in inventory	(112,450)	19,534	128,862
Change in trade payables	67,965	(29,860)	(100,665)
Change in other payables and provisions	6,701	(11,947)	(18,307)
Change in employee benefits, net	1,314	(999)	(4,526)
	(98,273)	**56,066**	**115,790**

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

NOTE 1 – GENERAL

A. Reporting entity

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

B. The interim condensed consolidated interim financial statements as at March 31, 2019 include the statements of the Company and its subsidiaries (jointly: "the Group").

NOTE 2 - BASIS OF PREPARATION

A. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required in the full annual financial statements. These statements should be read together with the financial statements as at December 31, 2018 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 March 15, 2019.

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 section C below.

C. Change in estimate of the useful life of items of fixed assets

On January 1, 2019, an independent outside engineering assessor carried out a periodic review of the useful life of the plants of the Group companies (the Company, Carmel Olefins, and Gadiv). Based on the work of the engineering assessor, the useful life of some of the plants was extended by an additional period of 0.5-6 years (mainly 4 years). The effect of change in the estimate is accounted for on a prospective basis, which is expected to reduce the Group's annual depreciation expenses from 2019 onwards, in the amount of USD 12 million (USD 3 million in the reporting period).

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.

NOTE 4 – SEGMENT REPORTING

Further to Note 28 to the Annual Statements, as at March 31, 2019, there was no change in the composition of the Group's reportable segments or in the measurement method of segment results by the chief operating decision maker.

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

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

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**
Reported EBITDA	**85,307**[2]	49,390	3,349	**52,739**	**7,344**	**145,390**	**7,080**	**3,360**	**155,830**
Depreciation and amortization	**(20,901)**	(11,291)	(887)	**(12,178)**	**(2,880)**	**(35,959)**	**(6,118)**	–	**(42,077)**
Reported 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									(25,664)
Profit 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.

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, 2018 (audited)				
Revenue from external sources – Israel	3,269,362	357,127	–	357,127	36,258	3,662,747	28,137	–	3,690,884
Revenue from external sources – other countries	1,915,193	340,373	231,148	571,521	457,863	2,944,577	40,160	–	2,984,737
Total revenue from external sources	5,184,555	697,500	231,148	928,648	494,121	**6,607,324**	68,297	–	**6,675,621**
Revenue from inter-segment sales [(1)]	730,138	20,623	–	20,623	39,553	**790,314**	12,537	(802,851)	–
Segment revenue	**5,914,693**	718,123	231,148	**949,271**	**533,674**	**7,397,638**	**80,834**	**(802,851)**	**6,675,621**
Reported EBITDA	**276,330[(2)]**	178,553	8,999	**187,552**	**21,136**	**485,018**	**26,033**	**4,225**	**515,276**
Depreciation and amortization	**(91,494)**	(46,967)	(3,285)	**(50,252)**	**(12,612)**	**(154,358)**	**(26,219)**	–	**(180,577)**
Reported EBITDA less amortization and depreciation									**334,699**
Impairment loss from cash-generating units									(10,041)
Amortization of excess cost arising on acquisition of subsidiaries									(12,644)
Other revenues, net									919
Operating profit									**312,933**
Financing expenses, net									(78,834)
Profit before taxes on income									**234,099**

(1) Mainly in Israel
(2) Adjusted EBITDA in the fuel segment in 2018: USD 268,111 thousand

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

A. Contingent liabilities

Further to Note 20A 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:

1. Proceedings with local authorities, including local taxation claims and indirect taxation

Further to Note 20A2 to the Annual Statements, in and subsequent to the reporting period, the court validated the settlement agreement between the Group companies and Haifa Municipality, whereby the Group will pay NIS 85 million (USD 23 million), in exchange for a final and complete settlement of the payment demands for the sewage levy amounting to NIS 170 million (for the dates of the original demands - 2010), including all linkage differentials and interest and cancellation of the demands for payment of the water pipeline installation levy issued by the water and sewage corporation Mei Carmel, amounting to NIS 90 million (for the dates of the original demands - 2014), reserving the right of Mei Carmel to issue a demand for payment based on the installation fee method - water only (but not a water pipeline installation levy), and reserving all the rights, grounds and claims of the parties, without derogating from the right of Bazan Group to raise any possible claim against any such requirements. The amount was paid subsequent to the reporting period. Since the settlement amount is fully reflected in the Annual Statements, this does not affect the results of the Group's activity in the reporting period.

2. Liabilities relating to environmental quality

As set out in Notes 20A(3), 20A(5), and 20A(6) to the Annual Statements, there are legal, administrative and other proceedings, including civil claims and warnings, against Group companies regarding environmental quality. An indictment was filed against the Company and four managers, following a fire in an intermediate materials storage tank on the Company's premises in 2016. Various warnings were received from the Ministry of Environmental Protection for alleged violations of the emission permits, poisons permits, and personal orders issued to them relating to air quality, including claims of non-compliance with maximum emission values, failure to perform various actions on time, and failure to comply with procedures of the Ministry of Environmental Protection. The Ministry of Environmental Protection is investigating a number of issues against the Company, Carmel Olefins and Gadiv, and in some of the investigations, also against managers who served at the dates relevant to the investigation of the companies, including for alleged violations of the personal orders and emissions permits issued to the companies at the dates on which they were valid and/or due to malfunctions in their facilities. For some of these proceedings, the Company's management 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 assess their effect, if any, on the financial statements as at March 31, 2019. Accordingly, no provision regarding this matter was included in the financial statements.

B. Agreements

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

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

Further to Note 20B1 to the Annual Statements regarding agreements for the purchase of natural gas for the plants of the Group companies, to ensure a continuous supply of natural gas after the Tamar agreement expires and until gas starts to flow to the Company under the agreement signed with Energean (“the Interim Period”), subsequent to the reporting period, the Company signed an agreement for the purchase of natural gas from the Tamar partnership ("the Agreement"). The Agreement is subject to the approval by a special majority of the general meeting of the Company, which as at the approval date of the report, has not yet convened.

The main terms of the Agreement are as follows:

A) The Agreement will come into effect on the termination date of the existing Tamar Agreement, for six months, and the Company may extend it for additional six-month periods at a time, until Energean starts to deliver natural gas to the Company, but in any event no more than a cumulative period of eight years.

If the agreement with Energean for the purchase of natural gas is canceled before the end of 2020, the Agreement will be extended for one period of 12 months. If the agreement with Energean is cancelled after 2020, the Agreement will be extended for one period of 18 months.

B) The Company is expected to purchase 0.5 BCM of natural gas in a six-month period (including in each of the option periods).

C) The price of natural gas will be set in an agreed formula based on linkage to Brent oil price component and the electricity generation rate component.

C. Guarantees and liens

Further to Note 19 to the Annual Statements, there were no significant changes in the Group's guarantees and liens in and subsequent to the reporting period, other than 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 long-term loan agreements (in particular, the syndication agreement) and to the holders of private debentures as at March 31, 2019:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated adjusted equity (USD million)	>	750	1,369.4
Consolidated adjusted equity to total consolidated statement of financial position	>	20.0%	37.9%
Consolidated ratio (net financial debt + factoring receivables) to consolidated adjusted EBITDA	<	5.0	2.2
Consolidated principal and interest cover ratio	>	1.1	2.6
Separate cash statement (USD millions)	>	75	476.6

In addition, as set out in Note 13C(1) and 14C to the Annual Statements, as at March 31, 2019, the Company is subject to financial covenants under a long-term loan agreement with a foreign bank that provided financing for establishment of the Hydrocracker and deeds of trust of the 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 set out above. Given the covenants set out above and the 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 set out above.

As at March 31, 2019, the Company is in compliance with the financial covenants for the bank agreements, private debentures and public debentures (Series D, E, F, G, and I).

Further to Note 14C to the Annual Statements, as at March 31, 2019, Carmel Olefins is in compliance with the financial covenants (as defined in the Note), that apply to it regarding Debentures (Series G) of the Company.

B. Carmel Olefins

Further to Note 13D1 to the Annual Statements, as at March 31, 2019, Carmel Olefins is in compliance with the financial covenants (as defined in the Note), that are applicable towards the banks.

NOTE 6 - FINANCIAL COVENANTS (CONTD.)

C. Ducor

Further to Note 13A(1)b to the Annual Statements, as at March 31, 2019, Ducor is in compliance with the financial covenants.

NOTE 7 – MATERIAL EVENTS IN AND SUBSEQUENT TO THE REPORTING PERIOD

A. In the reporting period, the Company took out a long-term bank loan from in the amount of USD 100 million, repayable in 24 equal quarterly principal payments up to December 31, 2024, at variable USD interest (Libor plus a margin) and at market terms.

B. In the reporting period, the general meeting of the Company approved the agreement with Alex Passal, a director and controlling shareholder of the Company, for the provision of various services to the Company. For further information see Note 27B3e to the Annual Statements.

C. Further to Note 27B3b and 27B3d to the Annual Statements, in the reporting period, bonuses were approved for 2018: (1) for the chairman of the Board of Directors, Ovadia Eli, in the amount of NIS 1.46 million (this bonus was approved subsequent to the reporting period by the general meeting of the Company); (2) for the CEO of the Company, Yashar Ben Mordechai, in the amount of NIS 1.4 million.

D. In the reporting period, the Company's Board of Directors allocated 3,850,000 options to an officer of the Company under the terms set out in Note 21B1 to the Annual Statements.

E. On March 12, 2019, the chairman of the Company's Board of Directors, Ovadia Eli, announced the termination of his term as chairman and director in the Company. The Company's Board of Directors resolved to appoint Johanan Locker as a director, and to appoint him as chairman of the Board of Directors as from the end of Ovadia Eli's office, which was expected in the second quarter. Subsequent to the reporting period, it emerged that Johanan Locker is expected to take office on July 1, 2019, and accordingly, in view of the circumstances, Eli Ovadia and the Company agreed that his termination notice would be postponed until Johanan Locker takes office as chairman of the Board of Directors, to ensure managerial continuity in the Company and a sufficient changeover period. For information about the compensation terms of Johanan Locker, see section L below.

F. Further to Note 20C to the Annual Statements, in the reporting, the Ministry of Environmental Protection presented the Company and Gadiv with an administrative order to prevent or reduce air pollution, according to which the companies were required to install means to reduce emission in the storage tanks that that significantly contribute to benzene emissions, and to replace equipment components in which benzene flows with equipment components that comply with the best available technique in the timetables set out in the administrative order, some of which do not correspond with the shutdown dates scheduled by the Company, including their replacement in crude oil refining unit 4, the isomerization unit, and the continuous catalytic reforming (CCR) unit, no later than August 8, 2020. The Company is preparing to implement the requirements of the administrative order and is in contact with the Ministry of Environmental Protection on this matter.

The companies are unable to estimate the exposure for measurement of concentrations exceeding those stipulated in the regulations, to the extent that they are measured, on the results of their operations, if any.

G. Further to Note 21B to the Annual Statements, in the reporting period, the Chairman of the Board of Directors Ovadia Eli, exercised 2,000 thousand options on the Company's shares (545 thousand shares). The shares were sold concurrently with the exercise.

NOTE 7 – MATERIAL EVENTS IN AND SUBSEQUENT TO THE REPORTING PERIOD (CONTD.)

H. 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, 2019, the Company, Carmel Olefins and Gadiv derecognized an amount of USD 186 million, USD 35 million and USD 35 million, respectively, from their trade receivables.

I. On April 8, 2019, Maalot S&P upgraded the rating outlook of the Company and its debentures to ilA with positive outlook.

J. On May 6, 2019, the Company's CEO, Yashar Ben Mordechai announced the termination of his duties in Company on May 31, 2019. The Company's Board of Directors resolved to appoint Shlomi Basson, who currently serves as Deputy CEO and VP of Human Resources, Safety, Environmental Quality, and Security, as Acting CEO (interim) as from June 1, 2019.

K. For further 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.

L. On May 15, 2019, the Company's Board of Directors approved, after the approval of the compensation committee, the compensation terms of Johanan Locker, as chairman of the Board of Directors of Bazan, which will apply as from the date he assumes this position. The compensation terms are subject to the approval of the Company's general meeting, which will be convened for the purpose of approving the compensation terms and updating the compensation policy regarding the adjustment period. The main compensation terms are as follows:

The scope of services to be provided will be a full-time position. Johanan Locker may serve as a director in other entities without the Company's approval, provided that the time dedicated to his service in the Company will not fall below a full-time position and that the other businesses do not infringe on the commitments of Johanan Locker under the agreement.

Johanan Locker will be entitled to monthly management fees in the amount of NIS 169,700 plus differentials linked to an increase in the CPI, above the base CPI (the February 2019 CPI). The aforesaid consideration will not be reduced due to absence for a vacation of up to 26 days per year and for an illness of up to 30 days per year. In addition, the Company will provide Johanan Locker with a car that is compatible with his position and status.

The agreement between the Company and Johanan Locker has been signed for an undefined period, and it may be canceled by any of the parties with advance notice of three months. In the notice period as defined in the agreement, Johanan Locker is entitled to the full consideration in accordance with the provisions of the agreement. The Company may terminate the agreement immediately or at any time during the advance notice period, provided that, at the termination date of his employment, Johanan Locker will be paid all the amounts to which he would have been entitled under the agreement, had he continued his employment in the Company throughout the notice period. Johanan Locker will be entitled to payment for an adjustment period of up to six months, in addition to the advance notice period, but in any event, the total period after termination of his office (the advance notice period in which he will not serve and the adjustment period, jointly), for which Johanan will be entitled to compensation after termination of his service as chairman of the Company's Board of Directors, will not exceed six months. Johanan Locker is required to sign a non-disclosure and non-competition agreement, as is standard in the Company. In addition to the above, Johanan Locker will be covered by liability insurance for his activities as an officer in the Company and will be granted an undertaking for indemnification as is applicable for all officers in the Company.

Johanan Locker is entitled to bonuses in accordance with the Company's compensation policy as it may apply from time to time, in accordance with approvals required under the policy and the law. In addition, Johanan Locker will be allotted 19,300 thousand options exercisable into Company shares, under section 102 of the Income Tax Ordinance in the capital track. The allotment will be in accordance with the options plan adopted by the Company in 2007.

USD thousands

NOTE 8 - 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 and marketable debentures (Series A-G) and other long-term liabilities, are the same as or proximate to their fair value.

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

	March 31, 2019			
	Adjusted par value	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Private debentures (1)	729	729	−	748
Marketable Debentures (Series F and I) (1)(2)	517,942	520,571	539,350	−
Marketable Debentures (Series D-E) (2)(3)	357,839	368,218	400,158	−
Bank loans (4)	439,261	418,741	−	442,627
	1,315,771	**1,308,259**	**939,508**	**443,375**

	March 31, 2019	
	Adjusted par value	Carrying amount
Debentures at fair value (2):		
Marketable Debentures (Series A)	99,695	105,017
Marketable Debentures (Series G)	35,496	37,727
	135,191	**142,744**

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

USD thousands

NOTE 8 - FINANCIAL INSTRUMENTS - FAIR VALUE (CONTD.)

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

	March 31, 2018	
	Adjusted par value	Carrying amount
Debentures at fair value [(2)]:		
Marketable Debentures (Series A)	169,699	180,994
Marketable Debentures (Series G) [(5)]	108,758	114,196
	278,457	**295,190**

	December 31, 2018				
	Adjusted par value	Carrying amount	Fair value level 1	Fair value level 2	Discount rates used for determining fair value
Financial liabilities					
Private debentures [(1)]	1,870	1,870	–	1,907	
Marketable Debentures (Series F and I) [(1)(2)]	523,543	526,477	527,532	–	
Marketable Debentures (Series D-E) [(2)(3)]	346,764	351,553	376,922	–	
Bank loans [(4)]	352,355	330,485	–	348,377	5.88%-6.8%
	1,224,532	**1,210,385**	**904,454**	**350,284**	

	December 31, 2018	
	Adjusted par value	Carrying amount
Debentures at fair value [(2)]:		
Marketable Debentures (Series A)	96,894	101,177
Marketable Debentures (Series G)	68,998	72,222
	165,892	**173,399**

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

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

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

(4) The carrying amount of the bank loans is presented net of raising costs and as from December 31, 2018, net of adjustment for amendments to the terms of the syndication loan, as set out in Note 13C1 to the Annual Statements.

(5) As at March 31, 2018, the carrying amount and adjusted par value include a principal of USD 36 million, which was postponed to April 1, 2018. Accordingly, as at March 31, 2018 the TASE closing price is USD 78 million.

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

(1) In the three months ended March 31, 2019, a pre-tax profit of USD 18 million was recognized as a hedging reserve for the effective share of the fair value change of futures on Brent. As at March 31, 2019, the balance of the hedge fund (before tax) amounts to USD 12 million.

(2) Below are the main assumptions used to determine the fair value of the principal and interest swap contracts as at March 31, 2019:

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

USD thousands

NOTE 8 - FINANCIAL INSTRUMENTS - FAIR VALUE (CONTD.)

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

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

(1) In the three months ended March 31, 2018, a pre-tax profit of USD 4 million was recognized as a hedging reserve for the effective share of the fair value change of futures on Brent. As at March 31, 2018, the balance of the hedge fund (before tax) amounts to USD 5 million.

(2) 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) 0.89% - (0.58%)
- CPI-linked NIS interest (used to discount the NIS-linked component): (0.44%)- (3.94%)
- USD interest (used to discount the USD component) 1.68%-2.72%
- Exchange rate (NIS/USD) as at March 31, 2018

(3) 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

USD thousands

NOTE 8 - FINANCIAL INSTRUMENTS - FAIR VALUE (CONTD.)

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

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivatives used for accounting hedging (1)				
CCIRS (2)	−	7,248	−	7,248
Derivatives for margins	−	−	10,472	10,472
Interest rate swaps	−	1,077	−	1,077
Derivatives that are not used for accounting hedging				
CCIRS (2)	−	4,998	−	4,998
Interest rate swaps	−	281	−	281
Derivatives for inventory	660	−	−	660
Derivatives for margins	−	1,696	−	1,696
Forward contracts	−	1,044	−	1,044
	660	16,344	10,472	27,476
Financial liabilities				
Non-derivative				
Marketable Debentures (Series A, G)	173,399	−	−	173,399
Derivatives used for accounting hedging				
CCIRS (2)	−	11,831	−	11,831
Interest rate swaps	−	1,172	−	1,172
Derivatives that are not used for accounting hedging				
CCIRS (2)	−	4,225	−	4,225
Forward contracts	−	503	−	503
	173,399	17,731	−	191,130

(1) In 2018, loss (before tax) in the amount of USD 7 million was recognized in a hedge fund for the effective part of the change in the fair value of futures on Brent. As at December 31, 2018, the balance of the hedge fund (before tax) amounts to USD 6 million (credit).

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

- NIS interest (used for discounting the NIS component) 1.25% - (0.63%)
- CPI-linked NIS interest (used to discount the NIS-linked component): 1.85% - (1.62%)
- USD interest (used to discount the USD component) 2.29%-2.78%
- Exchange rate (NIS/USD) as at December 31, 2018

Bazan Ltd.

Separate Financial Information
As of March 31, 2019

(This part is available only in Hebrew)

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

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

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

Management, under the supervision of the Balance Sheet and Audit Committee and the Board of Directors of Bazan Ltd. ("the Company"), is responsible for setting and maintaining proper internal control of financial reporting and disclosure in the Company.
For this matter, the members of management of the date of approval of the report are:

1. Yashar Ben-Mordechai – CEO
2. Ana Berenshtein - CFO
3. The other members of management as of the date of approval of the report date:

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

   Yariv Gretz – VP Business Unit, Fuels

   Assaf Almagor – VP Business Units, Polyolefins and Aromatics

   Limor Pesher-Cohen – VP Integrated Planning and Commerce

   Michal Minzer – Legal Counsel

   Yaron Nimrod – VP Technology and Projects

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

Internal control of financial reporting and disclosure includes controls and procedures existing in the Company which were designed by the CEO and the most senior financial officer or under their supervision, or by whoever actually fulfills those roles, under the supervision of the Board of Directors of the Company, and are intended to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, and to ensure that information that the Company is required to disclose in the reports that it publishes as required by law, is gathered, processed, summarized and reported on the date and in the format prescribed in law.
Internal control includes, inter alia, controls and procedures designed to ensure that information that the Company is required to disclose as aforesaid, is accumulated and forwarded to the Company's management, including the CEO and the most senior financial officer or to whoever actually fulfills those roles, so as to enable decisions to be made at the appropriate time with regard to the disclosure requirement.
Owing to its inherent limitations, internal control of financial reporting and disclosure is not intended to provide absolute assurance that a misleading presentation or the omission of information in the reports will be prevented or will come to light.
In the annual report on the effectiveness of the internal control of financial reporting and disclosure attached to the Periodic Report for the period ended December 31, 2018 (“the Last Annual Report on Internal Control”), management under the supervision of the Balance Sheet and Audit Committee and the Board of Directors assessed the internal control in the Company; based upon this assessment, the Board of Directors and management of the Company concluded that the said internal control as of December 31, 2018, is effective.
Up to the reporting date no event or matter that might change the assessment of the effectiveness of the internal control has been brought to the attention of the Board of Directors and management, as is to be found in the Last Annual Report on Internal Control;
As of the reporting date, based upon the assessment of the effectiveness of the internal control in the Last Annual Report on Internal Control, and based on information brought to the attention of the Board of Directors and management as stated above, the internal control is effective;

Certifications

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

I, Yashar Ben-Mordechai, declare that:

1) I have reviewed the Quarterly Report of Bazan Ltd. ("the Company") for the first quarter of 2019 ("the Reports").

2) To my knowledge, the Reports do not contain any incorrect representation of a material fact, nor is any representation of a material fact omitted which is needed to prevent the representations contained in it, in light of the circumstances in which they were included, from being misleading in relation to the period covered by the Reports.

3) To my knowledge, the financial statements and other financial information in the Reports reflect fairly, from all material aspects, the financial condition, the results of operations and the cash flows of the Company as of the dates and for the periods to which the Reports relate.

4) I disclosed to the auditors of the Company, to the Company's Board of Directors and to the Balance Sheet and Audit Committee of the Board of Directors of the Company, based on my latest assessment concerning the internal control of financial reporting and disclosure:

(a) all the significant flaws and material weaknesses in the determination or application of the internal control of financial reporting and disclosure, which can reasonably be expected to harm the Company's ability to gather, process, summarize or report on financial information in such a way as to cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, and –

(b) any deception, whether material or not material, involving the CEO or any of his direct subordinates or other employees who have a significant role in the internal control of financial reporting and disclosure.

5) I, alone or together with others in the Company:

(a) set controls and procedures or ascertained the setting and maintaining of controls and procedures under my supervision, which are designed to ensure that material information relating to the Company, including its consolidated companies as defined in the Securities (Annual Financial Statements) Regulations, 2010, is brought to my knowledge by others in the Company and in the consolidated companies, particularly during the period of preparation of the Reports; and

(b) set controls and procedures or ascertained the setting and maintaining of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles.

(c) No event or matter that occurred during the period between the Last Annual Report on Internal Control and the date of this Report has been brought to my attention that might change the conclusion of the Board of Directors and management concerning the effectiveness of the internal control of the financial reporting and disclosure of the Company.

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

May 15, 2019

Yashar Ben-Mordechai,
CEO

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

I, Ana Berenshtein, declare that –

1) I have reviewed the interim financial statements and other financial information included in the Reports of the interim period of Bazan Ltd. ("the Company") for the first quarter of 2019 ("the Reports" or "the Reports for the Interim Period").

2) To my knowledge, the financial statements and the other financial information included in the Reports do not contain any incorrect representation of a material fact, nor is any representation of a material fact omitted which is needed to prevent the representations contained in them, in light of the circumstances in which they were included, from being misleading in relation to the period covered by the Reports.

3) To my knowledge, the interim financial statements and other financial information in the Reports for the Interim Period reflect fairly, from all material aspects, the financial condition, the results of operations and the cash flows of the Company as of the dates and for the periods to which the Reports relate.

4) I disclosed to the auditors of the Company, to the Board of Directors and to the Balance Sheet and Audit Committee of the Board of Directors of the Company, based on my latest assessment concerning the internal control of financial reporting and disclosure:

(a) all the significant flaws and material weaknesses in the determination or application of the internal control of financial reporting and disclosure, insofar as it relates to the interim financial statements and the other financial information contained in the Reports for the Interim Period, which can reasonably be expected to harm the Company's ability to gather, process, summarize or report on financial information in such a way as to cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and –

(b) any deception, whether material or not material, involving the CEO or any of his direct subordinates or other employees who have a significant role in the internal control of financial reporting and disclosure.

5) I, alone or together with others in the Company:

(a) set controls and procedures or ascertained the setting and maintaining of controls and procedures under my supervision, which are designed to ensure that material information relating to the Company, including its consolidated companies as defined in the Securities (Annual Financial Statements) Regulations, 2010, insofar as relevant to the financial statements and the other financial information contained in the Reports, is brought to my knowledge by others in the Company and in the consolidated companies, particularly during the period of preparation of the Reports; and

(b) I set controls and procedures or ascertained the setting and maintaining of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles.

(c) No event or matter that occurred during the period between the Last Annual Report on Internal Control and the date of this Report has been brought to my attention that refers to the interim financial statements and any other financial information included in the Reports for the Interim Period that might change the conclusion of the Board of Directors and management concerning the effectiveness of the internal control of the financial reporting and disclosure of the Company.

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

May 15, 2019

Ana Berenshtein,
CFO & VP Economics