OIL REFINERIES LTD

Condensed Consolidated Interim Financial Statements as at June 30, 2018

(Unaudited)

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

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Bazan Ltd.

Contents

Directors' Report on the State of the Company's Affairs For the Period Ended June 30, 2018

The Board of Directors is pleased to present the Directors' Report on the State of the Company's Affairs for the period ended June 30, 2018 ("the Reporting Period"). The report is presented under the assumption that the entire interim report and the entire periodic report for 2017, including the Description of the Corporation's Business for 2017, are available to the reader.

Chapter 1 - Description of the Company and its Business Environment

A. General

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

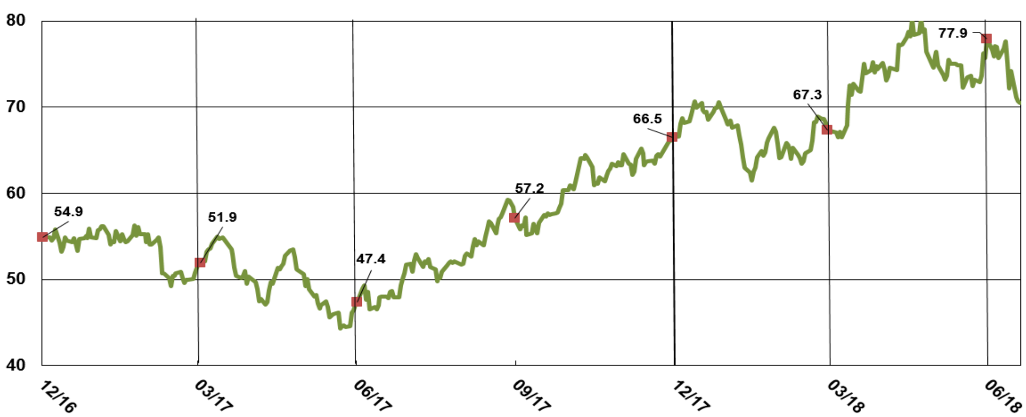
The subsidiaries' plants (with the exclusion of Ducor, which is located in the Netherlands) are downstream facilities of the Company and they receive most or all of the required feedstock from the Company on an ongoing basis through pipelines, and return all or part of the products of their facilities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

B. Business environment and Bazan Group profitability

1. Fuels

The price of crude oil

Brent crude oil prices in 2017-2018 (USD/barrel)



Source: Reuters

Average price of Brent crude (USD/barrel)

1-6.2018	1-6.2017	Change	4-6.2018	4-6.2017	Change
70.6	51.7	37%	74.4	49.6	50%

In the Reporting Period and particularly the second quarter of 2018, the price of Brent crude oil ("Brent"), continued to increase, and was affected mainly by the decision of the OPEC member states to limit oil production, with other countries, such as Russia, joining this decision, and the effects of the sanctions on Iranian crude oil exports. At the same time, the increase in oil production by non-OPEC countries, especially the US, continued and had a moderating effect on the rise in crude oil prices. In the Reporting Period, Brent traded between USD 60 and USD 80 per barrel.

At the end of the second quarter of 2018, the Brent price was set at USD 78 per barrel. Subsequent to Reporting Date, the Brent price fell to about USD 70 per barrel with the possibility that the US would release crude oil inventories from its strategic reserves. Close to Reporting Date, the Brent price was fixed at USD 72 per barrel.

In the Reporting Period the price of Ural crude oil, which is heavy crude oil, compared to Brent prices (which is light crude oil), traded at an average discount of USD 1.7 per barrel, compared with USD 1.3 per barrel in the corresponding period last year. The disparity between the prices of heavy and light oil was extremely volatile, ranging between USD 0 and USD 3 per barrel, mainly due to the increase in supply of heavy crude oil substitutes for Ural on the one hand, which lowered the Ural price in the first quarter of 2018 and the reduced supply of Iranian heavy oil due to sanctions, that increased the Ural price in the second quarter of 2018.

In the Reporting Period, the crude oil futures market continued to be backwardated at an average of USD 0.3 per barrel, continuing the trend that began in the second quarter of 2017. Subsequent to Reporting Date, the market became contango at an average of USD 0.1 per barrel per month, mainly due to the decline in the price of crude oil in July 2018.

Refining margin

Reuters Ural Margin

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

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

Source: Reuters

Average Reuters Ural margin (USD/barrel)

1-6.2018	1-6.2017	Change	4-6.2018	4-6.2017	Change
4.2	5.4	- 22%	4.4	5.8	- 24%

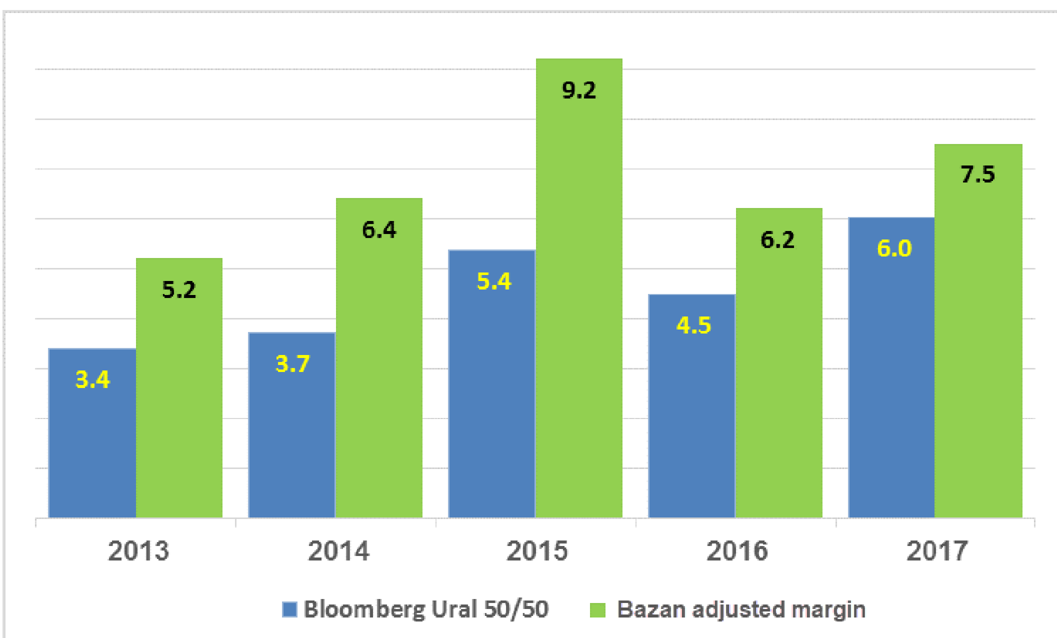
The Reuters Ural margin decreased in the Reporting Period compared with the corresponding period last year. The primary reason is the sharp rise in crude oil prices that led to a temporary decline in the margin. Subsequent to Reporting Date and until close to date of publication of the report, the average Reuters Ural margin was USD 5.9 per barrel.

Weighted Bloomberg Ural Margin

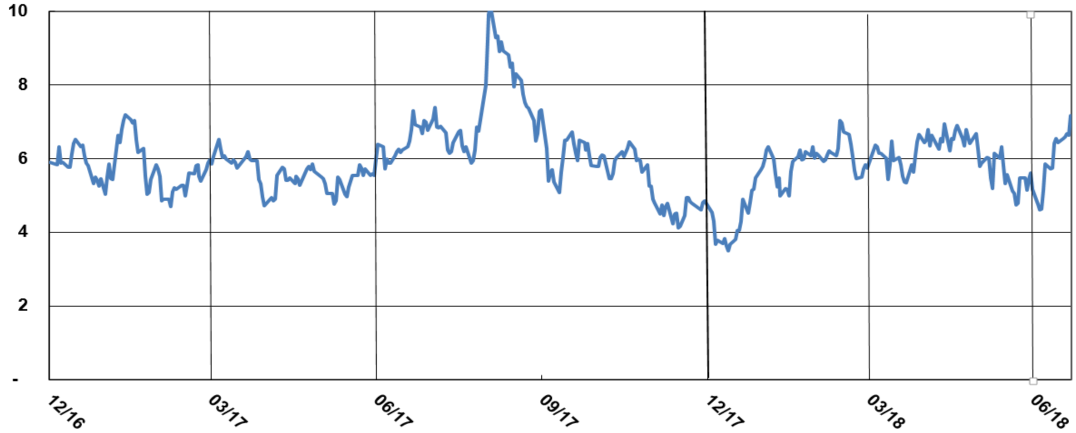
In September 2017 the Bloomberg news agency began publishing regional refinery margins including Mediterranean region margins These margins are calculated for a variety of crude oil types and distillation configurations. Since publication began, the Company has considered whether the margins published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

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

The following chart presents the Weighted Bloomberg Ural margins (based on data published by Bloomberg) and Bazan's adjusted refining margin (USD per barrel) from the beginning of 2013 (date on which the hydrocracker became operable and the transition to the use of natural gas):



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



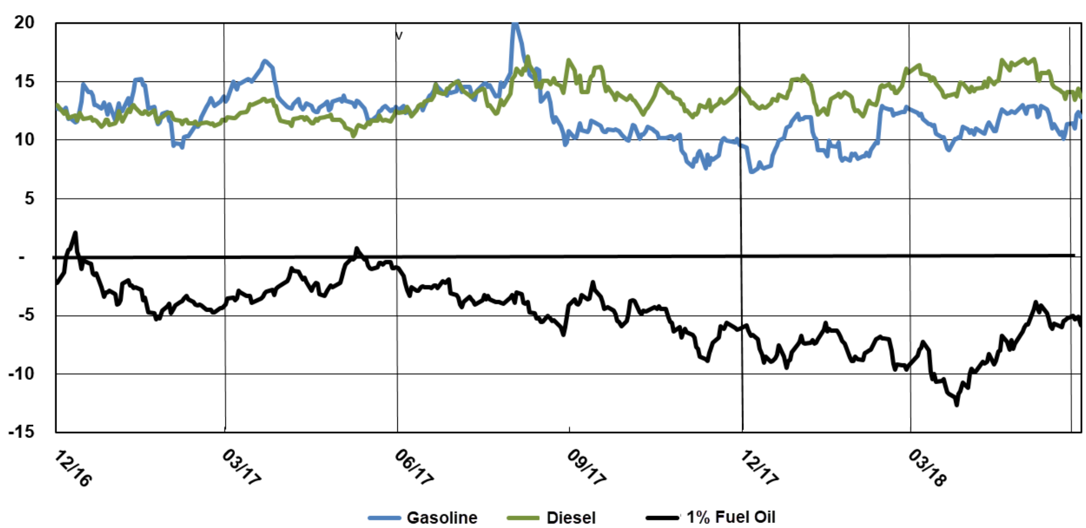
Source: Bloomberg

Average Weighted Bloomberg Ural margin (USD/barrel)

1-6.2018	1-6.2017	Change	4-6.2018	4-6.2017	Change
5.7	5.7	0%	6.0	5.6	7%

Subsequent to Reporting Date and until close to date of publication of the report, the average Weighted Bloomberg Ural margin was USD 6.8 per barrel. For information regarding the Company's refining margins see section 2A2b and 2B2b below.

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



Source: Reuters
1) ULSD CIF Med
2) Prem Unl CI Med
3) Fuel Oil 1.0% CIF Med

Mediterranean Basin transportation diesel [(1)], gasoline [(2)] and 1% fuel oil [(3)] margins over Brent crude oil (USD per barrel)

	1-6.2018	1-6.2017	Change	4-6.2018	4-6.2017	Change
Gasoline	10.7	13.0	- 18%	11.4	13.5	- 16%
Diesel fuel	14.4	11.9	21%	15.1	11.9	27%
1% Fuel oil [(1)]	- 7.8	- 2.5	- 212%	- 7.8	- 1.9	- 311%

(1) The fuel oil margin declined significantly in the Reporting Period and in the second quarter of 2018 compared with the corresponding period last year, due to surplus supply in the Mediterranean region. Towards the end of the second quarter 2018 and subsequent to the Reporting Period, there has been a discernible improvement in the fuel oil margin.

<u>Domestic market consumption of distillates</u>

Domestic consumption of distillates (transportation, industrial and heating fuels) increased in the reporting period by 2% compared to the corresponding period last year, and by 4% in the second quarter of 2018 compared to the corresponding quarter last year. There was no change in consumption of gasoline (fuel oil, diesel and kerosene) remained unchanged compared to the corresponding period last year and increased in the second quarter of 2018 by 2% compared with the corresponding quarter 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)

	1-6.2018	1-6.2017	Difference	4-6.2018	4-6.2017	Difference
Utilization of refining plants	97%[(1)]	86%[(1)]	11%	95%[(1)]	98%	- 4%
Refining volume	4,756	4,219	537	2,322	2,418	- 96
Import of HVGO, net	281	302	- 21	110	167	- 57
Total	**5,037**	**4,521**	**516**	**2,432**	**2,585**	**- 153**

The increase in the refining volume in the Reporting Period is mainly due to high utilization rate compared to the corresponding period last year, during which some of the Company's facilities, including the continuous catalytic discharge facility ("CCR") and Gadiv facilities, that were shut down affecting the refining facilities and the Company's downstream facilities. Towards the end of the second quarter of 2018, some of the Company's plants were shut down, particularly Refining Plant 3 and the hydrocracker, for periodic maintenance work that continued into the third quarter of 2018. This shutdown caused a decrease in the utilization rate of the refining facilities in the second quarter of 2018. For further information regarding the effect of the periodic maintenance work on the Group’s margins, see section 2A2 below.

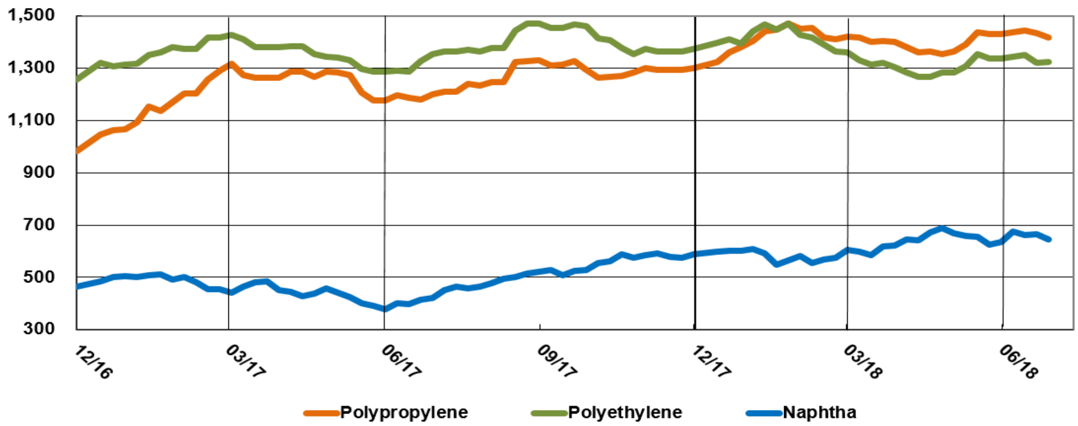
(1) The utilization rate of the refining facilities, without the foregoing periodic maintenance work, (on the assumption of 97% utilization, and that 18.7 million barrels of interim materials are processed per quarter) was 99% in the Reporting Period (96% in the corresponding period last year on the assumption of 17.5 million barrels of crude oil and interim materials processed per quarter) and in the second quarter of 2018 was 97%.

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

	1-6.2018	1-6.2017	Difference	4-6.2018	4-6.2017	Difference
Diesel fuel	1,815	1,591	224	881	931	- 50
Gasoline	1,010	725	285	484	493	- 9
Kerosene	379	317	62	213	198	15
Fuel oil	1,089	998	91	494	538	- 44
others	620	796	- 176	308	369	- 61
Total	4,913	4,427	486	2,380	2,529	- 149

2. Polymers Segment - Carmel Olefins

Polymer (1) and naphtha (2) prices in 2017-2018 (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)

	1-6.2018	1-6.2017	Change	4-6.2018	4-6.2017	Change
Naphtha	615	459	34%	645	432	49%
Polypropylene	1,406	1,212	16%	1,396	1,248	12%
Polyethylene	1,358	1,354	0%	1,307	1,342	- 3%

Raw material prices

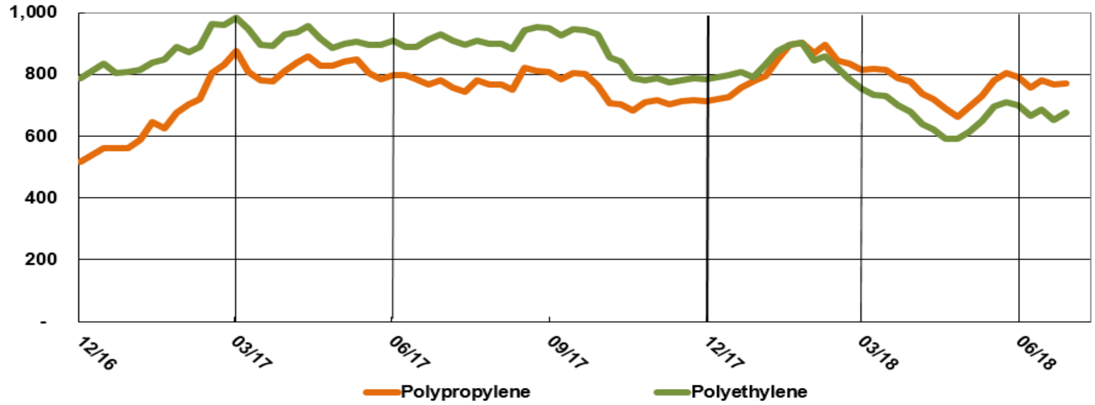
Raw material prices, particularly naphtha prices, increased in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices.

Polymer prices

Polypropylene prices increased in the Reporting Period compared with the corresponding period last year, and the polypropylene price remained unchanged, parallel to the increase in raw material and energy prices. The increase in the price of polypropylene compared with polypropylene is, among other things, due to the demand for polypropylene in Europe.

Margins

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



Source: ICIS
1) PP FD NEW Spot
2) Propylene FD NEW Contract

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

	1-6.2018	1-6.2017	Change	4-6.2018	4-6.2017	Change
Polypropylene	791	753	5%	751	816	- 8%
Polyethylene	743	896	- 17%	662	909	- 27%

In the Reporting Period the difference between the price of polypropylene and the price of naphtha was higher compared with the corresponding period last year and the difference between the price of polyethylene and the price of naphtha was lower compared to the corresponding period last year. This, in view of the increase in the price of naphtha and at the same time the increase in demand for polypropylene.

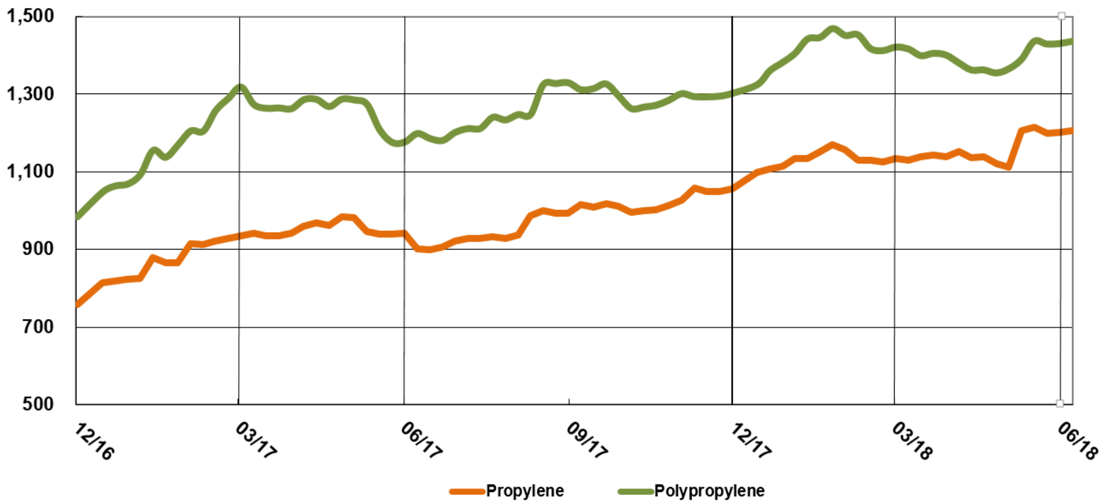
Polymer output volume (thousand tons)

	1-6.2018	1-6.2017	Difference	4-6.2018	4-6.2017	Difference
Polymers	246	267	- 21	138	133	5

The decrease in volume of polymer production at Carmel Olefins in the Reporting Period is mainly due to planned maintenance work on the ethylene facility, which was carried out in the first quarter of 2018. For further information regarding the estimated loss of profits in the period due to this maintenance work and income from insurance indemnification relating to loss of profits, see section 2A2 below.

3. Polymers Segment - Ducor

Polypropylene [(1)] and propylene [(2)] prices in 2017-2018 (USD /ton)



Source: ICIS
1) PP FD NEW Spot
2) Propylene FD NEW Contract

Average polypropylene and propylene prices (USD / ton)

	1-6.2018	1-6.2017	Change	4-6.2018	4-6.2017	Change
Polypropylene	1,406	1,212	16%	1,396	1,248	12%
Propylene	1,147	915	25%	1,162	949	22%

Raw material prices

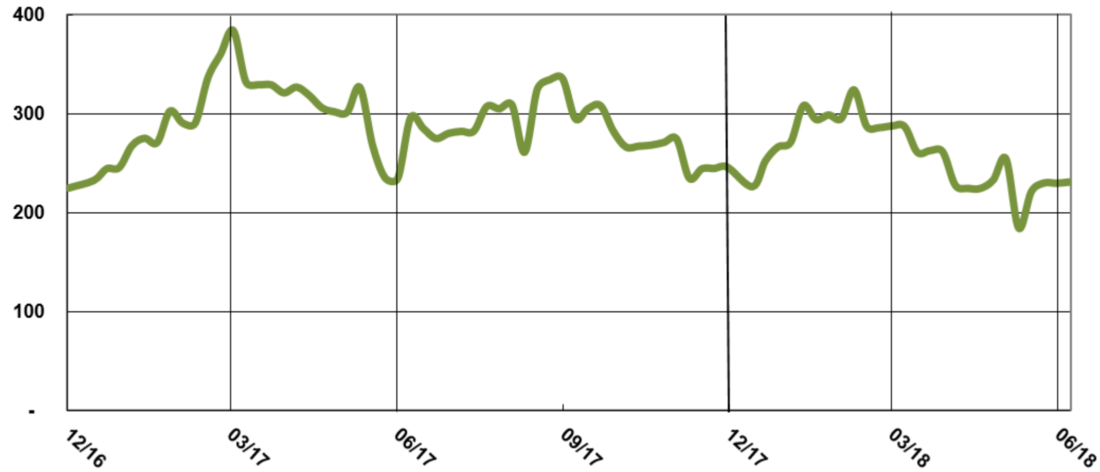
The prices of Ducor's primary raw material, propylene, increased in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil price.

Polypropylene prices

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

Margins

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



Source: ICIS

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

	1-6.2018	1-6.2017	Change	4-6.2018	4-6.2017	Change
Difference in price	259	297	- 13%	234	300	- 22%

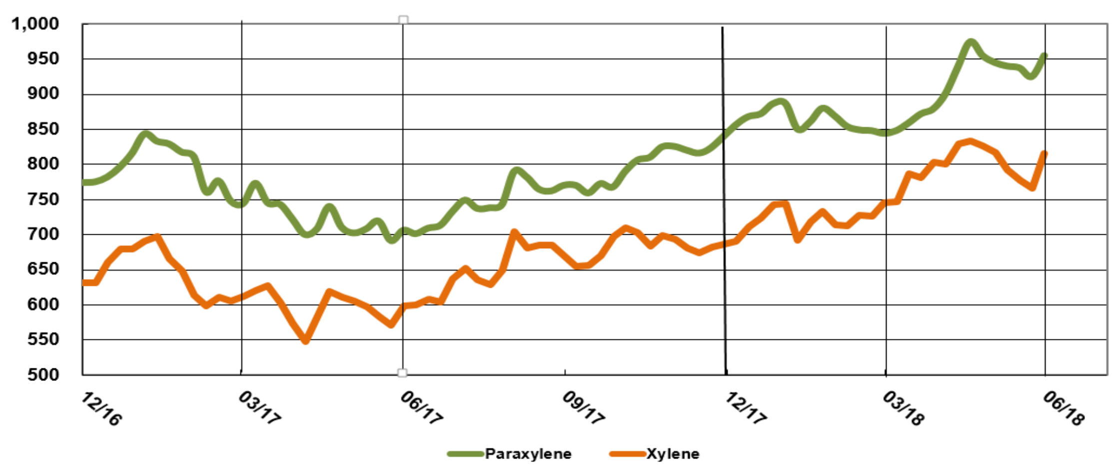
In the Reporting Period, the difference between the polypropylene and propylene prices was lower than in the corresponding period last year, mainly due to the strengthening of the propylene price, compared with the polypropylene price.

Polypropylene output volume (thousand tons)

	1-6.2018	1-6.2017	Difference	4-6.2018	4-6.2017	Difference
Polypropylene	76	82	- 6	42	42	-

4. Aromatics Segment - Gadiv

Xylene [(1)] and paraxylene [(2)] prices in 2017-2018 (USD /ton)



Source: Reuters
1) Solvent Xylene FOB ARA
2) Paraxylene FOB ARA

Average xylene and paraxylene prices (USD / ton)

	1-6.2018	1-6.2017	Change	4-6.2018	4-6.2017	Change
Xylene	760	621	22%	798	595	34%
Paraxylene	891	758	18%	918	721	27%

Raw material prices

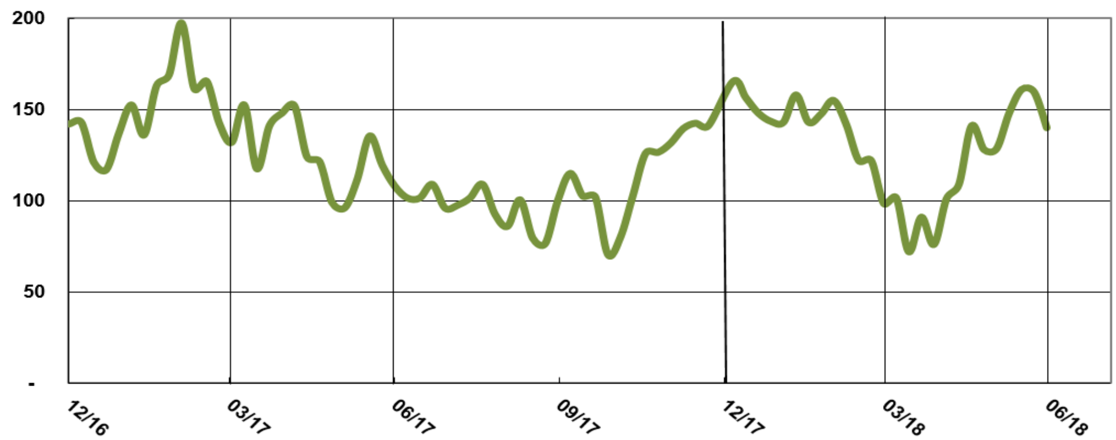
Raw material prices, particularly naphtha, increased sharply in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices.

Aromatics prices

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

Margins

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



Source: Reuters

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

	1-6.2018	1-6.2017	Change	4-6.2018	4-6.2017	Change
Difference in price	131	137	- 4%	120	125	- 4%

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

Aromatics output volume (thousand tons)

	1-6.2018	1-6.2017	Change	4-6.2018	4-6.2017	Change
Aromatics	278	153	125	136	130	6

The increase in aromatic output in the Reporting Period is mainly due to the shutdown of all Gadiv plants in the Reporting Period for periodic maintenance work. For further information regarding the effect of the periodic maintenance work on the margins in the Reporting Period, see section 2A2 below.

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

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.

Breakdown of selected figures from the reported consolidated statements of income after adjustment for accounting effects for the six and three month periods (USD millions)

	1-6.2018	1-6.2017	Change	4-6.2018	4-6.2017	Change
Revenue	3,365	2,583	30%	1,719	1,378	25%
EBITDA	**347**	**286**	21%	**192**	**170**	13%
Depreciation	(85)	(72)		(43)	(39)	
Other income (expenses), net	(12)	(6)		(14)	(3)	
Operating profit	**250**	**208**	20%	**135**	**128**	5%
Finance expenses, net	(42)	(83)		(16)	(36)	
Income tax	(37)	(33)		(22)	(19)	
Net profit	**171**	**92**	86%	**97**	**73**	33%
Fuel segment adjustments (*)	(77)	(55)		(41)	(13)	
Adjusted EBITDA	**270**	**231**	17%	**151**	**157**	(4%)
Adjusted operating profit	**173**	**153**	13%	**94**	**115**	(18%)
Net adjusted profit	**94**	**37**		**56**	**60**	

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

	1-6.2018	1-6.2017	Change	4-6.2018	4-6.2017	Change
Fuels Segment:	**213**	**161**	32%	**127**	**97**	31%
Polymers Segment:						
Polymers Segment - Carmel Olefins	97	100	(3%)	48	60	(20%)
Polymers Segment - Ducor	9	12	(25%)	6	5	20%
Total Polymers Segment	**106**	**112**	(5%)	**54**	**65**	(17%)
Aromatics Segment - Gadiv	**11**	**6**	83%	**4**	**7**	(43%)
Other segments and adjustments	17	7		7	1	
Total EBITDA	**347**	**286**	21%	**192**	**170**	13%
Fuel segment adjustments (*)	(77)	(55)		(41)	(13)	
Fuels Segment - adjusted	**136**	**106**	28%	**86**	**84**	2%
Total adjusted EBITDA	**270**	**231**	17%	**151**	**157**	(4%)

(*) For further information about the adjustment components, see section 2A2 below.

A. Analysis of the results of Bazan Group's operations for the six months

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. Sales turnover by operating segment

	Revenue USD million			Average polypropylene and propylene prices (USD / ton)		
	1-6.2018	**1-6.2017**	**Difference**	**1-6.2018**	**1-6.2017**	**Difference**
Fuels Segment:	**2,984**	**2,227**	**757**	**581**	**462**	**119(1)**
Polymers Segment - Carmel Olefins	357	346	11(2)	1,398	1,257	141
Polymers Segment - Ducor	117	112	5	1,511	1,256	255
Total Polymers Segment	**474**	**458**	**16**			
Aromatics Segment - Gadiv	**267**	**140**	**127(3)**	**832**	**721**	**111**
Other segments and adjustments	(360)	(242)	(118)			
Total consolidated income	**3,365**	**2,583**	**782**			

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

(2) Mainly due to an increase in prices and revenues from insurance indemnification for loss of profits which were offset by a decrease in the sales volume, among other things, following planned maintenance work on the ethylene facility in the first quarter of 2018.

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

2. Consolidated adjusted EBITDA by operating segments

Below is a description of the main reasons for the increase in the adjusted consolidated EBITDA for the operating segments in the period, in the amount of USD 39 million (USD million):

	Fuels	**Polymers**			**Aromatics**	**Others**	**Consolidated**
		Carmel Olefins	**Ducor**	**Total**			
Increase (decrease) in the margin/contribution (1)	(21)(2)	17(2)	1	18	(2)	11	(6)
Increase (decrease) in sales quantities	5	(12)	(3)	(15)	1	–	(9)
Decrease in loss of profits due to periodic maintenance work (3)	61	4	–	4	4	–	69
Increase (decrease) in other revenue (including insurance indemnification) (4)	(5)	(10)	–	(10)	6	–	(9)
Increase in operating expenses (including fixed, general and administrative expenses) (5)	(11)	(2)	(1)	(3)	(4)	–	(18)
Total	**29**	**(3)**	**(3)**	**(6)**	**5**	**11**	**39**

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

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

(3) Towards the end of the second quarter, periodic maintenance work commenced on some of the Company's production facilities, in particular Refining Plant 3 and the hydrocracker facility. As at date of approval of the Report, the periodic maintenance work on the hydrocracker has been completed and it is in operating mode. In the Group's assessment, the direct cost of the periodic maintenance work on the hydrocracker facility was approximately USD 34 million and the initial estimate of the total loss of income caused as a result is USD 25 million (mainly expected in the third quarter of 2018). For further information regarding the estimated loss of comprehensive profits to the Group as a result of periodic maintenance performed at some of the Group's production facilities in the first half of 2017, see section 2.1.2 of the Board of Directors' Report as at December 31, 2017.

(4) For further information concerning income from insurance indemnification with regard to loss of profits due to a fire in a storage tank for interim materials that was recognized in the second quarter of 2018, see Note 8F to the consolidated financial statements.

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

A. Adjustment components in the fuels segment

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

	1-6.2018	1-6.2017
Accounting EBITDA	**213**	**161**
Effects of timing differences (1)	(47)	10
Effects of adjusting value of inventory to market value, net (2)	(19)	(27)
Effect of changes in fair value of derivatives and disposals (3)	(11)	(38)
Total adjustments	**(77)**	**(55)**
Adjusted EBITDA	**136**	**106**

(1) Expenses (income) arising from changes in the value of unhedged inventory. In accordance with the Company's policy, the Company does not engage in hedging contracts for inventory of up to 730 thousand tons, other than the inventories under the available inventory transaction as set out in Note 5C20 to the consolidated financial statements. As at the Reporting Date, the volume of inventory not hedged with contracts is 480 thousand tons.

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

(3) Expenses (income) arising from reevaluation of the fair value of open positions that do not relate to hedged inventory, such as hedging of refining margins. The cumulative profit or loss with regard to these positions will be attributed to the adjusted EBITDA when disposed.

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

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

	1-6.2018	1-6.2017
Accounting margin (USD/ton)	**63.2**	**57.0**
Adjustments in the Fuels segment (USD/ton)	(15.1)	(12.1)
Adjusted margin (USD/ton)	**48.1**	**44.9**
Adjusted margin (USD/barrel)	**6.6**	**6.2**
Weighted Bloomberg Ural margin (USD/barrel)	**5.7**	**5.7**
Reuters Ural margin (USD/barrel)	**4.2**	**5.4**

For information regarding the differences between the Company's refining margin and the Reuters and Weighted Bloomberg Ural margins, see section 1B1 above.

3. Adjusted consolidated operating profit

Adjusted consolidated operating profit amounted to USD 173 million in the Reporting Period, compared to USD 153 million in the corresponding period last year. The main factors that affected the operating profit, other than the adjusted EBITDA as set out above, are depreciation and amortization and other expenses.

A. Depreciation (without amortization of excess costs)

Depreciation expenses in the Reporting Period amounted to USD 85 million compared with USD 72 million in the corresponding period of the previous year. The increase in depreciation expenses is mainly due to the effects of the initial application of IFRS 16 . For details see Note 3A3 to the Consolidated Financial Statements.

B. Other income (expenses)

Other expenses amounted to net USD 12 million in the Reporting Period, and were composed mainly of other income of USD 4 million offsetting a loss from impairment of the Oils Segment assets in the amount of USD 10 million, as set out in Note 8K to the consolidated financial statements, and amortization of excess costs in the amount of USD 6 million. In the corresponding period last year, other expenses amounted to USD 6 million and were mainly made up of amortization of excess costs.

4. Net profit

The net consolidated accounting profit amounted to USD 171 million in the Reporting Period, compared with USD 92 million in the corresponding period last year.

Adjusted consolidated net profit amounted to USD 94 million in the Reporting Period, compared to USD 37 million in the corresponding period last year.

The main factors that affected the adjusted net profit, other than the adjusted operating profit as set out above, are financing expenses and income tax.

A. Financial expenses

Net consolidated financing expenses amounted to USD 42 million in the Reporting Period compared to USD 83 million in the corresponding period last year. Principal changes in financing expenses, based on financial analysis (USD millions):

	1-6.2018 compared to 1-6.2017
Decrease in interest on short term credit and for working capital items	(4)
Increase in interest on loans and debentures [1]	3
Effect of exchange differences on financial items, net	(36)
Changes in fair value of hedge transactions	(2)
Others	(2)
Total	**(41)**

(1) 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.

B. Income tax

In the Reporting Period, tax expenses amounted to USD 37 million, compared with USD 33 million in the corresponding period last year, mainly due to an increase in pre-tax profit in the period compared to the corresponding period last year and offset by non-recurring tax expenses in the amount of USD 8 million in respect of dividends distributed during the corresponding period last year.

B. Analysis of the results of Bazan Group's operations for the three months

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. Sales turnover by operating segment

	Revenue USD million			Average polypropylene and propylene prices (USD / ton)		
	4-6.2018	**4-6.2017**	**Difference**	**4-6.2018**	**4-6.2017**	**Difference**
Fuels Segment:	**1,545**	**1,190**	**355**	**615**	**452**	**163**(1)
Polymers Segment - Carmel Olefins	181	180	1(2)	1,390	1,268	122
Polymers Segment - Ducor	62	57	5	1,507	1,294	213
Total Polymers Segment	**243**	**237**	**6**			
Aromatics Segment - Gadiv	**134**	**103**	**31**(3)	**838**	**736**	**102**
Other segments and adjustments	(203)	(152)	(51)			
Total consolidated income	**1,719**	**1,378**	**341**			

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

(2) Mainly due to an increase in prices that was offset by a decrease in sales volume.

(3) Mainly due to an increase in prices.

2. Consolidated adjusted EBITDA by operating segments

Below is a breakdown of the main reasons for the decrease in the adjusted consolidated EBITDA for the operating segments in the quarter, in the amount of USD 6 million (USD million):

	Fuels	Polymers			Aromatics	Others	Consolidated
		Carmel Olefins	Ducor	Total			
Increase (decrease) in the margin/contribution [1]	11	-	2	2	(4)	5	14
Increase (decrease) in sales quantities	(7)	(3)	(1)	(4)	–	–	(11)
Increase in other revenue	(3)	(8)	–	(8)	(1)	–	(10)
Decrease (increase) in operating expenses (including fixed, general and administrative expenses)	2	(1)	–	(1)	–	–	1
Total	3	(12)	1	(11)	(3)	5	(6)

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

(2) For further information concerning income from insurance indemnification for loss of profits recognized in the second quarter of 2018, see Note 8F to the consolidated financial statements.

A. Adjustment components in the fuels segment

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

	4-6.2018	4-6.2017
Accounting EBITDA	**127**	**97**
Effects of timing differences [1]	(33)	17
Effects of adjusting value of inventory to market value, net [2]	(3)	(1)
Effect of changes in fair value of derivatives and disposals [3]	(5)	(29)
Total adjustments	**(41)**	**(13)**
Adjusted EBITDA	**86**	**84**

(1) Expenses (income) arising from changes in the value of unhedged inventory. In accordance with the Company's policy, the Company does not engage in hedging contracts for inventory of up to 730 thousand tons, other than the inventories under the available inventory transaction as set out in Note 5C20 to the consolidated financial statements. As at the Reporting Date, the volume of inventory not hedged with contracts is 480 thousand tons.

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

(3) Income arising from reevaluation of the fair value of open positions that do not relate to hedged inventory, such as hedging of refining margins. The cumulative profit or loss with regard to these positions will be attributed to the adjusted EBITDA when disposed.

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

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

	4-6.2018	4-6.2017
Accounting margin (USD/ton)	**73.7**	**58.4**
Adjustments in the Fuels segment (USD/ton)	(17.0)	(4.9)
Adjusted margin (USD/ton)	**56.7**	**53.5**
Adjusted margin (USD/barrel)	**7.8**	**7.3**
Weighted Bloomberg Ural margin (USD/barrel)	**6.0**	**5.6**
Reuters Ural margin (USD/barrel)	**4.4**	**5.8**

For information regarding the differences between the Company's refining margin and the Reuters and Weighted Bloomberg Ural margins, see section 1B1 above.

3. Adjusted consolidated operating profit

The adjusted consolidated operating profit in the second quarter of 2018 amounted to USD 94 million, compared to USD 115 million in the corresponding period last year. The main factors that affected the operating profit, other than the adjusted EBITDA as set out above, are depreciation and amortization and other expenses.

A. Depreciation (without amortization of excess costs)

Depreciation expenses in the second quarter of 2018 amounted to USD 43 million compared with USD 39 million in the corresponding period of the previous year. The increase in depreciation expenses is mainly due to the effects of the initial application of IFRS 16 . For details see Note 3A3 to the Consolidated Financial Statements.

B. Other income (expenses)

Other expenses amounted to net USD 14 million in the Reporting Period, and were composed mainly of a loss from impairment of the Oils Segment assets in the amount of USD 10 million, as set out in Note 8K to the consolidated financial statements, and amortization of excess costs in the amount of USD 3 million. In the corresponding period last year, other expenses amounted to USD 3 million and were mainly made up of amortization of excess costs.

4. Net profit

The accounting consolidated net profit in the second quarter of 2018 amounted to USD 97 million, compared with USD 73 million in the corresponding quarter last year.

The adjusted consolidated net profit in the second quarter of 2018 amounted to USD 56 million, compared with USD 60 million in the corresponding quarter last year.

The main factors that affected the adjusted net profit, other than the adjusted operating profit as set out above, are financing expenses and income tax.

A. Financial expenses

Net consolidated financing expenses in the second quarter of 2018 amounted to USD 16 million compared to USD 36 million in the corresponding period last year. Principal changes in financing expenses, based on financial analysis (USD millions):

	4-6.2018 compared to 4-6.2017
Decrease in interest on short term credit and for working capital items	(3)
Increase in interest on loans and debentures (1)	1
Effect of exchange differences on financial items, net	(19)
Changes in fair value of hedge transactions	–
Others	1
Total	(20)

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.

B. Income tax

Tax expenses in the second quarter of 2018 amounted to USD 22 million, compared to USD 19 million in the corresponding period last year, mainly due to the increase in pre-tax profits in the period compared to the corresponding period last year.

Chapter 3 - Analysis of financial position

	June 30, 2018	Dec 31, 2017	Increase (decrease)	Percentage change
	USD millions			
Cash and deposits	511	403	108	27%
Trade and other receivables (1)	519	496	23	5%
Financial derivatives	23	12	11	92%
Inventory (2)	692	693	(1)	(0%)
Total current assets	**1,745**	**1,604**	**141**	**9%**
Fixed assets, net (3)	2,367	2,298	69	3%
Loan to Haifa Early Pensions	43	50	(7)	(14%)
Financial derivatives	28	56	(28)	(50%)
Other	5	7	(2)	(29%)
Total non-current assets	**2,443**	**2,411**	**32**	**1%**
Total assets	**4,188**	**4,015**	**173**	**4%**
Loans and borrowings (including current maturities) (4)	295	236	59	25%
Trade and other payables (5)	885	909	(24)	(3%)
Provisions (6)	22	35	(13)	(37%)
Financial derivatives	8	24	(16)	(67%)
Total current liabilities	**1,210**	**1,204**	**6**	**0%**
Bank loans, net	350	374	(24)	(6%)
Debentures, net (7)	962	1,000	(38)	(4%)
Financial derivatives	3	–	3	–
Employee benefits, net	54	57	(3)	(5%)
Deferred tax liabilities, net (8)	172	132	40	30%
Other (3)	104	44	60	136%
Total non-current liabilities	**1,645**	**1,607**	**38**	**2%**
Total capital (9)	**1,333**	**1,204**	**129**	**11%**
Total liabilities and capital	**4,188**	**4,015**	**173**	**4%**

(1) Mainly due to a decrease in trade receivables resulting from a decline in sales volume offset by a price increase and decrease in discounting, offsetting an increase in receivables for an insurance indemnification as set out in Note 8F to the consolidated financial statements and increase in prepaid expenses.

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

(3) Mainly due to the initial application of IFRS 16 regarding leases. For further details see Note 3A3 to the consolidated financial statements.

(4) Mainly due to deferral of principal debenture payments in the amount of USD 33 million from March 31, 2018 (which was not a business day) to the following quarter.

(5) Mainly due to a decrease in trade payables as a result of an increase in volume, offsetting a decrease in other payables due to payment of USD 73 million for development permits due to the judgment described in Note 20B2 to the annual consolidated financial statements and offset by the effect of initial application of IFRS 16 with regard to leases in the amount of USD 28 million less maturities in the period of USD 13 million, as set out in Note 3C3 to the consolidated financial statements, and an increase in interest payable to the amount of USD 26 million.

(6) Mainly due to payment of interest and linkage differentials for disputed development levies as described in Note 1A5 to the consolidated financial statements.

(7) Mainly due to the expansion of debentures (Series E and I) in the Reporting Period in the amount of USD 115 million and offsetting an increase in current maturities and the effects of the devaluation, including fair value adjustment and principal repayment in the amount of USD 45 million. For further information see Note 8G to the consolidated financial statements.

(8) Mainly due to utilization of carryforward losses for tax purposes. For further information, see Note 16D to the consolidated financial statements.

(9) Mainly due to profit for the period in the amount of USD 171 million, other comprehensive profit in the amount of USD 31 million and net of dividends declared and paid in the amount of USD 65 million (for further information, see Note 8A to the consolidated financial statements).

Chapter 4 - Analysis of liquidity

Total current assets less current liabilities as at June 30, 2018 amounted to USD 534 million and to USD 400 million as of December 31, 2017.

The current ratio at June 30, 2018 is 1.44 and at December 31, 2017 was 1.33.

Analysis the Group's liquidity:

	1-6.2018	1-6.2017
	USD millions	
Profit in cash	345	242
Decrease in working capital (1)	(40)	(52)
Income tax payments, net (2)	(5)	(8)
Cash from operating activities (*)	**300**	**182**
Investments in property plant and equipment (including periodic maintenance)(3)	(114)	(84)
Other	43	32
Cash used for investment activities	**(71)**	**(52)**
Short-term borrowing, net	2	(1)
Issue of debentures and receipt of long-term loans (4)	115	201
Repayment of debentures and long-term loans (5)	(73)	(149)
Interest paid (3)(5)	(48)	(85)
Dividend paid (6)	(65)	(85)
Other	(18)	21
Cash used in financing activities	**(87)**	**(98)**
Increase in cash and cash equivalents for the period	**142**	**32**
Effect of exchange rate volatility on cash and cash equivalents	**–**	**6**

(*) Net cash flows from operating activities net of interest paid in the Reporting Period and the corresponding period last year amounted to USD 252 million and USD 97 million, respectively.

(1) Primarily due to an increase of USD 28 million in receivables and a decrease in payables and provisions in the amount of USD 15 million.

(2) Mainly by the subsidiary, Ducor, which operates in the Netherlands.

(3) Mainly due to a principal and interest payment for development levies in the amount of USD 67 million and USD 14 million, respectively. For further information see Note 1A5 to the consolidated financial statements.

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

(5) As at June 30, 2018, debenture principal and interest payments in the amount of USD 33 million and USD 26 million, respectively, were deferred pursuant to the provisions of the Deeds of Trust to the following quarter as their contractual maturity date was not a business day.

(6) For further information see Note 8A to the consolidated financial statements.

Chapter 5 - Total borrowings from financial institutions

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

	June 30, 2018	Dec 31, 2017
Short-term borrowings (1)	2	–
Bank loans (2)	423	451
Debentures (2)	1,163	1,136
Hedging transactions on debentures (3)	(12)	(35)
Liquid financial assets (4)	(511)	(402)
Total, net financial debt	**1,065**	**1,150**

(1) With regard to Ducor.

(2) Including current maturities Presented in accordance with the liability value (without capital raising costs).

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

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

For further information regarding the Group's short term secured borrowing limits for 2018 see Note 13A to the annual consolidated financial statements. As of June 30, 2018, the Group has unused secured credit facilities of USD 230 million (used for letters of credit and guarantees only).

A. 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) amounts to USD 1,641 million, net working capital amounts to USD 285 million (of which the average trade receivables is USD 441 million and trade payables is USD 718 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, 2017.

Chapter 7 - Corporate governance

A. Directors with accounting and financial expertise

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

B. Independent directors

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

C. Disclosure regarding the internal auditor in a reporting corporation

In the Reporting Period, there was no change in the disclosure given in this matter in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2017.

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 Note 5A2G to the financial statements (including by way of reference to Note 20B (3), (5) and (6) to the annual financial statements) with regard to administrative and other proceedings, other contingencies and laws and regulations relating to environmental protection, the managements of the Company and its subsidiaries believe, based on the opinions of their legal counsels, that they are not able at this stage to assess the impact of the foregoing on the results of their operations and financial position, if any, and therefore no provisions regarding this matter were included in the financial statements.

B. Use of estimates and judgments

For further information regarding the use of estimates and judgments, 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 2017 Periodic Report.

Chapter 9 - Details relating to outstanding debentures

In the Reporting Period, there were no changes in the details of the existing series of debentures issued by the Company and offered to the public under a prospectus, in the details of the debenture trustees, in the conditions for call for immediate redemption of the debentures, in the Company's compliance with these conditions, and in the collateral for the debentures as described in the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2017 and in the notes to the financial statements for that year. For further information regarding the expansion of debentures (Series E and I) in the first quarter of 2018, see Note 8G to the consolidated financial statements. For further information concerning the financial covenants, see Note 6A to the consolidated statements.

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

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

Chapter 10 – Significant Subsequent Events

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

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

1. Changes in currency exchange rates

From the end of the Reporting Period through date of approval of the financial statements, there was a devaluation in the NIS-USD exchange rate. The Company uses hedging transactions to partially offset this exposure, as part of its risk management policy. A deviation of 1.4%, after the results of the hedging transactions, has an immaterial effect on the business results of the Group.

2. Changes in crude oil prices

The price of oil, which was USD 78 per barrel at Reporting Date, was USD 72 per barrel shortly before the date of publication of the 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**

August 8, 2018

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

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

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

A. Further to the provisions of section 1.6.2.1.3 of Chapter A of the Periodic Report as at December 31, 2017 regarding the expected changes in marine fuel standards and the Company's review regarding the possible effects of this change on its performance and the alternative measures it will have to take to prepare for this change in the standard, the Company concluded, based on advice of an international consulting firm, that its preparations for applying the standard are expected to be based the complexity and flexibility of its refining facilities, enabling it to adjust the crude oil mix to the expected market changes and for producing various types of fuel products, particularly diesel fuel, which is the primary component in the blendstocks used as a substitute for high sulfur fuel oil; and that the Company will be able to adapt its refining operations to market conditions and needs by that date, without requiring investment in its facilities; and that it may benefit from improved margins, especially in the first years following the introduction of standard, due to its ability to produce large volumes of diesel fuel.

The assessment of the effect of the change in the marine fuel standard on refining margins in general, and of the Company in particular, involves many assumptions regarding the refining market (including the availability of certain raw materials such as VGO and SR), regarding the marine transportation market and the extent of compliance with and enforcement of the new standard, regarding the extent of their materialization, if at all, is not certain. The refining margins and their improvement due to the introduction of the standard, if at all, may not materialize or may be significantly lower than the current estimates.

B. Further to section 1.12.8 of Chapter A of the Periodic Report as at December 31, 2017, on April 8, 2008, the master plan for the land on which the facilities of the Group companies are located, went into effect after having been published as required for validation. An appeal was filed with the Supreme Court against the decision of the District Court to dismiss petitions filed against the approval of the plan, which has not yet been heard.

C. Further to that stated in Section 1.19.7 of Chapter A of the Periodic Report as at December 31, 2017, the business licenses and temporary permits issued by the Haifa Municipality for all of the Group companies were extended until December 31, 2018.

D. Further to Section 1.18.2.1 of Chapter A of the Periodic Report, on May 13, 2018, the Company received a letter from the Prime Minister's Office, the main points of which are as follows: The National Economic Council has in recent years acted to promote regional economic development in Israel, with emphasis on the development of the large metropolitan areas: Haifa, Be'er Sheva and Jerusalem as a lever for developing the outlying regions. The future of the Haifa Bay was identified as one of the key elements of the Haifa metropolitan area. Due to government actions regarding the reduction of air pollution and for reducing environmental risks in the Haifa Bay area, the National Economic Council was required to review the future of Bazan Group in the Haifa Bay area. For this purpose, an inter-ministerial taskforce made up of senior representatives of the Ministries of Economy, Energy, Finance, Environmental Protection and the Israel Lands Administration and the Planning Authority was set up to review several key alternatives. In the letter, a meeting was requested with the Company's CEO in order to present their proposed project to him, to discuss its objectives and the various alternatives

The Company welcomes the government's intention to hold strategic discussion at the national level, in cooperation with all relevant government bodies, concerning the future of Bazan Group in the Haifa Bay area. The Company is cooperating with the taskforce in order to formulate a strategic, worthy and sustainable alternative under the auspices and responsibility of the State, for the further development of Bazan Group. During the period of the report, the Company submitted information for the purpose of the said examination, and it stood in the period of the report and thereafter in connection with the National Economic Council and with other elements of the inter-ministerial team and others, on this matter.

As at date of approval of the report, the Company has no way of estimating the results of the taskforce's review, if at all, and what effect they will have on the Company, if any.

E. Further to the provisions of Section 1.18.2.3 of Chapter A of the Periodic Report, in the Reporting Period, the Company continued to adopt intensive measures to reduce benzene emissions from its premises and submitted to the Ministry additional immediate plans for reducing emissions, including plans for modifying/discontinuing activities and it is implementing this plan. Subsequent to the Reporting Period, the Ministry of Environmental Protection notified the Company that if, after implementation of the Company's plans, emission concentrations will continue to be measured that exceed the daily benzene emission concentration as set in the regulations, the Ministry will consider additional measures, including the use of its powers under section 46 of the Clean Air Law, partially or in full. The Company believes that completion of the plans it is implementing will lead to further reduction in benzene emissions from the Company's premises, but at this stage it cannot be certain that immediately, at the edges of its premises, no further deviations from the regulations will be measured.

The Company's assessment of the impact of the measures adopted to reduce the measured benzene emission concentrations and with regard to the Company's compliance with the provisions of the Administrative Order is forward-looking information that depends, inter alia, on the actual results achieved as a result of the measures adopted by the Companies to reduce benzene emissions from their facilities, and it may be different, if these results differ from the current assessment.

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

Upon completion of the arrangement to replace Carmel Olefins debentures with debentures (Series G) of the Company, under which Carmel Olefins provided collateral for the Company's obligations to the holders of its debentures (Series G) as set out in Note 14A to the Annual Consolidated Statements, Carmel Olefins ceased to be a reporting corporation and all its reporting obligations have ceased.

So long as Carmel Olefins remains guarantor as aforesaid, the Company undertook to attach to its Board of Directors Report, ever quarter, condensed consolidated financial statements of Carmel Olefins (Statements of Financial Position, Statements of Profit and Loss and Statements of Cash Flows), without notes and unaudited or reviewed, as the case may be.

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

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

	June 30, 2018	June 30, 2017		Dec 31, 2017
	(Unaudited)			(Audited)
Current assets				
Cash and cash equivalents	29,669	52,146		49,550
Trade receivables	152,305	108,135		128,054
Other receivables	21,519	62,398	(*)	1,697
Financial derivatives	12,650	4,453		3,169
Inventories	91,252	56,903		76,706
Total current assets	**307,395**	**284,035**		**259,176**
Non-current assets				
Financial derivatives	–	8,099		–
Long term receivables	4,752	5,047	(*)	5,292
Fixed assets, net	643,339	658,246		652,273
Right of use assets (1)	10,373	–		–
Intangible assets and deferred expenses, net	10,557	12,849	(*)	11,834
Total non-current assets	**669,021**	**684,241**		**669,399**
Total assets	**976,416**	**968,276**		**928,575**

(*) reclassified.

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

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

	June 30, 2018	June 30, 2017	Dec 31, 2017
	(Unaudited)		(Audited)
Current liabilities			
Current maturities of bank loans	–	47,576	–
Current maturities and borrowings	8,086	5,750	5,750
Trade payables	82,310	56,037	78,256
Other payables	51,973	20,732	79,987
Financial derivatives	46	3,489	836
Provisions	2,967	7,754	4,202
Total current liabilities	**145,382**	**141,338**	**169,031**
Non-current liabilities			
Liabilities to banks, net	9,625	15,375	12,500
Loan from the parent company, net	–	119,003	–
Other long-term liabilities (1)	17,300	11,887	11,239
Financial derivatives	–	116	–
Employee benefits, net	18,568	19,033	19,825
Deferred tax liabilities, net	77,698	81,776	78,847
Total non-current liabilities	**123,191**	**247,190**	**122,411**
Total liabilities	**268,573**	**388,528**	**291,442**
Equity			
Share capital	116,997	116,997	116,997
Capital reserves	(2,874)	(11,716)	(11,514)
Retained earnings	593,720	474,467	531,650
Total capital	**707,843**	**579,748**	**637,133**
Total liabilities and capital	**976,416**	**968,276**	**928,575**

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

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

	Six months ended		Three months ended		Year ended
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	Dec 31, 2017
	(Unaudited)		(Unaudited)		(Audited)
Revenue	468,261	454,573	239,652	235,442	904,702
Cost of sales	(365,693)	(344,523)	(187,737)	(172,395)	(698,034)
Gross profit	**102,568**	**110,050**	**51,915**	**63,047**	**206,668**
Sales and Marketing Expenses	(14,038)	(14,288)	(7,543)	(6,996)	(28,460)
General and Administrative Expenses	(7,973)	(8,123)	(3,857)	(4,154)	(16,279)
Other expenses	–	–	–	–	(247)
Operating profit	**80,557**	**87,639**	**40,515**	**51,897**	**161,682**
Financing revenues	436	620(*)	432	127(*)	1,180
Financial expenses	(4,557)	(8,770)(*)	(1,940)	(4,189)(*)	(14,930)
Finance expenses, net	(4,121)	(8,150)	(1,508)	(4,062)	(13,750)
Profit before income tax	**76,436**	**79,489**	**39,007**	**47,835**	**147,932**
Income tax	(11,985)	(14,458)	(6,841)	(8,952)	(25,328)
Net profit for the period	**64,451**	**65,031**	**32,166**	**38,883**	**122,604**
Items of other comprehensive income (loss) transferred to profit or loss					
Effective share of the change in fair value of cash flow hedging, net of tax	9,026	(1,081)	4,384	(134)	(1,451)
Foreign currency translation differences for foreign operations	(551)	504	(1,002)	492	930
Other comprehensive income (loss) transferred to profit or loss, net of tax	**8,475**	**(577)**	**3,382**	**358**	**(521)**
Items of other comprehensive income (loss), net of tax, not transferred to profit or loss					
Reclassification of defined benefit plan, net to tax	168	–	(244)	–	(238)
Items of other comprehensive income (loss), net of tax, not transferred to profit or loss	**168**	**–**	**(244)**	**–**	**(238)**
Total income for the period	**73,094**	**64,454**	**35,304**	**39,241**	**121,845**

(*) Reclassified.

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

	Six months ended		Three months ended		Year ended
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	Dec 31, 2017
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Profit for the period	64,451	65,031	32,166	38,883	122,604
Adjustments to cash flows from operating activities:					
Revenue and expenses not involving cash flows (Appendix A – section A)	42,847	52,187	25,338	25,524	85,040
	107,298	117,218	57,504	64,407	207,644
Changes in assets and liabilities items (Appendix A - section B)	(60,811)	(17,684)	(36,772)	1,724	(9,061)
Interest paid, net	(5,150)	(9,041)	(2,969)	(2,999)	(19,014)
Income tax paid to the tax authorities	(4,741)	(118)	(4,707)	(74)	(269)
Accounting due to utilization of the parent company's carryforward losses	(3,637)	–	–	–	(7,466)
Net cash from operating activities	**32,959**	**90,375**	**13,056**	**63,058**	**171,834**
Cash flow used for investing activities					
Change in deposits, net	–	594	–	9	(1)
Loans to employees, net	(29)	13	–	5	17
Parent company's receivables	–	(37,006)	–	(37,006)	–
Investments in property plant and equipment, including periodic maintenance (1)	(31,393)	(3,417)	(12,454)	(2,717)	(11,068)
Net cash used in investing activities	**(31,422)**	**(39,816)**	**(12,454)**	**(39,709)**	**(11,052)**
Cash flow from financing activities					
(Repayment) receipt of short-term borrowings from parent company, net	(20,315)	–	(39,448)	–	41,332
Receipt (repayment) of short-term borrowings, net	2,428	(831)	2,428	(538)	(843)
Repayment of a long-term loan from banks	(2,875)	(2,875)	(1,437)	(1,437)	(5,750)
Long-term loan received from banking corporations	–	15,000	–	–	15,000
Payments from currency exchange transactions and interest, net	–	336	–	1,550	10,680
Payment of liability for lease	(88)	–	(44)	–	–
Repayment (including early repayment) of long-term loans from the parent company	–	(38,725)	–	(1,783)	(201,249)
Net cash used in finance activities	**(20,850)**	**(27,095)**	**(38,501)**	**(2,208)**	**(140,830)**
Increase (decrease) in cash and cash equivalents	**(19,313)**	**23,464**	**(37,899)**	**21,141**	**19,952**
Effect of exchange rate fluctuations on cash and cash equivalents	(568)	521	(1,084)	409	1,437
Cash and cash equivalents at beginning of period	49,550	28,161	68,652	30,596	28,161
Cash and cash equivalents at end of period	**29,669**	**52,146**	**29,669**	**52,146**	**49,550**

(1) In the first quarter of 2018, planned maintenance work was carried out at Carmel Olefins, the direct costs of which amounted to USD 6 million. As at June 30, 2018 the amount of USD 2 million is yet to be paid.

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

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

	Six months ended		Three months ended		Year ended
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	Dec 31, 2017
	(Unaudited)		(Unaudited)		(Audited)
A. Income and expenses not that do not involve cash flows:					
Amortization and depreciation	25,861	24,792	13,177	12,802	49,467
Net financing expenses recognized in profit or loss	4,352	16,942	4,759	4,407	19,825
Net changes in fair value of derivative financial instruments	484	(4,172)	495	(716)	(9,893)
Share-based payment of parent company	165	167	66	79	313
Taxes on income	11,985	14,458	6,841	8,952	25,328
	42,847	**52,187**	**25,338**	**25,524**	**85,040**
B. Changes in assets and liabilities					
Increase in trade receivables	(24,918)	(8,091)	(31,976)	(20,722)	(27,171)
Increase (decrease) in other receivables	(19,784)	(23,037)	(1,715)	(8,639)	621
Decrease (increase) in inventory	(15,253)	(4,690)	(20,709)	3,506	(23,615)
Increase in trade payables	3,023	14,738	18,172	23,468	35,843
Increase (decrease) in other payables and provisions	(3,056)	2,608	(185)	4,013	3,575
Increase (decrease) in employee benefit liabilities, net	(823)	788	(359)	98	1,686
	(60,811)	**(17,684)**	**(36,772)**	**1,724**	**(9,061)**

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

Auditors Report to the Shareholders of Bazan Limited

Introduction

We have reviewed the accompanying financial information of Bazan Limited ("the Company" and its subsidiaries (“the Group"), including the condensed consolidated statement of financial position as at June 30, 2018 and the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six and three months then ended. The Board of Directors and the management are responsible for preparation and presentation of the financial information for these interim periods in accordance with IAS 34 - Interim Financial Reporting, and are also responsible for preparation of the interim financial information for these periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express an opinion on the financial information for these interim periods based on our review.

Review scope

We conducted our review in accordance with 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 5A2c to the financial statements (including by way of reference to 20B3, 20B5, and 20B6 to the annual financial statements) regarding administrative and other proceedings, other contingencies, 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, August 8, 2018

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	June 30, 2018	June 30, 2017	December 31, 2017
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	468,785	328,476	326,471
Deposits	42,442	47,698	76,058
Trade receivables	472,402	406,233	481,772
Other receivables	46,296	44,638	14,344
Financial derivatives	23,011	8,532	11,845
Inventory	692,270	526,314	693,272
Total current assets	**1,745,206**	**1,361,891**	**1,603,762**
Non-current assets			
Loan to Haifa Early Pensions Ltd.	43,066	49,730	50,228
Long term loans and receivables	5,167	7,014 (*)	6,797 (*)
Financial derivatives	28,209	54,580	55,782
Fixed assets, net	2,198,767	2,260,100	2,269,302
Right of use assets, net (1)	139,524	–	–
Intangible assets and deferred expenses, net	28,447	29,264	29,284
Total non-current assets	**2,443,180**	**2,400,688**	**2,411,393**
Total assets	**4,188,386**	**3,762,579**	**4,015,155**

(*) Reclassified, see Note 2C

(1) For information about the effect of initial application of IFRS 16, Leases, see Note 3A3.

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

Approval date of the condensed interim financial statements: August 8, 2018

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 the financial statement is the Hebrew version.

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	June 30, 2018	June 30, 2017	December 31, 2017
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings (including current maturities)	295,077	175,136	235,703
Trade payables	741,505	651,137	721,682
Other payables (1)	143,793	108,879	187,188
Financial derivatives	8,029	16,500	24,161
Provisions	22,334	53,922	35,032
Total current liabilities	**1,210,738**	**1,005,574**	**1,203,766**
Non-current liabilities			
Liabilities to banks, net	349,879	409,606	374,397
Debentures, net	961,555	1,115,271	999,503
Other long-term liabilities (1)	104,184	40,909	43,794
Financial derivatives	3,217	126	−
Employee benefits, net	53,593	54,436	57,039
Deferred tax liabilities, net	172,299	102,720	132,222
Total non-current liabilities	**1,644,727**	**1,723,068**	**1,606,955**
Total liabilities	**2,855,465**	**2,728,642**	**2,810,721**
Capital			
Share capital	806,150	805,282	805,770
Share premium	32,183	31,962	31,979
Capital reserves	54,243	31,263	24,102
Retained earnings	440,345	165,430	342,583
Total capital	**1,332,921**	**1,033,937**	**1,204,434**
Total liabilities and capital	**4,188,386**	**3,762,579**	**4,015,155**

(1) For information about the effect of initial application of IFRS 16, Leases, see Note 3A3.

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

	Six months ended		Three months ended		Year ended
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	December 31, 2017
	(Unaudited)		(Unaudited)		(Audited)
Revenue	3,364,914	2,583,381	1,719,058	1,378,234	5,623,744
Cost of sales	(3,030,947)	(2,308,045)(*)	(1,535,206)	(1,215,592)(*)	(5,010,261)
Gross profit	**333,967**	**275,336**	**183,852**	**162,642**	**613,483**
Selling and marketing expenses	(52,809)	(43,615)(*)	(25,117)	(23,163)(*)	(95,400)
General and administrative expenses	(25,204)	(23,690)	(13,352)	(12,192)	(54,145)
Other financing income (expenses), net	4,389	–	–	–	(247)
Impairment loss from cash generating units (see Note 9K)	(10,041)	–	(10,041)	–	–
Operating profit	**250,302**	**208,031**	**135,342**	**127,287**	**463,691**
Financing income	21,998	1,935(*)	12,362	1,773(*)	21,010
Financing expenses	(64,000)	(84,479)(*)	(28,700)	(37,296)(*)	(156,732)
Financing expenses, net	(42,002)	(82,544)	(16,338)	(35,523)	(135,722)
Company's share in profits (losses) of associates, net of tax	–	(456)	–	87	(240)
Income before taxes on income	**208,300**	**125,031**	**119,004**	**91,851**	**327,729**
Income tax	(37,406)	(33,168)	(22,281)	(18,919)	(65,814)
Net income for the period	**170,894**	**91,863**	**96,723**	**72,932**	**261,915**
Items of other comprehensive income (loss) transferred to profit or loss					
Foreign currency translation differences for foreign operations	(581)	504	(1,067)	492	1,096
Effective share of the change in fair value of cash flow hedging, net of tax	27,087	(10,209)	18,534	(339)	(558)
Change in fair value hedging costs, net of tax	(42)	(1,536)	1,184	(386)	(6,666)
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	**26,464**	**(11,241)**	**18,651**	**(233)**	**(6,128)**
Items of other comprehensive income (loss) not transferred to profit or loss					
Remeasurement of a defined benefit plan, net of tax	779	–	(779)	–	(1,304)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	3,721	577	724	(1,280)	(3,306)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	(15)	9	(8)	4	12
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	**4,485**	**586**	**(63)**	**(1,276)**	**(4,598)**
Comprehensive income for the period	**201,843**	**81,208**	**115,311**	**71,423**	**251,189**
Earnings per share (USD)					
Basic and diluted earnings per 1 ordinary share	**0.053**	**0.029**	**0.030**	**0.023**	**0.082**

(*) Reclassified, see also Note 2C

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

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Condensed Consolidated Interim Statements of Changes in Equity
USD thousands

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial assets at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Six months ended June 30, 2018 (unaudited)									
Balance as at January 1, 2018 (audited)	**805,770**	**31,979**	**4,594**	**6,736**	**(6,798)**	**28,478**	**(1,049)**	**(7,859)**	**342,583**	**1,204,434**
Effect of initial application of IFRS 9(2014) (1)	–	–	–	–	–	–	–	–	(8,911)	(8,911)
Balance as at January 1, 2018 subsequent to initial application	**805,770**	**31,979**	**4,594**	**6,736**	**(6,798)**	**28,478**	**(1,049)**	**(7,859)**	**333,672**	**1,195,523**
Profit for the period	–	–	–	–	–	–	–	–	170,894	170,894
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(581)	–	–	–	–	–	(581)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	(42)	–	–	(42)
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	27,087	–	–	27,087
Remeasurement of a defined benefit plan, net of tax	–	–	–	–	–	–	–	–	779	779
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	3,721	–	3,721
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(15)	–	–	–	–	(15)
Total other comprehensive income (loss) for the period, net of tax	**–**	**–**	**–**	**(581)**	**(15)**	**–**	**27,045**	**3,721**	**779**	**30,949**
Total comprehensive income (loss) for the period	**–**	**–**	**–**	**(581)**	**(15)**	**–**	**27,045**	**3,721**	**171,673**	**201,843**
Dividend declared and paid (see Note 8A)	–	–	–	–	–	–	–	–	**(65,000)**	**(65,000)**
Exercised share options	**380**	**204**	**(584)**	–	–	–	–	–	–	–
Share-based payment	–	–	**555**	–	–	–	–	–	–	**555**
Balance as at June 30, 2018	**806,150**	**32,183**	**4,565**	**6,155**	**(6,813)**	**28,478**	**25,996**	**(4,138)**	**440,345**	**1,332,921**

(1) For information about the effect of initial application of IFRS 9 (2014), Financial Instruments, see Note 3A1.

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

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

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial assets at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Six months ended June 30, 2017 (unaudited)									
Balance as at January 1, 2017 (audited)	**805,282**	**31,962**	**12,356**	**5,640**	**(6,810)**	**28,478**	**6,175**	**(4,553)**	**158,567**	**1,037,097**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**91,863**	**91,863**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	504	–	–	–	–	–	504
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	(1,536)	–	–	(1,536)
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	(10,209)	–	–	(10,209)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	577	–	577
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	9	–	–	–	–	9
Total other comprehensive income (loss) for the period, net of tax	**–**	**–**	**–**	**504**	**9**	**–**	**(11,745)**	**577**	**–**	**(10,655)**
Total comprehensive income (loss) for the period	**–**	**–**	**–**	**504**	**9**	**–**	**(11,745)**	**577**	**91,863**	**81,208**
Dividend declared and paid (see Note 8A)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(85,000)**	**(85,000)**
Share-based payment	**–**	**–**	**632**	**–**	**–**	**–**	**–**	**–**	**–**	**632**
Balance as at June 30, 2017	**805,282**	**31,962**	**12,988**	**6,144**	**(6,801)**	**28,478**	**(5,570)**	**(3,976)**	**165,430**	**1,033,937**

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

This translation of the financial statement is for convenience purposes only.
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Condensed Consolidated Interim Statements of Changes in Equity (Contd.)
USD thousands

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial assets at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Three months ended June 30, 2018 (unaudited)									
Balance as at April 1, 2018	**805,771**	**31,980**	**4,928**	**7,222**	**(6,805)**	**28,478**	**6,278**	**(4,862)**	**344,401**	**1,217,391**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**96,723**	**96,723**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(1,067)	–	–	–	–	–	(1,067)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	1,184	–	–	1,184
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	18,534	–	–	18,534
Remeasurement of a defined benefit plan, net of tax	–	–	–	–	–	–	–	–	(779)	(779)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	724	–	724
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(8)	–	–	–	–	(8)
Total other comprehensive income (loss) for the period, net of tax	**–**	**–**	**–**	**(1,067)**	**(8)**	**–**	**19,718**	**724**	**(779)**	**18,588**
Total comprehensive income (loss) for the period	**–**	**–**	**–**	**(1,067)**	**(8)**	**–**	**19,718**	**724**	**95,944**	**115,311**
Exercised share options	**379**	**203**	**(582)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Share-based payment	**–**	**–**	**219**	**–**	**–**	**–**	**–**	**–**	**–**	**219**
Balance as at June 30, 2018	**806,150**	**32,183**	**4,565**	**6,155**	**(6,813)**	**28,478**	**25,996**	**(4,138)**	**440,345**	**1,332,921**

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 the financial statement is the Hebrew version.

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

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial assets at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Three months ended June 30, 2017 (unaudited)									
Balance as at April 1, 2017	**805,282**	**31,962**	**12,702**	**5,652**	**(6,805)**	**28,478**	**(4,845)**	**(2,696)**	**92,498**	**962,228**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**72,932**	**72,932**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	492	–	–	–	–	–	492
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	(386)	–	–	(386)
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	(339)	–	–	(339)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	(1,280)	–	(1,280)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	4	–	–	–	–	4
Total other comprehensive income (loss) for the period, net of tax	**–**	**–**	**–**	**492**	**4**	**–**	**(725)**	**(1,280)**	**–**	**(1,509)**
Total comprehensive income (loss) for the period	**–**	**–**	**–**	**492**	**4**	**–**	**(725)**	**(1,280)**	**72,932**	**71,423**
Share-based payment	**–**	**–**	**286**	**–**	**–**	**–**	**–**	**–**	**–**	**286**
Balance as at June 30, 2017	**805,282**	**31,962**	**12,988**	**6,144**	**(6,801)**	**28,478**	**(5,570)**	**(3,976)**	**165,430**	**1,033,937**

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

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

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

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

Condensed Consolidated Interim Statements of Cash Flows
USD thousands

	Six months ended		Three months ended		Year ended
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	December 31, 2017
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Profit for the period	170,894	91,863	96,723	72,932	261,915
Adjustments to cash flows from operating activities:					
Revenue and expenses not involving cash flows (Appendix A – section A)	174,027	150,171	106,416	83,095	316,705
	344,921	242,034	203,139	156,027	578,620
Changes in assets and liabilities (Appendix A - section B)	(39,685)	(51,912)	(95,751)	(103,686)	(187,565)
Net income tax paid	(5,079)	(8,505)	(4,836)	(336)	(9,399)
Net cash from operating activities	**300,157**	**181,617**	**102,552**	**52,005**	**381,656**
Cash flow used for investment activities					
Interest received	1,416	1,011	337	634	3,956
Decrease (increase) in deposits, net	40,017	31,186	40,021	(4,927)	(4,723)
Dividend received from investees	574	320	5	21	701
Consideration from the sale on an investment in an associate (see Note 8H)	2,005		–	–	–
Change in long-term loans from others, net	(27)	37	–	17	101
Repayment of loan from Haifa Early Pensions Ltd.	–	–	–	–	3,663
Acquisition of fixed assets including periodic maintenance (see also Note 5A1) (1)	(114,130)	(83,750)	(28,297)	(34,754)	(120,195)
Purchase of intangible assets and deferred expenses	(1,221)	(1,047)	(540)	(702)	(2,830)
Net cash from (used in) investment activities	**(71,366)**	**(52,243)**	**11,526**	**(39,711)**	**(119,327)**
Cash flow from financing activities					
Short-term borrowing, net	2,428	(1,455)	2,428	(637)	(1,467)
Change in deposits from customers and others, net	(8,314)	21,076	(8,104)	8,345	29,015
Interest paid (2)	(48,133)	(84,916)	(29,878)	(40,715)	(141,042)
Derivative transactions, net	2,804	(271)	270	(110)	4,871
Receipt of long-term bank loans, net of raising costs	–	31,457	–	–	31,457
Repayment of long-term bank loans	(28,280)	(28,280)	(18,592)	(18,592)	(64,893)
Repayment of debentures (2)	(44,514)	(120,576)	(43,293)	(35,589)	(177,262)
Issue of debentures, net of raising costs (see Note 8G)	114,996	170,188	–	170,188	170,188
Payment of liabilities for lease (3)	(12,627)	–	(6,715)	–	–
Dividend paid (see Note 8A)	(65,000)	(85,000)	–	–	(85,000)
Net cash from (used in) financing activities	**(86,640)**	**(97,777)**	**(103,884)**	**82,890**	**(234,133)**
Net increase in cash and cash equivalents	**142,151**	**31,597**	**10,194**	**95,184**	**28,196**
Effect of exchange rate fluctuations on cash and cash equivalents	163	6,480	(288)	6,077	7,876
Cash and cash equivalents at beginning of period	326,471	290,399	458,879	227,215	290,399
Cash and cash equivalents at the end of the period	**468,785**	**328,476**	**468,785**	**328,476**	**326,471**

(1) In the second quarter of 2018, periodic maintenance started in some of the Company's production facilities, including CDU 3 and the Hydrocracker (as at the approval date of the report, maintenance has been completed and operation has resumed). In addition, in the first quarter of 2018, planned maintenance was carried out at Carmel Olefins, at an estimated direct cost of USD 6 million. As at June 30, 2018, a total of USD 20 million has not yet been paid. For information about the cost of periodic maintenance in 2017, see Note 11 A to the Annual Statements.

(2) As at June 30, 2018, principal and interest payments on the debentures in the amount of USD 33 million and USD 26 million, respectively, were deferred to the following quarter under the provisions of the deeds of trust, since the contractual repayment date was not a business day (for the six months ended on June 30, 2017, including USD 49 and USD 27 million, respectively, deferred from December 31, 2016).

(3) For information about the effect of initial application of IFRS 16, Leases, see Note 3A3.

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

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

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

	Six months ended		Three months ended		Year ended
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	December 31, 2017
	(Unaudited)		(Unaudited)		(Audited)
A. Income and expenses not included in cash flows:					
Depreciation and amortization	91,412	78,204	46,151	42,400	155,958
Other revenue	(4,389)	–	–	–	–
Loss from impairment of cash-generating units	10,041	–	10,041	–	–
Financing expenses, net	44,594	60,275	16,739	32,516	84,466
Net changes in fair value and movement of deposits for derivatives for inventory and margins	(5,908)	(16,641)	10,750	(8,265)	10,539
Changes in fair value of the loan to Haifa Early Pensions Ltd.	316	(5,923)	235	(2,674)	(1,460)
Share in losses (profits) of associates, net	–	456	–	(87)	240
Share-based payments	555	632	219	286	1,148
Taxes on income	37,406	33,168	22,281	18,919	65,814
	174,027	**150,171**	**106,416**	**83,095**	**316,705**
B. Changes in assets and liabilities					
Decrease (increase) in trade receivables	703	(26,939)	(105,799)	(71,396)	(101,624)
(Increase) decrease in other receivables	(27,899)	(24,228)	(735)	(7,890)	3,034
Decrease (increase) in inventory	294	6,052	(19,240)	62,567	(160,028)
Increase (decrease) in trade payables	4,442	(26,389)	34,302	(74,950)	17,337
(Decrease) increase in other payables and provisions	(14,933)	16,161	(2,986)	(12,841)	48,882
(Decrease) (increase) in employee benefits, net	(2,292)	3,431	(1,293)	824	4,834
	(39,685)	**(51,912)**	**(95,751)**	**(103,686)**	**(187,565)**

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

NOTE 1 – GENERAL

A. Reporting entity

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

B. The interim condensed consolidated interim financial statements as at June 30, 2018 include the statements of the Company and its subsidiaries (jointly: "the Group") and the Group's interests in associates.

NOTE 2 - BASIS OF PREPARATION

A. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required in the full annual financial statements. These statements should be read together with the financial statements as at December 31, 2017 and for the year then ended ("the Annual Statements"). Additionally, these statements have been prepared in accordance with the provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed consolidated interim financial statements were approved by the Company's Board of Directors on August 8, 2018.

B. Use of estimates and judgments

The preparation of these condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management's judgment when applying the Group's accounting policy and the principal assumptions underlying assessments that involve uncertainty, are consistent with those used in the Annual Statements, other than as set out in Note 3 below:

C. Change in classification

As at December 31, 2017 and June 30, 2017, the investment in associates in the amount of USD 2 million was reclassified to long-term loans and receivables, due to the insignificant amounts. In addition, in the six and three months ended June 30, 2017, certain expenses amounting to USD 4 million and USD 2 million, respectively, were reclassified from cost of sales to selling and marketing expenses, for consistency and for an appropriate reflection of their nature.

NOTE 3 – SIGNIFICANT ACCOUNTING PRINCIPLES

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

A. Initial application of new standards

1. IFRS 9 (2014), Financial Instruments

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

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

A) Impairment of financial assets not measured at fair value through profit or loss

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

B) Change in terms of financial liabilities

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

2. IFRS 15, Revenue from Contracts with Customers

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

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

A) Revenue

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

NOTE 3 – SIGNIFICANT ACCOUNTING PRINCIPLES (CONTD.)

A. Initial application of new standards (contd.)

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

B) Determining the transaction price

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

C) Variable consideration

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

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

3. Early adoption of IFRS 16, Leases

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

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING PRINCIPLES (CONTD.)

A. Initial application of new standards (contd.)

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

As from the date of initial application of IFRS 16, depreciation expenses for the right-of-use assets are recognized (instead of leasing expenses included in EBITDA), which are mainly presented at cost of sales, as well as financing expenses for a lease liability. The effect is an increase of USD 14 million in consolidated EBITDA in the first half of 2018 (in the second quarter of 2018, USD 7 million). The effect on net profit for the first half and second quarter is immaterial.

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

A) Retaining the definition and/or the estimate of the existence of a lease based on the guidance of the previous standard with respect to all the existing agreements at the date of initial application

B) Not applying the requirement to measure and recognize a lease of certain asset groups for a period of up to one year

C) Not applying the requirement to measure and recognize a lease of assets with low value

D) Not separating non-lease components from lease components and accounting for all the components as a single lease component

E) Using the option of hindsight to determine the lease term if the contract includes options for extension or cancellation

F) Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application

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

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

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

A) <u>Determining whether an arrangement contains a lease</u>

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

1) The right to essentially obtain all the economic rewards associated with the use of the identifiable asset

2) The right to direct the use of the identifiable asset

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

NOTE 3 – SIGNIFICANT ACCOUNTING PRINCIPLES (CONTD.)

A. Initial application of new standards (contd.)

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

B) Leased assets and lease liability

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

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

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

C) Term of the lease

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

D) Variable lease payments

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

E) Subleases

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

A. Initial application of new standards (contd.)

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

F) Amortization of right-of-use asset

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

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

NOTE 4 – SEGMENT REPORTING

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

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

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

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

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Polymers - Ducor	Total polymers	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Six months ended June 30, 2018 (unaudited)								
Revenue from external sources - Israel	1,532,363	195,502	–	195,502	15,950	1,743,815	14,988	–	1,758,803
Revenue from external sources - other countries	1,081,675	155,487	116,729	272,216	232,521	1,586,412	19,699	–	1,606,111
Total revenue from external sources	2,614,038	350,989	116,729	467,718	248,471	3,330,227	34,687	–	**3,364,914**
Revenue from inter-segment sales [1]	370,374	6,380	–	6,380	18,302	395,056	6,128	(401,184)	–
Segment revenue	**2,984,412**	357,369	116,729	**474,098**	**266,773**	**3,725,283**	**40,815**	**(401,184)**	**3,364,914**
Accounting EBITDA [3]	**212,712**[2]	96,944	9,488	**106,432**	**11,120**	**330,264**	**13,824**	**3,278**	**347,366**
Depreciation and amortization [3]	**(41,400)**	(23,136)	(1,726)	**(24,862)**	**(5,764)**	**(72,026)**	**(13,036)**	–	**(85,062)**
Accounting EBITDA less amortization and depreciation									**262,304**
Loss from impairment of cash-generating units									(10,041)
Amortization of excess cost arising on acquisition of subsidiaries									(6,350)
Other revenues, net									4,389
Operating profit									**250,302**
Financing expenses, net									(42,002)
Income before taxes on income									**208,300**

(1) Mainly in Israel

(2) Adjusted EBITDA in the fuel segment for the six months ended June 30, 2018: USD 135,889 thousand.

(3) For information about the effect of initial application of IFRS 16, Leases, see Note 3A3.

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Polymers - Ducor	Total polymers	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Six months ended June 30, 2017 (unaudited)								
Total revenue from external sources	1,975,267	342,149	111,863	454,012	128,454	2,557,733	25,648	–	2,583,381
Revenue from inter-segment sales	251,602	3,979	–	3,979	11,704	267,285	116	(267,401)	–
Segment revenue	**2,226,869**	346,128	111,863	**457,991**	**140,158**	**2,825,018**	**25,764**	**(267,401)**	**2,583,381**
Accounting EBITDA	**161,179**(1)	100,085	12,345	**112,430**	**6,090**	**279,699**	**3,239**	**3,297**	**286,235**
Depreciation and amortization	**(43,529)**	(23,053)	(851)	**(23,904)**	**(4,377)**	**(71,810)**	**(218)**	**48**	**(71,980)**
Accounting EBITDA less amortization and depreciation									**214,255**
Amortization of excess cost arising on acquisition of subsidiaries									(6,224)
Operating profit									**208,031**
Financing expenses, net									(82,544)
Group's share in losses of associates, net of tax									(456)
Income before taxes on income									**125,031**

(1) Adjusted EBITDA in the fuel segment for the six months ended June 30, 2017: USD 106,285 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 June 30, 2018 (unaudited)								
Revenue from external sources - Israel	830,969	90,922	–	90,922	8,892	930,783	6,237	–	937,020
Revenue from external sources - other countries	509,588	86,372	62,076	148,448	115,059	773,095	8,943	–	782,038
Total revenue from external sources	1,340,557	177,294	62,076	239,370	123,951	**1,703,878**	15,180	–	**1,719,058**
Revenue from inter-segment sales (1)	204,330	3,399	–	3,399	9,794	**217,523**	6,075	(223,598)	–
Segment revenue	**1,544,887**	**180,693**	**62,076**	**242,769**	**133,745**	**1,921,401**	**21,255**	**(223,598)**	**1,719,058**
Accounting EBITDA (3)	**127,405(2)**	47,554	6,139	**53,693**	**3,776**	**184,874**	**6,744**	**(84)**	**191,534**
Depreciation and amortization (3)	**(20,499)**	(11,845)	(839)	**(12,684)**	**(2,884)**	**(36,067)**	**(6,918)**	–	**(42,985)**
Accounting EBITDA less amortization and depreciation									**148,549**
Loss from impairment of cash-generating units									(10,041)
Amortization of excess cost arising on acquisition of subsidiaries									(3,166)
Operating profit									**135,342**
Financing expenses, net									(16,338)
Income before taxes on income									**119,004**

(1) Mainly in Israel

(2) Adjusted EBITDA in the fuel segment for the six months ended June 30, 2018: USD 86,143 thousand.

(3) For information about the effect of initial application of IFRS 16, Leases, see Note 3A3.

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 June 30, 2017 (unaudited)								
Total revenue from external sources	1,035,050	178,171	57,018	235,189	94,296	1,364,535	13,699	–	1,378,234
Revenue from inter-segment sales	154,579	1,839	–	1,839	8,434	**164,852**	68	(164,920)	–
Segment revenue	**1,189,629**	180,010	57,018	**237,028**	**102,730**	**1,529,387**	**13,767**	**(164,920)**	**1,378,234**
Accounting EBITDA	**96,728[(1)]**	59,337	5,362	**64,699**	**6,911**	**168,338**	**2,250**	**(901)**	**169,687**
Depreciation and amortization	**(23,727)**	(11,662)	(689)	**(12,351)**	**(3,128)**	**(39,206)**	**(98)**	**24**	**(39,280)**
Accounting EBITDA less amortization and depreciation									**130,407**
Amortization of excess cost arising on acquisition of subsidiaries									(3,120)
Operating profit									**127,287**
Financing expenses, net									(35,523)
Group's share in profits of associates, net of tax									87
Income before taxes on income									**91,851**

(1) Adjusted EBITDA in the fuel segment for the nine months ended June 30, 2017: USD 84,236 thousand.

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Polymers - Ducor	Total polymers	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Year ended December 31, 2017 (audited)								
Total revenue from external sources	4,324,329	673,974	229,657	903,631	349,647	**5,577,607**	46,137	–	**5,623,744**
Revenue from inter-segment sales	583,257	8,943	–	8,943	31,030	**623,230**	279	(623,509)	–
Segment revenue	**4,907,586**	682,917	229,657	**912,574**	**380,677**	**6,200,837**	**46,416**	**(623,509)**	**5,623,744**
Accounting EBITDA	**388,185**[(1)]	189,704	21,732	**211,436**	**15,947**	**615,568**	**4,084**	**244**	**619,896**
Depreciation and amortization	**(85,088)**	(45,339)	(2,274)	**(47,613)**	**(10,318)**	**(143,019)**	**(443)**	**48**	**(143,414)**
Accounting EBITDA less amortization and depreciation									**476,482**
Amortization of excess cost arising on acquisition of subsidiaries									(12,544)
Other expenses, net									(247)
Operating profit									**463,691**
Financing expenses, net									(135,722)
Group's share in losses of associates, net of tax									(240)
Income before taxes on income									**327,729**

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

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

A. Contingent liabilities

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

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

Further to Note 20B2 to the Annual Statements, in the first quarter of 2018 the Company paid NIS 251 million (USD 73 million) for development fees (NIS 230 million principle and NIS 21 million for interest and linkage differences that were not in dispute).

In the second quarter of 2018, the District Court gave the validity of a judgment to a settlement agreement signed by the parties, in which the Company paid an additional amount of NIS 29 million (USD 8 million) for interest and linkage differentials. The settlement agreement did not have a material effect on the results of the Group's operations in the reporting period.

2. Liabilities relating to environmental quality

A) Further to Note 20B3 to the Annual Statements, subsequent to the reporting period, a judgment was handed down convicting the Company and three managers who served in the Company in the relevant period for failure to refrain from water pollution activities, in respect of the damage to a sewage line, by a contractor employed by the Company. The sentencing has yet to be given. The Company believes, based on the opinions of its legal counsel representing it in this claim, that the Company has included an appropriate provision that reflects the costs for the claim that will more likely than not be paid.

B) Further to Note 20B6 to the Annual Statements, in the second quarter of 2018, an indictment was filed against the Company and against four of its managers to the fire in a storage tank for interim materials in the Company's compound in 2016. The proceedings have not yet commenced. The Company believes, based on the opinion of its legal counsel representing it in this case, that at this preliminary stage, the Company is unable to estimate the exposure for this indictment.

C) Further to Notes 20B3, 20B5, and 20B6 to the Annual Statements, there are legal, administrative and other proceedings against Bazan Group companies regarding environmental quality and various warnings have been received from the Ministry of Environmental Protection, which is investigating various issues. For some of these, the Company believes, based on the opinion of its legal counsel and the legal counsel of the subsidiaries, that at this stage, it is not possible to estimate their effect, if any, on the financial statements as at June 30, 2018. Accordingly, no provision regarding this matter was included in the financial statements.

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

A. Contingent liabilities (contd.)

3. Derivative claims

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

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

B. Agreements

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

1. Further to Note 20C1e to the Annual Statements, in the reporting period, the general meeting approved the Company's engagement in an agreement for the purchase of natural gas from Energean. The agreement is subject to the fulfillment of preconditions. As at the approval date of the financial statements, some of the preconditions have not yet been fulfilled. In respect of a motion to certify a derivative claim that was filed, among other things, for this agreement, see Note 5A3 and Note 20B4 to the Annual Statements.

2. Further to Note 20C3 to the Annual Statements regarding a detailed plan for the area of the compound, in the first quarter of 2018, a ruling was handed down dismissing the administrative petition filed by some of the opponents against the approval of the plan by the National Council for Planning and Construction. In the second quarter of 2018, the plan came into effect after due completion of publication process. Appeals have been filed against the judgment at the Supreme Court.

3. As set out in Note 27B6 to the Annual Statements, in the first quarter of 2018, the compensation committee and the Board of Directors of the Company approved the employment terms of Yashar Ben Mordechai, and in the second quarter of 2018, the employment terms were approved by the general meeting.

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

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

B. Agreements (contd.)

3. (contd.)

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

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

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

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

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

No. of instruments (millions)	Vesting period (years)	Life of options (years)	Average interest rate	Expected fluctuations	Exercise supplement	Share price as a basis for option price	Share value of the options (*)
			%		NIS		NIS thousands
13.5	1-3	2.5-3.5	(0.65)-(0.87)	19.7-22.3	1.782	1.602	1,935

(*) Shortly before the approval date of the general meeting.

4. Further to Note 20C1c to the Annual Statements, in the second quarter of 2018, subsequent to the reporting period, the Company and the Tamar Group signed a settlement agreement to resolve the dispute regarding one of the linkage components of the price of natural gas to the electricity generation component. The result of the settlement agreement does not have a material effect on the Group's operating results. Subsequent to signing the settlement agreement, as at June 30, 2018, the bank guarantees provided by the Company to the Tamar Group in the amount of USD 20 million were released.

C. Guarantees and liens

Further to Note 20A to the Annual Statements, there were no significant changes in the Group's guarantees and liens in and subsequent to the reporting period, other than the following: (A) changes in the normal course of business in the amount of open short-term documentary letters of credit to suppliers; (B) release of bank guarantees provided to a natural gas supplier, as set out in section 4B above.

NOTE 6 - FINANCIAL COVENANTS

A. The Company

Further to Note 13C1 to the Annual Statements, the following financial covenants, as defined in the Note, apply to the banks by virtue of the syndication agreement and to the holders of private debentures as at June 30, 2018:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated adjusted equity (USD million)	>	750	1,251.8
Consolidated adjusted equity to total consolidated statement of financial position	>	20.0%	34.0%
Consolidated ratio (net financial debt + factoring receivables) to consolidated adjusted EBITDA	>	5.0	2.2
Consolidated principal and interest cover ratio	>	1.1	2.5
Separate cash statement (USD millions)	>	75	465.7

In addition, as set out in Note 13C2 and 14C to the Annual Statements, as at June 30, 2018, the Company is subject to financial covenants under a long-term loan agreement with a foreign bank that provided financing for establishment of the hydrocracker and under the deeds of trust of the Debentures (Series D, E, F, G, and I). Definitions and calculation of the covenants for the loan and for the debentures are similar to the definitions and calculation of the covenants in the syndication agreement as set out above. Given the covenants applicable to the Company in the syndication agreement and the financial covenants set out for the loan from the foreign bank and the deeds of trust for the debentures, the Company believes that it is unlikely that the covenants with the foreign bank or with the debenture holders will be breached without breaching the covenants in the syndication agreement.

As at June 30, 2018, the Company is in compliance with the financial covenants for the bank agreements, private debentures and Debentures (Series D, E, F, G, and I).

Further to Note 14C to the Annual Statements, for the Company's Debentures (Series G) only, the following financial covenants (as defined in the Note) apply to Carmel Olefins as at June 30, 2018:

	Required	Required ratio/amount	Actual ratio/amount
Equity (USD millions)	>	200	707.8
Total separate financial debt (USD millions)	>	550	52.6
Consolidated principal and interest cover ratio	>	1	40.0

NOTE 6 - FINANCIAL COVENANTS (CONTD.)

B. Carmel Olefins

Further to Note 13D1 to the Annual Statements, the following financial covenants, as defined in the Note, apply to the banks as at June 30, 2018:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated intangible equity (USD million)	>	220	697.3
Consolidated tangible equity of net consolidated tangible total balance sheet	>	24%	74.5%
Net financial debt to consolidated EBITDA	>	4.5	0.3
Consolidated principal and interest cover ratio	>	1.1	40.0

As at June 30, 2018, Carmel Olefins is in compliance with the financial covenants that were set, including for the Company's Debentures (Series G), as set out in section A above.

C. Gadiv

Further to Note 13E to the Annual Statements, the following financial covenants, as defined in the Note, apply to Gadiv as at June 30, 2018:

	Required	Required ratio/amount	Actual ratio/amount
Tangible equity (USD millions)	>	75	128.2
Tangible equity to tangible balance sheet	>	25%	49.7%
Net financial debt to EBITDA	>	4.5	2.7

As at June 30, 2018, Gadiv is in compliance with the financial covenants that were established.

D. Ducor

Further to Note 13A1b to the Annual Statements, as at June 30, 2018, Ducor is in compliance with the financial covenants.

USD thousands

NOTE 7 - FINANCIAL INSTRUMENTS - FAIR VALUE

A. Fair value of financial instruments for disclosure purposes only

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, long-term loans and debts, deposits, deposits, financial derivatives, bank overdraft, short-term loans and borrowings, trade payables, other payables, liabilities for a lease and marketable debentures (with the exception of Series D, E, F, and I), are the same as or proximate to their fair value.

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

	June 30, 2018			
	Adjusted par value	**Carrying amount**	**Fair value level 1**	**Fair value level 2**
Financial liabilities				
Private debentures [3]	4,292	4,292	–	4,440
Marketable Debentures (Series F and I) [1][3]	529,144	532,404	536,395	–
Marketable Debentures (Series D-E) [1] [4]	393,547	404,119	428,152	–
Bank loans [2]	422,884	414,772	–	443,561
	1,349,867	**1,355,587**	**964,547**	**448,001**

(1) The fair value and the adjusted par value are based on the closing TASE price as at the reporting date.

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

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

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

	June 30, 2018	
	Adjusted par value	**Carrying amount**
Debentures at fair value:		
Marketable Debentures (Series A) [1]	165,336	172,735
Marketable Debentures (Series G)	70,641	75,853
	235,977	**248,588**

(1) As at June 30, 2018, the carrying amount and adjusted par value include a principal of USD 33 million, which was postponed to July 1, 2018. Accordingly, as at the reporting date, the TASE closing price is USD 140 million.

USD thousands

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

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

	June 30, 2017			
	Adjusted par value	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Private debentures (3)	9,409	9,409	–	9,867
Marketable Debentures (Series F and I) [(1)(3)]	482,043	484,982	510,722	–
Marketable Debentures (Series D-E) (1) [(4)]	380,098	392,937	429,218	–
Bank loans [(2)]	487,777	474,499	–	509,578
	1,359,327	**1,361,827**	**939,940**	**519,445**

	June 30, 2017	
	Adjusted par value	Carrying amount
Debentures at fair value:		
Marketable Debentures (Series A)	206,119	218,308
Marketable Debentures (Series G) [(1)]	110,083	119,878
	316,202	**338,186**

(1) The fair value and the adjusted par value are based on the TASE price as at the reporting date.

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

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

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

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

(1) The fair value is based on the quoted price on the TASE as at the reporting date.

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

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

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

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

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

	December 31, 2017	
	Adjusted par value	Carrying amount
Debentures at fair value:		
Marketable Debentures (Series A)	172,515	183,209
Marketable Debentures (Series G) (1)	110,563	118,821
	283,078	**302,030**

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

USD thousands

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

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

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

	June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivatives used for accounting hedging				
CCIRS (3)	–	16,299	–	16,299
Derivatives for inventory (1)	597	–	–	597
Derivatives for margins	–	–	8,264	8,264
Interest rate swaps	–	1,651	–	1,651
Derivatives that are not used for accounting hedging				
CCIRS (3)	–	10,872	–	10,872
Derivatives for inventory	237	–	–	237
Derivatives for margins	–	8,040	–	8,040
Interest rate swaps	–	419	–	419
Forward contracts	–	4,841	–	4,841
	834	**42,122**	**8,264**	**51,220**
Financial liabilities				
Non-derivative				
Marketable Debentures (Series A, G) (2)	248,588	–	–	248,588
Derivatives used for accounting hedging				
CCIRS (3)	–	8,085	–	8,085
Derivatives that are not used for accounting hedging				
CCIRS (3)	–	3,061	–	3,061
Forward contracts	–	100	–	100
	248,588	**11,246**	**–**	**259,834**

(1) In the six and three months ended June 30, 2018, a pre-tax profit of USD 21 million and USD 17 million, respectively, was recognized as a hedging reserve for the effective share of the fair value change of futures on Brent. Accordingly, as at June 30, 2018, the balance of the hedge fund (before tax) amounts to USD 22 million (credit).

(2) As at June 30, 2018, the carrying amount of the Debentures (Series A) includes a principal of USD 33 million, the payment date of which was postponed to July 1, 2018.

(3) Below are the main assumptions used to determine the fair value of the principal and interest swap contracts as at June 30, 2018:
- NIS interest (used for discounting the NIS component) 3.6% - (0.32%)
- CPI-linked NIS interest (used to discount the NIS-linked component): 4% - (3.4%)
- USD interest (used to discount the USD component) 1.9%-7.2%
- Exchange rate (NIS/USD) as at June 30, 2018

USD thousands

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

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

	June 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivatives used for accounting hedging				
CCIRS	–	37,001	–	37,001
Derivatives for margins	–	–	3,558	3,558
Derivatives that are not used for accounting hedging				
CCIRS	–	22,000	–	22,000
Interest rate swaps	–	131	–	131
Derivatives for margins	–	422	–	422
	–	**59,554**	**3,558**	**63,112**
Financial liabilities				
Non-derivative				
Marketable Debentures (Series A, G)	338,186	–	–	338,186
Derivatives used for accounting hedging				
CCIRS	–	555	–	555
Derivatives for inventory (1)	1,034	–	–	1,034
Derivatives that are not used for accounting hedging				
CCIRS	–	1,475	–	1,475
Derivatives for inventory and margins	96	6,454	–	6,550
Forward contracts	–	7,000	–	7,000
Interest rate swaps	–	12	–	12
	339,316	**15,496**	**–**	**354,812**

(1) In the six- and -three months ended June 30, 2017, 2017, a pre-tax loss of USD 10 million and USD 0.1 million, respectively, was recognized as a hedging reserve for the effective share of the fair value change of futures on Brent. As at June 30, 2017, the balance of the hedge fund (before tax) amounts to USD 10 million.

USD thousands

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

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

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

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

(2) Below are the main assumptions used to determine the fair value of the principal and interest swap contracts as at December 31, 2017:
- NIS interest (used for discounting the NIS component) 3.7% - (0.32%)
- CPI-linked NIS interest (used to discount the NIS-linked component): 4% - (1.04%)
- USD interest (used to discount the USD component) 1.4%-7.2%
- Exchange rate (NIS/USD) as at December 31, 2017

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

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

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

C. Further to Note 27B3 and 27B5 to the Annual Statements, in the first quarter of 2018, the compensation committee and Board of Directors of the Company approved bonuses for 2017: (1) for the Chairman of the Board of Directors, Ovadia Eli, in the amount of NIS 1.8 million (this bonus was approved in the second quarter of 2018 by the general meeting); (2) for the former CEO of the Company, Avner Maimon, in the amount of NIS 1 million. The Company reflected these expenses in the financial statements for 2017.

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

E. Further to Note 6B to the Annual Statements regarding the factoring agreements of the Company and its subsidiaries Carmel Olefins and Gadiv, as at June 30, 2018, the Company, Carmel Olefins and Gadiv derecognized an amount of USD 164 million, USD 33 million and USD 4 million, respectively, from their trade receivables, in accordance with IFRS 9.

F. In the first quarter of 2018, Carmel Olefins performed planned follow-up maintenance in the ethylene facility. In accordance with the binding agreements between the Group companies and their insurers for insurance indemnification for loss of profits incurred by the Group due to the maintenance, in the reporting period, the Group recognized income for insurance indemnity in the amount of USD 20 million (the share of the Company is USD 4 million, the share of Carmel Olefins is USD 15 million, and the share of Gadiv is the balance). As at the reporting date, the insurance indemnification has not yet been received. In addition, in the second quarter of 2018, the Company recognized revenue from insurance indemnification in the amount of USD 2 million for the loss of profits it incurred due to the fire in a tank for storage of intermediate materials that at the end of 2016.

G. In the first quarter of 2018, the Company raised USD 115 million (net of issue costs) by way of expanding Debentures (Series E and I). Concurrently with the expansion of the Debentures (Series E), the Company entered into a principal and interest swap transaction (including fixing the USD interest) to reduce currency exposure and interest thereon, and elected to apply cash flow hedge accounting principles. The effective interest in the issuance (in terms of fixed USD interest after taking into account the swap transaction) is 4.3%.

H. In the first quarter of 2018, the Company completed a transaction for the sale of shares of an associate in consideration for USD 2 million, for which a profit of USD 1.5 million was recognized under other income.

I. For information about the developments in agreements, legal claims and other contingencies, including in environmental quality and changes in guarantees, in and subsequent to the reporting period, see Note 5.

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

J. Further to Note 21B to the Annual Statements, in the second quarter of 2018, the Chairman of the Board of Directors Ovadia Eli, exercised 8,000 thousand options on the Company's shares (1,312 thousand shares).

K. Further to Note 11F to the Annual Statements, due to indications of impairment in oil and wax operations as at June 30, 2018, as set out below, Haifa Basic Oils assessed the recoverable amount of the operations, in accordance with IAS 36. The value in use in accordance with the valuation was based on the discounted cash flow method (DCF). In accordance with the valuation, in the second quarter of 2018, an impairment loss of USD 10 million before tax was recognized (mainly against fixed assets), fully amortizing the recoverable assets of Haifa Basic Oils in the financial statements of the Group. The valuation methodology included a number of key assumptions that formed the basis of the cash flow projections, including oil and wax margins based on assessments of the management of the Company and Haifa Basic Oils regarding developments in the prices of basic oils and waxes, prices and availability of raw materials, investments required in the facilities of Haifa Basic Oils (investments in environmental issues due to regulation and in periodic maintenance), projected production quantities, the weighted price of capital estimated at 12.5%, and the absence of a long-term growth rate.

Subsequent to the reporting date, and partially based on: (1) investments required for the operations of Haifa Basic Oils, including to comply with environmental and other regulations; (2) the assessments of the management of the Company and Haifa Basic Oils, partially based on researches of international companies specializing in the operational markets, the significant erosion in oil and wax margins, and the shortage (full or partial) in the availability of the main raw material (HVGO) of the Company as from 2020 onwards; and (3) the uncertainty regarding the scope and timing of the resumption of operations of the production facilities of Haifa Basic Oils that were shutdown subsequent to the reporting date due to one of the provisions in the emissions permit, the Board of Directors of the Company expressed its opinion that the permanent shutdown of the Haifa Basic Oils plant and termination of all of the operations should be considered. The Board of Directors authorized the Company’s management to consult with the employees’ representatives of Haifa Basic Oils, to present them with the issues and to hear their position on the matter, and then to finalize its position in order to reach a decision at the board of directors of Haifa Basic Oils.

The Company believes that the possible termination of the operations of Haifa Basic Oils will not have a material effect on the Group’s operating results, beyond the impairment loss that was recognized, as set out above.

Bazan Limited.

Condensed Separate Interim Financial Information

As at June 30, 2018

(Unaudited)

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

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

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

Attn:
the Shareholders of Bazan Ltd.

Dear Sirs,

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

Introduction
We have reviewed the separate interim financial information presented pursuant to Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 1970, of Bazan Ltd. ("the Company") as at June 30, 2018 and for the six and three months then ended. The separate interim financial information is the responsibility of the Company's management and board of directors. Our responsibility is to express an opinion on the separate interim financial information based on our review.

Review scope
We conducted our review in accordance with Accounting Standard No. 1 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, established by the Institute of Certified Public Accountants in Israel. A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with accepted accounting principles in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that this separate interim financial information is not prepared, in all material respects, in accordance with the provisions of Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 1970.

Highlight
Without qualifying our above opinion, we draw attention to Note 3 to the separate financial information (including by way of reference to Note 5 to the separate financial information for 2017 and to Note 20B(3), (5) and (6) to the consolidated financial statements of the Company for 2017) with regard to legal, administrative and other proceedings, other contingencies, laws and regulations relating to environmental protection. Based on the opinion of the Company's legal counsel, the Company's management believes that, that it is not possible at this stage to assess the foregoing impact on the results of operations and on the financial situation, if any, and therefore no provision regarding this matter was included in the financial statements.

Somekh Chaikin
Certified Public Accountants

Haifa, August 8, 2018

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	June 30, 2018	June 30, 2017	Dec 31, 2017
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	430,346	267,476	265,863
Deposits	42,442	47,698	76,058
Trade receivables	324,215	317,513	381,323
Other receivables	124,113	56,053	86,805
Current maturities of bank loans	–	47,577	–
Financial derivatives	18,956	4,079	11,845
Inventories	553,144	434,745	579,049
Total current assets	**1,493,216**	**1,175,141**	**1,400,943**
Non-current assets			
Investments with respect to investees, net	988,117	864,560	922,516
Loan to Haifa Early Pensions Ltd.	43,066	49,730	50,228
Long term loans to investees	10,000	129,289	10,000
Financial derivatives	28,209	46,481	55,782
Deferred tax assets, net	–	18,833	–
Fixed assets, net	1,252,376	1,281,176	1,297,146
Right of use assets (1)	109,263	–	–
Intangible assets and deferred expenses, net	12,651	10,952	12,087
Total non-current assets	**2,443,682**	**2,401,021**	**2,347,759**
Total assets	**3,936,898**	**3,576,162**	**3,748,702**

(1) For further information regarding the effect of initial application of IFRS 16 relating to leases, see Note 3A3 to the consolidated financial statements.

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

Approval date of the financial statements: August 8, 2018

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

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	June 30, 2018	June 30, 2017	Dec 31, 2017
	(Unaudited)		(Audited)
Current liabilities			
Loan to subsidiary (including current maturities)	286,991	215,361	229,953
Trade payables	696,216	621,827	681,085
Other payables (1)	113,658	83,941	142,138
Financial derivatives	7,963	11,873	22,650
Provisions	17,833	37,870	23,641
Total current liabilities	**1,122,661**	**970,872**	**1,099,467**
Non-current liabilities			
Liabilities to banks, net	340,254	394,231	361,897
Debentures, net	961,555	1,115,271	999,503
Other long-term liabilities (1)	86,884	29,022	32,555
Deferred tax liabilities, net	57,098	–	16,457
Financial derivatives, net	3,217	10	–
Employee benefits, net	32,308	32,819	34,389
Total non-current liabilities	**1,481,316**	**1,571,353**	**1,444,801**
Total liabilities	**2,603,977**	**2,542,225**	**2,544,268**
Equity			
Share capital	806,150	805,282	805,770
Share premium	32,183	31,962	31,979
Capital reserves	54,243	31,263	24,102
Retained earnings	440,345	165,430	342,583
Total equity	**1,332,921**	**1,033,937**	**1,204,434**
Total liabilities and capital	**3,936,898**	**3,576,162**	**3,748,702**

(1) For further information regarding the effect of initial application of IFRS 16 relating to leases, see Note 3A3 to the consolidated financial statements.

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

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	Six months ended		Three months ended		Year ended
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	Dec 31, 2017
	(Unaudited)		(Unaudited)		(Audited)
Revenue	2,984,412	2,226,869	1,544,887	1,189,629	4,907,586
Cost of sales	(2,775,847)	(2,077,733)(*)	(1,419,941)	(1,100,036)(*)	(4,536,957)
Gross profit	**208,565**	**149,136**	**124,946**	**89,593**	**370,629**
Sales and Marketing Expenses	(23,109)	(18,738)(*)	(10,065)	(10,092)(*)	(37,755)
General and Administrative Expenses	(14,144)	(12,748)	(7,975)	(6,500)	(31,967)
Other revenue, net	1,489	–	–	–	–
Operating profit	**172,801**	**117,650**	**106,906**	**73,001**	**300,907**
Financing revenues	23,737	8,202(*)	14,231	5,104(*)	28,404
Financial expenses	(61,202)	(80,283)(*)	(29,967)	(35,461)(*)	(145,544)
Finance expenses, net	(37,465)	(72,081)	(15,736)	(30,357)	(117,140)
Company's share in profits (losses) of investees, net of tax	57,794	59,725	20,183	36,818	115,968
Profit before income tax	193,130	105,294	111,353	79,462	**299,735**
Income tax	(22,236)	(13,431)	(14,630)	(6,530)	(37,820)
Profit for the period	170,894	91,863	96,723	72,932	**261,915**
Items of other comprehensive income (loss) after initial recognition in comprehensive income is transferred to profit or loss					
Foreign currency translation differences for foreign operations	(30)	–	(65)	–	166
Effective share of the change in fair value of cash flow hedging, net of tax	18,061	(9,128)	14,150	(205)	893
Changes in fair value hedging costs, net of tax	(42)	(1,536)	1,184	(386)	(6,666)
Other comprehensive income (loss) for investees, net of tax	8,475	(577)	3,382	358	(521)
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	**26,464**	**(11,241)**	**18,651**	**(233)**	**(6,128)**
Items of other comprehensive income (loss) not transferred to profit or loss					
Remeasurement of a defined benefit plan, net of tax	611	–	(535)	–	(922)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	3,721	577	724	(1,280)	(3,306)
Other comprehensive income (loss) for investees, net of tax	168	–	(244)	–	(382)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	(15)	9	(8)	4	12
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	**4,485**	**586**	**(63)**	**(1,276)**	**(4,598)**
Total income for the period	**201,843**	**81,208**	**115,311**	**71,423**	**251,189**

(*) Reclassified - see Note 2C to the consolidated financial statements.

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

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	Six months ended on		Three months ended on		Year ended
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**	**Dec 31, 2017**
	(Unaudited)		**(Unaudited)**		**(Audited)**
Cash flows from operating activities					
Profit for the period	170,894	91,863	96,723	72,932	261,915
Adjustments to cash flows from operating activities:					
Revenue and expenses not involving cash flows (Appendix A – section A)	41,689	20,160	41,343	10,347	87,403
	212,583	112,023	138,066	83,279	349,318
Changes in assets and liabilities items (Appendix A - section B)	57,075	(12,258)	(23,731)	(98,424)	(151,453)
Net income tax paid	(343)	(8,301)	(157)	(229)	(8,981)
Net cash flows from (used for) operating activities	**269,315**	**91,464**	**114,178**	**(15,374)**	**188,884**
Cash flow used for investing activities					
Interest received	1,120	1,013	149	636	4,014
Interest received from investees	2,505	7,415	1,389	2,853	17,924
Decrease (increase) in deposits, net	40,017	30,592	40,021	(4,936)	(4,721)
Proceeds from disposal of a subsidiary (see Note 8H to the consolidated financial statements)	2,005	–	–	–	–
Dividend received from investees	574	320	5	21	701
Repayment of long-term loans from others, net	–	21	–	10	77
Repayment of long-term loans from investees	–	38,725	–	1,783	201,249
Provision of long-term loans to investees	–	(37,653)	–	(14,156)	(10,000)
Change in cash from investment activities with investees, net	(10,956)	–	446	–	(65,473)
Repayment of loan from Haifa Early Pensions Ltd.	–	–	–	–	3,663
Purchase of property plant and equipment (including periodic maintenance) (1)	(70,874)	(49,818)	(11,261)	(20,238)	(71,284)
Purchase of intangible assets and deferred expenses	(1,182)	(965)	(515)	(693)	(2,731)
Net cash from (used for) investing activities	**(36,791)**	**(10,350)**	**30,234**	**(34,720)**	**73,419**

(1) In the second quarter of 2018, periodic maintenance work commenced on some of the Company's production facilities, including Refining Plant 3 and the hydrocracker facility (regarding which the period maintenance work has been completed as at the date of approval of the Report, and the facility is now in operating mode). As at June 30, 2018 the amount of USD 19 million is yet to be paid. For further information regarding the periodic maintenance on part of the Company's plants in 2017, see Note 11A(4) to the annual consolidated financial statements.

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

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	Six months ended on		Three months ended on		Year ended
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	Dec 31, 2017
	(Unaudited)		(Unaudited)		(Audited)
Cash flow from financing activities					
Short-term borrowing, net	−	(624)	−	(99)	(624)
Receipt (provision) of deposits from customers and others, net	(8,314)	19,526	(8,104)	6,795	29,015
Interest paid (2)	(42,746)	(82,594)	(28,729)	(40,009)	(136,819)
Interest paid to investees	(520)	(456)	(112)	(440)	(1,988)
Dividend paid	(65,000)	(85,000)	−	−	(85,000)
Derivative transactions, net	2,804	943	270	(110)	(5,809)
Change in cash from investment activities with investees, net	−	38,031	−	39,791	(1,760)
Receipt of long-term bank loans, net	−	16,457	−	−	16,457
Repayment of long-term bank loans	(25,405)	(25,405)	(17,155)	(17,155)	(59,143)
Repayment of debentures (2)	(44,514)	(120,576)	(43,293)	(35,589)	(177,262)
Issue of debentures, net (see Note 8G to the consolidated financial statements)	114,996	170,188	−	170,188	170,188
Payment of liability for lease	(61)	−	(30)	−	−
Net cash from (used for) finance activities	**(68,760)**	**(69,510)**	**(97,153)**	**123,372**	**(252,745)**
Increase in cash and cash equivalents	**163,764**	**11,604**	**47,259**	**73,278**	**9,558**
Effect of exchange rate fluctuations on cash and cash equivalents	719	5,973	1,001	5,618	6,406
Cash and cash equivalents at beginning of period	265,863	249,899	382,086	188,580	249,899
Cash and cash equivalents at the end of the period	**430,346**	**267,476**	**430,346**	**267,476**	**265,863**

(2) As at June 30, 2018 debenture principal and interest payments in the amounts of USD 33 million and USD 26 million, respectively, were deferred in accordance with the Deed of Trust, to the next quarter as the contractual maturity date is not a business day (for a period of six months ended June 30, 2017, total amounts of USD 49 million and USD 27 million, respectively, were deferred from December 31, 2016).

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

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

		Six months ended		Three months ended		Year ended
		June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	Dec 31, 2017
		(Unaudited)		(Unaudited)		(Audited)
A.	**Income and expenses not that do not involve cash flows:**					
	Amortization and depreciation	41,400	43,529	20,499	23,727	87,279
	Finance expenses, net	46,508	45,198	18,356	27,708	68,589
	Net changes in fair value of derivatives	(9,799)	(16,734)	7,685	(8,295)	10,461
	Changes in fair value of a loan to Haifa Early Pensions Ltd.	316	(5,923)	235	(2,674)	(1,460)
	Share in earnings of investees, net	(57,794)	(59,725)	(20,183)	(36,818)	(115,968)
	Other revenue	(1,489)	–	–	–	–
	Share-based payments	311	384	121	169	682
	Taxes on income	22,236	13,431	14,630	6,530	37,820
		41,689	**20,160**	**41,343**	**10,347**	**87,403**
B.	**Changes in assets and liabilities**					
	Decrease (increase) in trade receivables	49,108	(12,166)	(53,478)	(73,284)	(75,975)
	Increase (decrease) in other receivables	(6,591)	(7,734)	637	(567)	3,967
	Decrease (increase) in inventory	25,904	11,525	8,537	64,864	(132,779)
	Increase (decrease) in trade payables	709	(24,578)	24,530	(74,108)	6,442
	Increase (decrease) in other payables and provisions	(10,650)	18,326	(3,093)	(15,937)	44,086
	Increase (decrease) in employee benefits, net	(1,405)	2,369	(864)	608	2,806
		57,075	**(12,258)**	**(23,731)**	**(98,424)**	**(151,453)**

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

Additional Information to the Condensed Separate Interim Financial Information
in USD thousands

ADDITIONAL INFORMATION

A. General

1. The condensed separate interim financial information of the Company are presented in accordance with the provisions of Regulation 38D and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970 relating to the condensed separate interim financial information of a company. This information should be read in conjunction with the separate financial information as at December 31, 2017 (the "Annual Reports") and the condensed interim consolidated financial statements as at June 30, 2018 ("the Consolidated Financial Statements").

2. **Definitions:**

   The Company - Bazan Ltd.

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

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

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

C. Contingent Liabilities, Agreements, Guarantees and Liens

For details see Note 5 to the Consolidated Financial Statements.

D. Financial covenants

For details see Note 6 to the Consolidated Financial Statements.

E. Significant events during and subsequent to the reporting period

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

F. Further to the provisions of Note 7G to the Annual Reports, in the second quarter of 2018, the maturity date of the long term loans that the Company provided to Gadiv, in the amount of USD 10 million, was extended until December 31, 2019.

G. Subsequent to Reporting Date, the board of directors of Carmel Olefins announced the distribution of a dividend to the Company in the amount of Euro 8 million (USD 9 million) that derived from a dividend that Carmel Olefins received in the Reporting Period from Koland (a wholly owned subsidiary of Carmel Olefins operating in the Netherlands).