OIL REFINERIES LTD

Condensed Consolidated Interim Financial Statements as at June 30 , 2019

(Unaudited)

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

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Contents

Directors' Report on the State of the Company's Affairs for the Period ended June 30, 2019

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

Chapter 1 - Description of the Company and its Business Environment

A. Areas of Bazan Group operations

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 engage in operations that are not material: mainly in the trade sector (through Trading and Shipping).

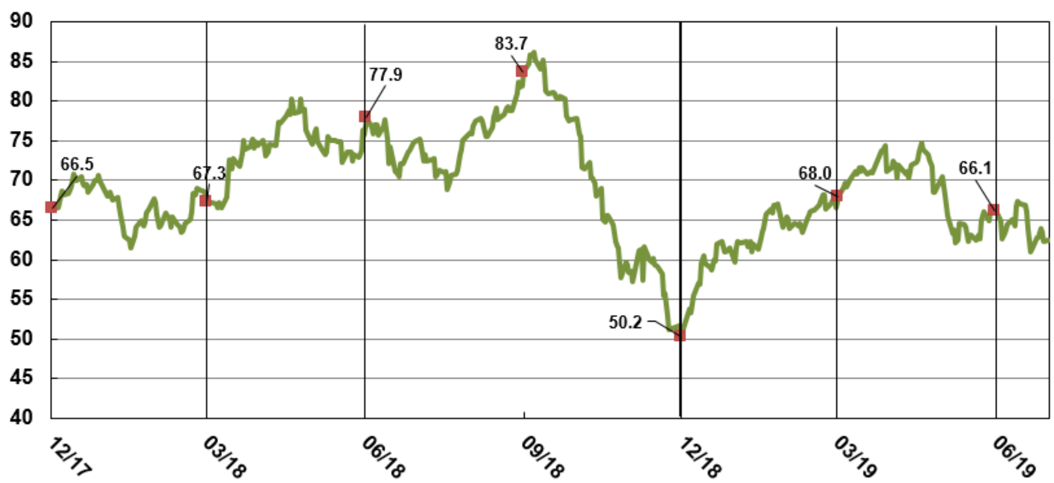
The subsidiaries' plants (with the exclusion of Ducor, which is located in the Netherlands) are downstream facilities of the Company and they receive most or all of the required feedstock from the Company on an ongoing basis through pipelines, and return all or part of the products of their facilities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

B. Business environment and Bazan Group profitability

Fuels Segment

<u>**The price of crude oil**</u>

Brent crude oil prices[1] in 2018-2019 (USD/barrel)



Source: Reuters
1 Dated Brent

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

B. Business environment and Bazan Group profitability - contd.

Fuels Segment - contd.

<u>The price of crude oil (contd.)</u>

Average price of Brent crude (USD/barrel)

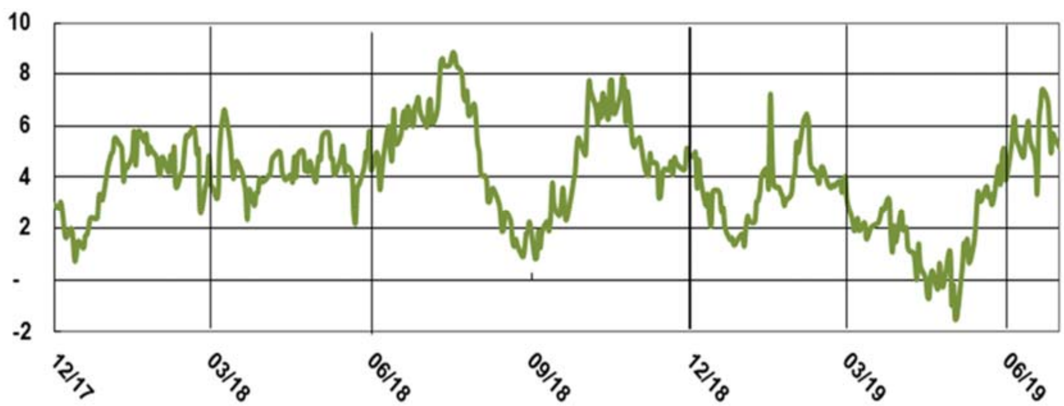
1-6.2019	1-6.2018	Change	4-6.2019	4-6.2018	Change
66.0	70.6	- 7%	68.9	74.4	- 7%

- The sharp rise in the Brent price in the Reporting Period is mainly due to the continuation of OPEC's policy to reduce production and US sanctions on Iran and Venezuela. In the second quarter of 2019, the increase was halted due to concerns about the deterioration in the global economy, partially due to US-China trade war.
- Subsequent to the reporting date, the Brent traded between USD 61 and USD 67 per barrel, and close to publication of the Report, its price was set at USD 61 per barrel.
- In the Reporting Period, and in particular, in the second quarter of 2019, there was an increase in the price of heavy crude oil in the Mediterranean region, including Ural (which is heavy crude oil). The price increase, in addition to the sanctions on Iran, was due to a temporary shortage in Ural as a result of pollution in the crude oil pipeline from Russia to Europe. Ural traded compared to the Brent in the reporting period and the second quarter of 2019 at a zero average discount, compared to an average discount of USD 1.7 per barrel in the corresponding period last year.
- In the Reporting Period, the crude oil futures market curve was in a backwardation structure at an average of USD 0.4 per month, similar to the corresponding period last year. In the second quarter of 2019, the backwardation in the futures market deepened to an average level of USD 0.8 per barrel per month, compared with USD 0.3 per barrel per month in the corresponding period last year. Subsequent to the Reporting Period, the backwardation weakened to an average of USD 0.3 per barrel per month.

<u>Refining margins</u>

Reuters Ural Margin and Bloomberg Average Ural Margin [1]

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



Source: Reuters

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

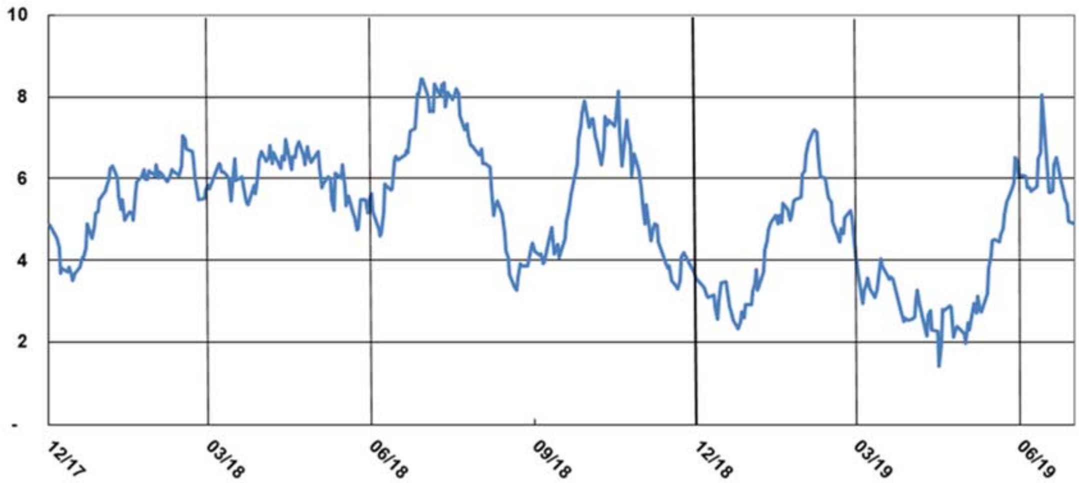
Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

Fuels Segment - contd.

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

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



Source: Bloomberg

Bloomberg Average Ural Margin (USD/barrel)

	1-6.2019	1-6.2018	Change	4-6.2019	4-6.2018	Change
Reuters Ural	2.6	4.2	-1.6	1.7	4.4	-2.7
Bloomberg Average Ural	3.9	5.7	-1.8	3.4	6.0	-2.6

- In the Reporting Period, and in particular, in the second quarter of 2019, Ural margins were volatile and decreased sharply compared to the corresponding period last year. The decrease is mainly due to the increase in the price of crude oil, in particular, Ural, as explained above, and a relative decrease in some of the distillates compared to the Brent (mainly gasoline), which is partially due to a decrease in demand due to the concerns of a deterioration in the global economy. Toward the end of the quarter, the Reuters and Bloomberg Ural margins began to increase significantly on the background of the supply problems in the crude oil pipeline from Russia to Europe and the positive macroeconomic climate on the background of the recovery in the financial markets.
- Subsequent to the reporting date and until shortly before the approval date of the report, the Reuters and Bloomberg margins amounted to an average of USD 5.5 and USD 5.7 per barrel, respectively.

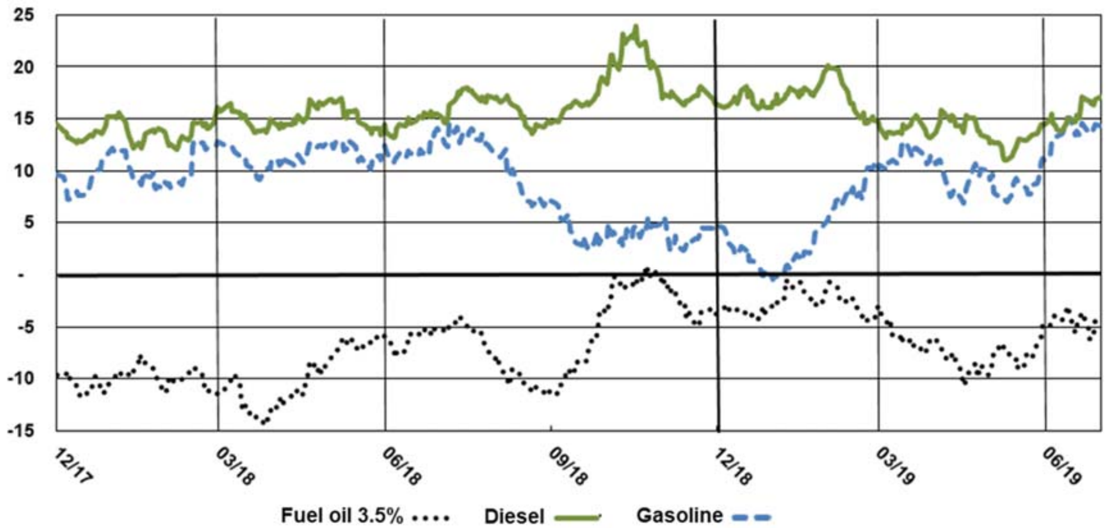
Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

Fuels Segment - contd.

Refining margins - contd.

Mediterranean Basin transportation diesel(1), gasoline(2) and 3.5% fuel oil(3) margins compared to Brent crude oil(4) (USD per barrel)



Source: Reuters

(1) ULSD CIF Med
(2) Prem Unl CIF Med
(3) Fuel oil 3.5% CIF Med
(4) Brent (Dated)

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

	1-6.2019	1-6.2018	Change
Gasoline (1)	6.8	10.7	-3.9
Diesel fuel	15.4	14.4	1
Fuel oil 3.5 (3)	- 5.0	- 9.9	4.9

	4-6.2019	4-6.2018	Change
Gasoline (2)	9.6	11.4	-1.8
Diesel (2)	13.7	15.1	-1.4
Fuel oil 3.5 (3)	- 7.4	- 9.7	2.3

(1) The sharp decrease is mainly due to the decrease in demand and the increase in supply in the United States and the Persian Gulf region in the first quarter of 2019.

(2) The decrease is mainly due to a decrease in demand due to concerns about the deterioration in the global economy.

(3) The increase is mainly due to an increase in demand for cracking, industry, and maritime transport, alongside a reduction in the supply of types of heavy crude oil.

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

B. Business environment and Bazan Group profitability - contd.

Fuels Segment - contd.

Domestic market consumption of distillates (1)

	4-6.2019	1-3.2019	10-12.2018	7 -9.2018	4-6.2018	1-3.2018
Transportation fuels	1,981	1,875	1,921	1,985	1,931	1,828
Other distillates	651	705	719	669	691	664
Total	**2,632**	**2,580**	**2,640**	**2,654**	**2,622**	**2,492**

Source: Ministry of National Infrastructure

- Consumption of transportation fuels (gasoline, diesel and kerosene) increased by 3% in the second quarter of 2019 compared with the corresponding period last year.

(1) Domestic consumption of distillates (transportation, industrial and heating fuels) rose by 2% compared to the corresponding period last year, and remained unchanged in the second quarter of 2019.

Refining volume

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

	1-6.2019	1-6.2018	4-6.2019	4-6.2018
Utilization of crude oil refining facilities	95%	97%(1)	96%	95%(1)
Refining volume of crude oil	4,661	4,756	2,361	2,322
Volume of heavy vacuum diesel processed	507	281	226	110
Total	**5,168**	**5,037**	**2,587**	**2,432**

In the Reporting Period, utilization of refining facilities was 95%, mainly due to the limited availability of crude oil at the Company's facilities in the winter months in the first quarter of 2019. Nonetheless, total product output was higher than in the corresponding period last year.

(1) Utilization of the refining facilities had the periodic maintenance work in the second quarter of 2018 not been carried out (assuming utilization of 97% plus interim materials - 18.7 million barrels per quarter) was 99% and 97% in the period and in the corresponding quarter last year, respectively.

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

	1-6.2019	% of total	1-6.2018	% of total	4-6.2019	% of total	4-6.2018	% of total
Diesel fuel	2,013	40%	1,815	37%	971	38%	881	37%
Gasoline	695	14%	719	15%	362	14%	340	14%
Kerosene	402	8%	379	8%	244	10%	213	9%
Fuel oil	942	19%	1,053	21%	477	19%	473	20%
Petrochemical products (1)	666	13%	585	12%	306	12%	289	12%
Others (2)	354	7%	363	7%	176	7%	185	8%
Total	5,072	100%	4,914	100%	2,536	100%	2,381	100%

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

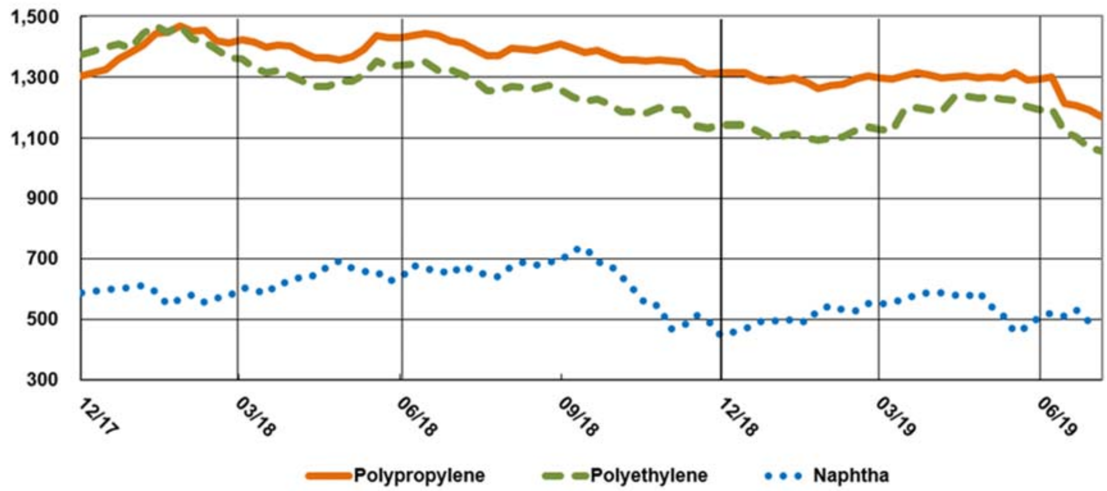
(2) Primarily includes: LPG and bitumen.

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

B. Business environment and Bazan Group profitability - contd.

Polymers Segment - Carmel Olefins

Polymer(1) and naphtha(2) prices in 2018-2019 (USD /ton)



Source: ICIS

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

(2) Naphtha CIF NEW

Average polymer and naphtha prices (USD / ton)

	1-6.2019	1-6.2018	Change	4-6.2019	4-6.2018	Change
Naphtha	531	615	- 14%	545	645	- 16%
Polypropylene	1,294	1,406	- 8%	1,300	1,396	- 7%
Polyethylene	1,162	1,358	- 14%	1,210	1,307	- 7%

<u>Raw material prices</u>

Raw material prices, particularly naphtha prices, decreased in the Reporting Period and in the second quarter of 2019 compared with the corresponding periods last year, parallel to the decrease in crude oil prices.

<u>Polymer prices</u>

The prices of the polymers (polypropylene and polyethylene) decreased in the Reporting Period and in the second quarter of 2019 compared with the corresponding periods last year, parallel to the decrease in raw material and energy prices.

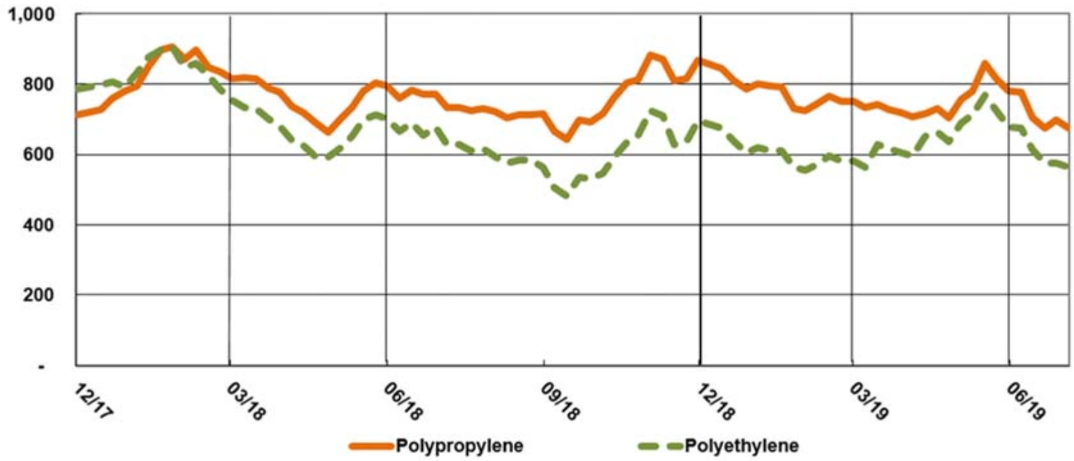
Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

Polymers Segment - Carmel Olefins - contd.

Margins

Difference between polymer and naphtha prices in 2018-2019 (USD /ton)



Source: ICIS

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

	1-6.2019	1-6.2018	Change	4-6.2019	4-6.2018	Change
Polypropylene	763	791	- 28	755	751	4
Polyethylene	631	743	- 112	665	662	3

In the reporting period and in the second quarter of 2019, there was no significant change in the difference between the average price of polypropylene and the average price of naphtha.

In the reporting period, there was a decrease in the difference between the average price of polyethylene and the average price of naphtha, mainly due to the increase in production of polyethylene from shale oil products and natural gas, which have lower costs. In the second quarter of 2019, there was no material change.

Polymer output volume Carmel Olefins (thousand tons)

	1-6.2019	1-6.2018	4-6.2019	4-6.2018
Polymers	271	246	132	138

The increase in volume of polymer production at Carmel Olefins in the Reporting Period is mainly due to planned maintenance work on the ethylene facility carried out in the first quarter of 2018, for which the loss of profits was covered by insurance.

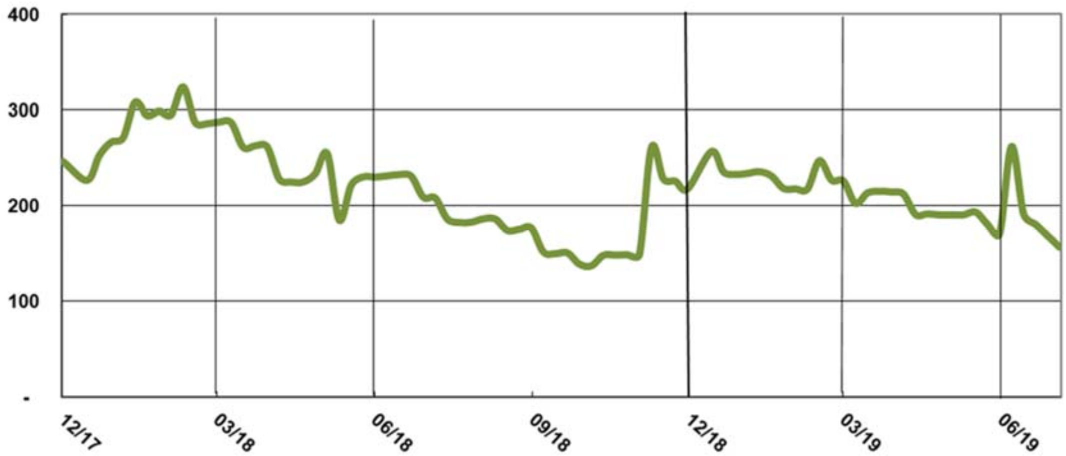
Chapter 1 - Description of the Company and its Business Environment - contd.

B. Business environment and Bazan Group profitability - contd.

Polymers Segment - Ducor

Margins

Difference between polypropylene and propylene prices in 2018-2019 (USD /ton)



Source: ICIS

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

	1-6.2019	1-6.2018	Change	4-6.2019	4-6.2018	Change
Difference in price	213	259	- 46	201	234	- 33

In the reporting period and in the second quarter of 2019, the difference between the price of polypropylene and the price of propylene decreased compared to the corresponding periods last year, mainly due to a decrease in the supply of propylene due to the shutdown of production facilities in Europe, alongside a decrease in the prices of polypropylene due to an increase in supply from import.

Polypropylene output volume – Ducor (thousand tons)

	1-6.2019	1-6.2018	4-6.2019	4-6.2018
Polypropylene	77	76	39	42

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

B. Business environment and Bazan Group profitability - contd.

Aromatics Segment - Gadiv

Margin

Difference between paraxylene and xylene prices in 2018-2019 (USD /ton)

Source: Reuters

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

	1-6.2019	1-6.2018	Change	4-6.2019	4-6.2018	Change
Difference in price	155	131	24	32	120	- 88

- The difference between the price of paraxylene and the price of xylene increased in the Reporting Period compared with the corresponding period last year.
- In the second quarter of 2019, the difference between the average price of paraxylene and the average price of xylene fell sharply compared with the corresponding quarter last year, due to an increase in supply of paraxylene following the construction of new production facilities in the East.

Aromatics output volume (thousand tons)

	1-6.2019	1-6.2018	4-6.2019	4-6.2018
Aromatics	275	278	133	136

Chapter 2 - Bazan Group results for the six and three months

A. Results of Bazan Group operations

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 period ended June 30, 2019 (USD millions)

	1-6.2019	1-6.2018	Change	4-6.2019	4-6.2018	Change
Revenue	3,260	3,365	(3%)	1,686	1,719	(2%)
Reported EBITDA	**255**	**347**	**(27%)**	**107**	**192**	**(44%)**
Depreciation	(84)	(85)	(1%)	(42)	(43)	(2%)
Other expenses, net [(1)]	(7)	(12)	(42%)	(3)	(14)	(79%)
Operating profit	**164**	**250**	**(34%)**	**62**	**135**	**(54%)**
Financing expenses, net [(2)]	(58)	(42)	38%	(29)	(16)	81%
Income tax [(3)]	(14)	(37)	(62%)	(4)	(22)	(82%)
Net income	**92**	**171**	**(46%)**	**29**	**97**	**(70%)**
Fuel segment adjustments [(*)]	(22)	(77)		(27)	(41)	
Adjusted EBITDA	**233**	**270**	**(14%)**	**80**	**151**	**(47%)**
Adjusted operating profit	**142**	**173**	**(18%)**	**35**	**94**	**(63%)**
Adjusted net income	**70**	**94**	**(26%)**	**2**	**56**	**(96%)**

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

(1) Including amortization of excess acquisition costs. For information about the impairment loss in Haifa Basic Oils in the amount of USD 10 million, which was recognized in the second quarter of 2018, see Note 11F to the Annual Financial Statements.

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

	1-**6**.2019 compared to **1-6.2018**	**4-6.2019 compared to 4-6.2018**
Net financing expenses in the corresponding period last year	**42**	**16**
Interest on loans and debentures	(5)	(3)
Exchange differences	20	13
Fair value hedges	5	3
Others	(4)	–
Total change	**16**	**13**
Net financing expenses in the Reporting Period	**58**	**29**

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

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

Chapter 2 - Bazan Group results for the six and three months period - contd.

Consolidated adjusted EBITDA by operating segments (USD millions)

	1-6.2019	1-6.2018	Change	4-6.2019	4-6.2018	Change
Fuels (adjusted)	113	136	(23)	20	86	(66)
Polymers (Carmel Olefins and Ducor)	94	106	(12)	44	54	(10)
Aromatics	16	11	5	7	4	3
Others	10	17	(7)	9	7	2
Total	**233**	**270**	**(37)**	**80**	**151**	**(71)**

	4-6.2019	1-3.2019	10-12.2018	7 -9.2018	4-6.2018	1-3.2018
Fuels (adjusted)	20	93	61	71	86	50
Polymers (Carmel Olefins and Ducor)	44	50	38	44	54	52
Aromatics	7	9	6	4	4	7
Other (other segments and adjustments)	9	1	9	4	7	10
Total adjusted EBITDA	**80**	**153**	**114**	**123**	**151**	**119**

Refining margin

	4-6.2019	1-3.2019	10-12.2018	7 -9.2018	4-6.2018	1-3.2018
Bazan's adjusted refining margin	3.8	7.7	6.1	8.1	7.8	5.5
The adjusted refining margin proforma, Bazan(*)	3.8	7.7	6.1	8.6	7.8	5.5
Bloomberg Average Ural Margin	3.4	4.5	5.5	6.2	6.0	5.4
Reuters Ural Margin	1.7	3.6	4.7	5.2	4.4	4.0

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

B. Analysis of results for the six months period

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. Turnover of sales to external customers, by operating segment

	Sales turnover USD million		Distribution of sales		Average polypropylene and propylene prices (USD / ton)	
	1-6.2019	1-6.2018	1-6.2019	1-6.2018	1-6.2019	1-6.2018
Fuels (1)	2,542	2,614	78%	78%	552	581
Carmel Olefins (2)	354	351	11%	10%	1,255	1,398
Ducor	114	117	3%	3%	1,374	1,511
Gadiv (3)	228	249	7%	7%	772	832
Other	22	34	1%	1%		
Total	3,260	3,365	100%	100%		

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

(2) Mainly due to an increase in volumes sold based on the planned maintenance in the ethylene facility in the first quarter of 2018, offset by a decrease in the price of polymers alongside a decrease in the price of crude oil.

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

Chapter 2 - Bazan Group results for the six and three months period - contd.

A. Analysis of results for the six and three months period (contd.)

2. Consolidated adjusted EBITDA by operating segments

Main reasons for the change in the adjusted consolidated EBITDA according to segments (USD million):

Increase (decrease)	Fuels	Polymers: Carmel Olefins[(2)]	Polymers: Ducor	Polymers: Total	Aromatics	Others	Consolidated
Adjusted EBITDA January-June 2018	**136**	**97**	**9**	**106**	**11**	**17**	**270**
Margin/contribution [(1)]	(24)	(11)	(8)	(19)	6	(7)	(44)
Sales quantities	7	20	1	21	–	–	28
Other income [(2)]	(6)	(15)	–	(15)	–	–	(21)
Operating expenses [(3)]	–	1	–	1	(1)	–	–
Total change	**(23)**	**(5)**	**(7)**	**(12)**	**5**	**(7)**	**(37)**
Adjusted EBITDA January-June 2019	**113**	**92**	**2**	**94**	**16**	**10**	**233**

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

(2) In the first quarter of 2018, Carmel Olefins carried out planned maintenance work in the ethylene facility, for which loss of profits was covered by insurance. Accordingly, in the first half of 2018, income from insurance indemnification was recognized in the amount of USD 19 million.

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

Chapter 2 - Bazan Group results for the six and three months period - contd.

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

3. Adjustment components in the fuels segment

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

		1-6.2019	1-6.2018
Reported EBITDA for fuels		**135**	**213**
Effects of timing differences [1]		(14)	(47)
Effect of adjusting value of inventory to market value, net		(9)	(19)
Effect of changes in fair value of derivatives and realization		1	(11)
Total adjustments [2]		**(22)**	**(77)**
Adjusted EBITDA for fuels		**113**	**136**
Company's refining margin	**Adjusted margin (USD/ton)**	**42.2**	**48.1**
	Adjusted margin (USD/barrel)	**5.8**	**6.6**
Ural margin	**Reuters Ural - USD/barrel**	**2.6**	**4.2**
	Bloomberg Ural - USD/barrel	**3.9**	**5.7**

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

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

4. Net income (USD millions)

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

Net profit for the period 1-6.2018	**171**
Decrease in adjusted EBITDA	(37)
Change in adjustments	(55)
Decrease in depreciation expenses	1
Increase in financing expenses	(16)
Decrease in tax expenses	23
Other [1]	5
Net profit for the period 1-6.2019	**92**

(1) Mainly an impairment in the assets of Haifa Basic Oils recognized in the second quarter of 2018.

Chapter 2 - Bazan Group results for the six and three months period - contd.

C. Analysis of results for the second quarter

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

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

	Sales turnover USD million		Distribution of sales		Average polypropylene and propylene prices (USD / ton)	
	4-6.2019	**4-6.2018**	**4-6.2019**	**4-6.2018**	**4-6.2019**	**4-6.2018**
Fuels (1)	1,341	1,341	80%	78%	577	615
Carmel Olefins (2)	165	177	10%	10%	1,276	1,390
Ducor	55	62	3%	4%	1,381	1,507
Gadiv (3)	116	124	7%	7%	800	838
Other	9	15	0%	1%		
Total	**1,686**	**1,719**	**100%**	**100%**		

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

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

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

Chapter 2 - Bazan Group results for the six and three months period - contd.

C. Analysis of results for the second quarter (contd.)

2. Consolidated adjusted EBITDA by operating segment

Main reasons for the change in adjusted consolidated EBITDA according to segments (USD million):

Increase (decrease)	Fuels	Polymers Carmel Olefins	Polymers Ducor	Polymers Total	Aromatics	Others	Consolidated
Adjusted EBITDA April-June 2018	**86**	**48**	**6**	**54**	**4**	**7**	**151**
Margin/contribution (1)	(66)	(5)	(5)	(10)	4	2	(70)
Sales quantities	6	2	–	2	–	–	8
Other revenue (2)	(4)	(2)	–	(2)	–	–	(6)
Operating expenses (3)	(2)	–	–	–	(1)	–	(3)
Total change	**(66)**	**(5)**	**(5)**	**(10)**	**3**	**2**	**(71)**
EBITDA April-June 2019	**20**	**43**	**1**	**44**	**7**	**9**	**80**

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

(2) In the second quarter of 2018, income from insurance indemnification due to loss of profits for planned maintenance in the ethylene facility in the amount of USD 4 million was recognized.

(3) Includes fixed, production, general and administrative. The increase is mainly due to increases in maintenance and the effect of the appreciation of the NIS against the USD on costs in NIS.

Chapter 2 - Bazan Group results for the six and three months period - contd.

C. Analysis of results for the second quarter - contd.

3. Adjustment components in the fuels segment

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

		4-6.2019	4-6.2018
Reported EBITDA for fuels		**47**	**127**
Effects of timing differences (1)		(9)	(33)
Effect of adjusting value of inventory to market value, net		(19)	(3)
Effect of changes in fair value of derivatives and realization		1	(5)
Total adjustments (2)		**(27)**	**(41)**
Adjusted EBITDA for fuels		**20**	**86**
Company's refining margin	**Adjusted margin (USD/ton)**	**28.1**	**56.7**
	Adjusted margin (USD/barrel)	**3.8**	**7.8**
Ural margin	**Reuters Ural - USD/barrel**	**1.7**	**4.4**
	Bloomberg Ural - USD/barrel	**3.4**	**6.0**

In the second quarter of 2019, the increase in the Bazan margin over the Ural margins narrowed compared to the corresponding quarter last year, partly due to the volatile market environment, a decrease in the margins of distillates (mainly gasoline), along with the increase in heavy crude oil, including Ural, and the deepening of the backwardation (future market structure), and maintenance in the production facilities.

(1) As of the reporting date, the volume of inventory that is not hedged with contracts is 480 thousand tons.

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

4. Net income

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

Net profit for the period 4-6.2018	**97**
Decrease in adjusted EBITDA	(71)
Change in adjustments	(14)
Decrease in depreciation expenses	1
Increase in financing expenses	(13)
Decrease in tax expenses	18
Other (1)	11
Net profit for the period 4-6.2019	**29**

(1) Mainly an impairment in the assets of Haifa Basic Oils recognized in the second quarter of 2018.

Chapter 3 - Analysis of financial position (balance sheet)

	June 30, 2019	December 31, 2018	Change	Explanation
Trade and other receivables	488	380	28%	Mainly due to an increase in trade receivables due to an increase in price, quantity, and a decrease in factoring and an increase in other receivables due to an increase in prepaid expenses and institutions.
Inventory	593	565	5%	Mainly due to an increase in price offset by a decrease in quantity, among other things, against the background of backwardation in the future market.
Property, plant & equipment, net (3)	2,344	2,365	(0.9%)	
Trade and other payables, and provisions (3)	830	759	9%	Mainly due to an increase in trade payables due to an increase in price and the extension of credit days, an increase in other payables, mainly due to an increase of USD 19 million in deposits from customers, offset by a decrease in provisions of USD 23 million, mainly due to payment of levies (see Note 5A1).
Long-term loans and debentures (including current maturities)	1,376	1,384	(1%)	Mainly due to principal repayments in the amount of USD 140 million, offset by a receipt of long-term loans in the amount of USD 100 million (for further information, see Note 7A) and exchange and linkage differentials in the amount of USD 27 million.
Equity	1,420	1,320	8%	Mainly due to net income for the period in the amount of USD 92 million and other comprehensive income for the period in the amount of USD 9 million.
Shareholders equity to balance sheet ratio	36%	35%		

Chapter 4 - Liquidity Analysis

Working capital

Current assets less current liabilities (USD millions)

Jun 30, 2019	March 31, 2019	Dec. 31, 2018	Sept 30, 2018	Jun 30, 2018	March 31, 2018
451	513	377	549	534	478

Current ratio

The current ratio as at June 30, 2019 is 1.4 and as at December 31, 2018 it was 1.37.

Analysis of the Group's liquidity:

	1-6.2019
	USD millions
Cash and deposits as at December 31, 2018	**429**
Profit in cash (1)	281
Increase in working capital (2)	(68)
Interest paid, net (3)	(54)
Acquisition of property, plant & equipment (3)	(77)
Receipt of long-term loan (4)	100
Repayment of debentures	(105)
Repayment of long-term loans	(35)
Other (5)	17
Cash and deposits as at June 30, 2019	**488**

(1) Cash based profit, net, less interest paid in the Reporting Period amounted to USD 227 million.

(2) Primarily an increase in trade receivables of USD 79 million, increase in inventory of USD 28 million, increase in trade receivables in the amount of USD 32 million, offsetting an increase in trade payables of USD 69 million.

(3) Including payments of principal, interest, and linkage differences in the amount of USD 19 million for sewage charges under a settlement agreement with the municipality of Haifa (for further information, see Note 5A1).

(4) For further information see Note 7A to the consolidated financial statements.

(5) Primarily an increase in deposits from trade receivables.

	4-6.2019
	USD millions
Cash and deposits as at March 31, 2019	**511**
Profit in cash (1)(*)	106
Decrease in working capital (2)	30
Interest paid, net (3)	(40)
Acquisition of property, plant & equipment (3)	(46)
Repayment of debentures	(62)
Repayment of long-term loans	(22)
Other (4)	11
Cash and deposits as at June 30, 2019	**488**

(1) Cash based profit, net, less interest paid in the second quarter amounted to USD 66 million.

(2) Primarily a decrease in inventory of USD 85 million and a decrease in payables of USD 13 million, offset by an increase in trade receivables in the amount of USD 63 million, mainly due to a decrease of USD 82 million in factoring.

(3) Including payments of principal, interest, and linkage differences in the amount of USD 19 million for sewage charges under the settlement agreement with the municipality of Haifa (for further information, see Note 5A1).

(4) Primarily an increase in deposits from trade receivables.

(*) Net profit after income and expenses not included in cash flows (cash-based profit).

Chapter 5 - Total credit from financial institutions

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

Net financial debt

	June 30, 2019	**March 31, 2019**	**Dec. 31, 2018**	**Sept 30, 2018**	**June 30, 2018**	**March 31, 2018**
Short-term borrowings (1)	13	8	8	11	2	–
Bank loans (2)	417	439	352	413	423	442
Debentures (2)	960	1,012	1,038	1,127	1,163	1,228
Liquid financial assets (3)	(487)	(511)	(428)	(516)	(511)	(534)
Hedging transactions on debentures(4)	(21)	(11)	(2)	(11)	(12)	(22)
Total net financial debt	**882**	**937**	**968**	**1,024**	**1,065**	**1,114**

(1) With regard to Ducor.

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

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

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

For further information regarding the Group's secured short-term credit facilities for 2019, see Note 13A to the consolidated financial statements. As at June 30, 2019, the Group has unutilized secured credit facilities in the amount of USD 261 million (utilization is for letters of credit and guarantees only).

Financial leverage

	Jun 30, 2019	**December 31, 2018**
Financial leverage (*)	1.9	1.9

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

Average volume of sources of finance in the Reporting Period

Long term loans and debentures (including current maturities, based on the method of presenting them according to the accounting standards in the financial statements and without borrowing costs) of USD 1,415 million, net operating capital of USD 244 million (of which the average for trade receivables is USD 389 million and trade payables is USD 668 million).

Chapter 6- Exposure to market risk and risk management methods

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

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

Chapter 7 - Corporate governance

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

Chapter 8 - Disclosure of financial reporting

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

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

Without qualifying our conclusion, we draw attention to Note 5A(2) and 5C(2) to the financial statements (including by way of reference to Note 20A(3), (5), (6), and 20C(2) to the annual financial statements) regarding legal, administrative and other proceedings, other contingencies, and laws and regulations relating to environmental quality. Based on the opinion of the legal counsel of the Company and its subsidiaries, the managements of the Company and the subsidiaries believe that, at this stage, it is not possible to assess the effect of the aforesaid on the operating results and the financial position, if any, and therefore no provisions for the aforesaid were included in the financial statements.

B. Use of estimates and judgments

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

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

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

Chapter 9 - Details of outstanding debentures

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

In the Reporting Period the Company complied with its liabilities towards the financers and debenture holders to refrain from creating a lien 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 about the upgrade of the Company's rating by Maalot (S&P) to ilA with stable outlook in the Reporting Period, see Note 7H to the consolidated financial statements.

Chapter 10 – Significant subsequent events

For details see Note 7 to the Consolidated Financial Statements.

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

Ovadia Eli	**Shlomo Bassoon**
Chairman of the Board of Directors	**Acting CEO**

August 5, 2019

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

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

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

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

B. Section 1.6.14 - In accordance with the notice received by the Company in the Reporting Period from Dor Chemicals Ltd. ("Dor"), which supplies the Company with an additive required for the production of benzene (MTBE), the municipality of Haifa informed Dor that its temporary permit for transporting dangerous substances in an underground pipeline had expired. In accordance with the court ruling in the petition filed by Dor, the temporary permit that was granted to Dor will remain valid until the end of its validity, namely December 26, 2019. In addition, in accordance with notices received by the Company from Dor, the Ministry of Environmental Protection instructed it to discontinue the transmission of MTBE in the pipeline segment leading to the Company's facilities until completion of certain activities ordered by the Ministry of Environmental Protection. As from the delivery of the notices, in May 2019, Dor no longer manufactures MTBE at its facilities and the Company imports MTBE (at higher costs than the cost of production by Dor), which is unloaded using a subsurface pipe to Dor's facility, and transferred to the Company in road tankers. Subsequent to the Reporting Date, Dor resumed the flow of MTBE from its storage tank to the Company through the subsurface pipeline.

C. Further to section 1.12.8, regarding an appeal on the District Court's judgment regarding petitions filed against the decision of the National Planning and Building Council to approve the outline plan for the area of the Bazan complex, subsequent to the reporting period, a judgment on the appeals was handed down, which accepts them in part. For further information, see Note 5B2 to the consolidated interim financial statements.

D. Further to that stated in section 1.12.9 regarding the study conducted by the National Economic Council and the inter-ministerial task force for reviewing the future of Bazan Group in the Haifa Bay, in the Reporting Period several slides were presented to the Haifa Local Planning and Building Committee, though the Bazan plant is not within its jurisdiction, by the Haifa Municipality Chief Engineer, which the Israel Lands Authority (ILA) permitted him to present and which refers to a plan prepared at the request of the ILA and include an area of 36,500 dunams, to be used for the construction of 83,000 housing units, 6,500 dunams for industrial/commercial use and 9,000 dunams for parks and open spaces. This, among other things, by evacuating all factories located in the area of the plan, including the Bazan Group plants. The Haifa Local Planning and Building Committee decided that "The Committee adopts the 'Innovation Valley' program and announces that this plan, which represents a historic change, will serve as the foundation for future development of the Bay... The Local Committee requests that the Government of Israel adopt this plan and implement it in the near future, with the cooperation of Government Ministries and the Local Authority." It should be noted that this is not a statutory process or a decision that has statutory status. In addition, on June 13, 2019, the Company received a report prepared by the consulting firm McKinsey for the National Economic Council on the future of the petrochemical industry in the Haifa Bay ("the Report"), according to a petition under the Freedom of Information Law, 1998, which it submitted to the Jerusalem District Court. For further information, see Note 5C1 to the consolidated interim financial statements.

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

E. Further to that stated in section 1.17.2.3 regarding benzene measurements at monitoring stations in the Haifa area, in the Reporting Period, the Ministry of Environmental Protection issued an administrative order to the Company and Gadiv for the prevention or reduction of air pollution, in which the companies were required to install means for reducing emissions in their storage tanks that contribute significantly to benzene emissions, means to reduce emissions, and to replace equipment components through which benzene flows for components that comply with the best technique available, according to the time schedules set in the order, part of which do not coincide with the Company’s planned shutdown dates. The Company is preparing to implement the requirements of the administrative order and is in contact with the Ministry of Environmental Protection on this matter. For further information about the hearing on this matter that was held for the Company and Gadiv subsequent to the Reporting Period, see Note 5C2 to the consolidated interim financial statements.

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

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

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 consolidated annual financial 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, every quarter, codensed consolidated interim financial statements of Carmel Olefins (Statements of Financial Position, Statements of Profit and Loss and Statements of Cash Flows).

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, 2019	June 30, 2018	December 31, 2018
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	19,829	29,669	24,436
Trade receivables	162,144	152,305	130,052
Other receivables	4,088	21,519	4,071
Financial derivatives	4,819	12,650	603
Inventory	85,137	91,252	89,728
Total current assets	**276,017**	**307,395**	**248,890**
Non-current assets			
Long term loans and debit balances	4,904	4,752	4,578
Long term loans to investees	100,000	–	45,000
Fixed assets, net	623,711	643,339	635,890
Right-of-use assets, net	9,740	10,373	9,989
Intangible assets, net	8,067	10,557	9,301
Total non-current assets	**746,422**	**669,021**	**704,758**
Total assets	**1,022,439**	**976,416**	**953,648**

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

	June 30, 2019	June 30, 2018	December 31, 2018
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings (including current maturities)	18,550	8,086	13,767
Trade payables	65,033	82,310	72,129
Other payables	33,537	51,973	18,113
Financial derivatives	259	46	440
Provisions	82	2,967	4,265
Total current liabilities	**117,461**	**145,382**	**108,714**
Non-current liabilities			
Liabilities to banks, net	3,875	9,625	6,750
Other long-term liabilities	16,795	17,300	16,940
Employee benefits, net	18,836	18,568	17,321
Deferred tax liabilities, net	70,879	77,698	74,650
Total non-current liabilities	**110,385**	**123,191**	**115,661**
Total liabilities	**227,846**	**268,573**	**224,375**
Equity			
Share capital	116,997	116,997	116,997
Capital reserves	(7,109)	(2,874)	(10,657)
Retained earnings	684,705	593,720	622,933
Total capital	**794,593**	**707,843**	**729,273**
Total liabilities and capital	**1,022,439**	**976,416**	**953,648**

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

	Six months ended		Three months ended		Year ended
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	December 31, 2018
	(Unaudited)		(Unaudited)		(Audited)
Revenue	468,298	468,261	220,038	239,652	929,790
Cost of revenues	(373,694)	(365,693)	(175,486)	(187,737)	(747,474)
Gross profit	**94,604**	**102,568**	**44,552**	**51,915**	**182,316**
Selling and marketing expenses	(17,256)	(14,038)	(7,842)	(7,543)	(30,335)
General and administrative expenses	(7,620)	(7,973)	(4,247)	(3,857)	(16,661)
Operating profit	**69,728**	**80,557**	**32,463**	**40,515**	**135,320**
Financing income	2,608	436	1,034	432	584
Financing expenses	(1,569)	(4,557)	(418)	(1,940)	(6,833)
Financing income (expenses), net	1,039	(4,121)	616	(1,508)	(6,249)
Profit before taxes on income	**70,767**	**76,436**	**33,079**	**39,007**	**129,071**
Income tax expenses	(8,097)	(11,985)	(4,205)	(6,841)	(24,263)
Net profit for the period	**62,670**	**64,451**	**28,874**	**32,166**	**104,808**
Items of other comprehensive income (loss) transferred to profit or loss					
Foreign currency translation differences for foreign operations	(35)	(551)	117	(1,002)	(535)
Effective share of the change in fair value of cash flow hedging, net of tax	3,847	9,026	(1,385)	4,384	1,221
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	**3,812**	**8,475**	**(1,268)**	**3,382**	**686**
Items of other comprehensive income (loss) not transferred to profit or loss					
Remeasurement of a defined benefit plan, net of tax	(898)	168	(359)	(244)	265
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	**(898)**	**168**	**(359)**	**(244)**	**265**
Total income for the period	**65,584**	**73,094**	**27,247**	**35,304**	**105,759**

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

	Six months ended		Three months ended		Year ended
	Jun 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	December 31, 2018
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Net profit for the period	62,670	64,451	28,874	32,166	104,808
Adjustments to cash flows from operating activities:					
Income and expenses not involving cash flows (Appendix A – section A)	31,711	42,847	16,385	25,338	88,069
	94,381	107,298	45,259	57,504	192,877
Changes in assets and liabilities (Appendix A - section B)	(35,582)	(60,811)	(35,056)	(36,772)	(27,725)
Interest paid, net (1)	(238)	(5,150)	288	(2,969)	(7,922)
Income tax received (paid) to the tax authorities	1,326	(4,741)	(316)	(4,707)	(4,703)
Accounting for utilization of parent company's carryforward losses	(17,535)	(3,637)	(6,437)	–	(26,133)
Net cash from operating activities	**42,352**	**32,959**	**3,738**	**13,056**	**126,394**
Cash flow used for investing activities					
Long term loan to parent company	(55,000)	–	(25,000)	–	(45,000)
Change in debit balance of parent company	–	–	7,557	–	–
Purchase of property plant and equipment (including periodic maintenance) (2)	(15,626)	(31,393)	(8,529)	(12,454)	(49,005)
Other	–	(29)	–	–	–
Net cash used in investing activities	**(70,626)**	**(31,422)**	**(25,972)**	**(12,454)**	**(94,005)**
Cash flow from financing activities					
Receipt (repayment) of short-term loan from the parent company, net	22,090	(20,315)	19,276	(39,448)	(50,120)
Receipt (repayment) of short-term loan, net	4,786	2,428	4,888	2,428	8,275
Repayment of a long-term bank loans	(2,875)	(2,875)	(1,437)	(1,437)	(5,750)
Payment of liabilities for lease	(84)	(88)	(42)	(44)	(170)
Dividend paid	–	–	–	–	(9,275)
Net cash from (used in) financing activities	**23,917**	**(20,850)**	**22,685**	**(38,501)**	**(57,040)**
Net increase (decrease) in cash and cash equivalents	**(4,357)**	**(19,313)**	**451**	**(37,899)**	**(24,651)**
Effect of exchange rate fluctuations on cash and cash equivalents	(250)	(568)	105	(1,084)	(463)
Cash and cash equivalents at beginning of period	24,436	49,550	19,273	68,652	49,550
Cash and cash equivalents at the end of the period	**19,829**	**29,669**	**19,829**	**29,669**	**24,436**

(1) In the six and three months period ended on June 30, 2019, including principal payments, interest, and linkage differentials for levies in the amount of USD 3 million and USD 1 million, respectively. In the six months ended June 30, 2018, including payments of principal, interest, and linkage differentials for levies in the amount of USD 12 million and USD 2 million, respectively (in the three months period ended on June 30, 2018, including interest payments and linkage differentials in the amount of USD 1 million).

(2) For information about the cost of periodic maintenance and planned maintenance in 2018, see Note 11 to the Annual Financial Statements.

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
	Jun 30, 2019	Jun 30, 2018	June 30, 2019	Jun 30, 2018	December 31, 2018
	(Unaudited)		(Unaudited)		(Audited)
A. Income and expenses not included in cash flows:					
Depreciation and amortization	23,898	25,861	11,918	13,177	52,196
Financing expenses (income), net	409	4,352	(61)	4,759	6,461
Net change in fair value of inventory derivatives and margins	(429)	484	601	495	4,978
Parent Company Share based payment transactions	(264)	165	(278)	66	171
Income tax expenses	8,097	11,985	4,205	6,841	24,263
	31,711	**42,847**	**16,385**	**25,338**	**88,069**
B. Changes in assets and liabilities					
Change in trade receivables	(32,196)	(24,918)	(17,542)	(31,976)	(3,019)
Change in other receivables	(1,410)	(19,784)	2,611	(1,715)	(1,040)
Change in inventory	4,511	(15,253)	(5,093)	(20,709)	(12,360)
Change in trade payables	(5,242)	3,023	(12,946)	18,172	(7,369)
Change in other payables and provisions	(1,642)	(3,056)	(2,034)	(185)	(2,297)
Change in employee benefits, net	397	(823)	(52)	(359)	(1,640)
	(35,582)	**(60,811)**	**(35,056)**	**(36,772)**	**(27,725)**

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Auditors Report to the Shareholders of Bazan Ltd.

Introduction

We have reviewed the accompanying financial information of Bazan Limited ("the Company" and its subsidiaries (“the Group"), including the condensed consolidated statement of financial position as at June 30, 2019 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.

Emphasis of matter (drawing attention)

Without qualifying our conclusion, we draw attention to Note 5A(2) and 5C(2) to the financial statements (including by way of reference to Note 20A(3), (5), (6), and 20C(2) to the annual financial statements) regarding legal, administrative and other proceedings, other contingencies, and laws and regulations relating to environmental quality. Based on the opinion of the legal counsel of the Company and its subsidiaries, the managements of the Company and the subsidiaries believe that, at this stage, it is not possible to assess the effect of the aforesaid on the operating results and the financial position, in any, and therefore no provisions for the aforesaid were included in the financial statements.

Somekh Chaikin

Certified Public Accountants

Haifa, August 5, 2019

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

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

Attn.

The Board of Directors of Bazan Ltd. (“the Company”)

To whom it may concern,

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

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

(1) Review report of the auditor of August 5, 2019 on the Company's condensed consolidated financial information as of June 30, 2019 and for the six and three months then ended.

(2) Review report of the auditor of August 5, 2019, on the Company's condensed separate financial information as at June 30, 2019 and for the six and three months then ended in accordance with Regulation 38D of the Israel Securities Regulations (Periodic and Immediate Reports), 1970.

Yours sincerely,

Somekh Chaikin

Certified Public Accountants

Haifa, August 5, 2019

Bazan Ltd – Condensed Consolidated Interim Statement of Financial Position, USD thousands

	at		
	June 30, 2019	June 30, 2018	December 31, 2018
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	391,813	468,785	384,373
Deposits	96,101	42,442	45,073
Trade receivables	436,035	472,402	357,053
Other receivables	52,198	46,296	22,407
Financial derivatives	15,093	23,011	17,099
Inventory	592,576	692,270	565,071
Total current assets	**1,583,816**	**1,745,206**	**1,391,076**
Non-current assets			
Loan to Haifa Early Pensions Ltd.	40,277	43,066	40,538
Long term loans and receivables	6,267	5,167	8,144
Financial derivatives	21,518	28,209	10,377
Fixed assets, net	2,178,577	2,198,767	2,204,285
Right-of-use assets, net	136,959	139,524	132,660
Intangible assets and deferred expenses, net	28,374	28,447	27,787
Total non-current assets	**2,411,972**	**2,443,180**	**2,423,791**
Total assets	**3,995,788**	**4,188,386**	**3,814,867**

Ovadia Eli **Chairman of the Board of Directors**	**Shlomo Bassoon** **Acting CEO**	**Ana Berenshtein** **CFO**

Approval date of the condensed consolidated interim financial statements: August 5, 2019

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

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

Bazan Ltd –Condensed Consolidated Interim Statement of Financial Position (contd.), USD thousands

	at		
	June 30, 2019	June 30, 2018	December 31, 2018
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings (including current maturities)	298,074	295,077	243,675
Trade payables	691,738	741,505	621,594
Other payables	132,673	143,793	109,010
Financial derivatives	4,395	8,029	11,174
Provisions	5,971	22,334	28,529
Total current liabilities	**1,132,851**	**1,210,738**	**1,013,982**
Non-current liabilities			
Liabilities to banks, net (see Note 7A)	328,644	349,879	277,280
Debentures, net	762,102	961,555	870,846
Other long-term liabilities	97,015	104,184	99,025
Financial derivatives	5,423	3,217	6,557
Employee benefits, net	56,171	53,593	49,883
Deferred tax liabilities, net	193,362	172,299	177,542
Total non-current liabilities	**1,442,717**	**1,644,727**	**1,481,133**
Total liabilities	**2,575,568**	**2,855,465**	**2,495,115**
Equity			
Share capital	807,506	806,150	807,081
Share premium	32,721	32,183	32,652
Capital reserves	32,016	54,243	20,781
Retained earnings	547,977	440,345	459,238
Total capital	**1,420,220**	**1,332,921**	**1,319,752**
Total liabilities and capital	**3,995,788**	**4,188,386**	**3,814,867**

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

Bazan Ltd – Condensed Consolidated Interim Statement of Income and Other Comprehensive Income, USD thousands

	Six months ended June 30, 2019	Six months ended June 30, 2018	Three months ended June 30, 2019	Three months ended June 30, 2018	Year ended December 31, 2018
	(Unaudited)		(Unaudited)		(Audited)
Revenue	3,259,731	3,364,914	1,685,516	1,719,058	6,675,621
Cost of sales	(3,014,199)	(3,030,947)	(1,582,453)	(1,535,206)	(6,199,007)
Gross profit	**245,532**	**333,967**	**103,063**	**183,852**	**476,614**
Selling and marketing expenses	(54,224)	(52,809)	(26,614)	(25,117)	(103,305)
General and administrative expenses	(26,520)	(25,204)	(14,092)	(13,352)	(51,254)
Other income (expenses), net	(441)	4,389	–	–	919
Impairment loss from cash-generating units	–	(10,041)	–	(10,041)	(10,041)
Operating profit	**164,347**	**250,302**	**62,357**	**135,342**	**312,933**
Financing income	5,208	21,998	2,676	12,362	49,407
Financing expenses	(63,180)	(64,000)	(31,285)	(28,700)	(128,241)
Financing expenses, net	**(57,972)**	**(42,002)**	**(28,609)**	**(16,338)**	**(78,834)**
Profit before taxes on income	**106,375**	**208,300**	**33,748**	**119,004**	**234,099**
Income tax expenses	(14,365)	(37,406)	(4,386)	(22,281)	(46,998)
Net profit for the period	**92,010**	**170,894**	**29,362**	**96,723**	**187,101**
Items of other comprehensive income (loss) transferred to profit or loss:					
Foreign currency translation differences for foreign operations	(42)	(581)	130	(1,067)	(583)
Effective share of the change in fair value of cash flow hedging, net of tax	12,343	27,087	(7,258)	18,534	(6,412)
Change in fair value hedging costs, net of tax	(673)	(42)	213	1,184	1,192
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	**11,628**	**26,464**	**(6,915)**	**18,651**	**(5,803)**
Items of other comprehensive income (loss) not transferred to profit or loss:					
Remeasurement of a defined benefit plan, net of tax	(3,357)	779	(1,277)	(779)	1,971
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	921	3,721	1,202	724	5,367
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	–	(15)	–	(8)	(3)
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	**(2,436)**	**4,485**	**(75)**	**(63)**	**7,335**
Total other comprehensive income (loss) for the period, net of tax	**9,192**	**30,949**	**(6,990)**	**18,588**	**1,532**
Total income for the period	**101,202**	**201,843**	**22,372**	**115,311**	**188,633**
Earnings per share (USD)					
Basic and diluted earnings per 1 ordinary share	**0.029**	**0.053**	**0.009**	**0.030**	**0.058**

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

Bazan Ltd – Condensed Consolidated Interim Statement 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, 2019 (unaudited)									
Balance as at January 1, 2019 (audited)	**807,081**	**32,652**	**1,712**	**6,153**	**(6,801)**	**28,478**	**(6,269)**	**(2,492)**	**459,238**	**1,319,752**
Net profit for the period	–	–	–	–	–	–	–	–	**92,010**	**92,010**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(42)	–	–	–	–	–	(42)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	(673)	–	–	(673)
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	12,343	–	–	12,343
Remeasurement of a defined benefit plan, net of tax	–	–	–	–	–	–	–	–	(3,357)	(3,357)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	921	–	921
Total other comprehensive income (loss) for the period, net of tax	–	–	–	**(42)**	–	–	**11,670**	**921**	**(3,357)**	**9,192**
Total comprehensive income (loss) for the period	–	–	–	**(42)**	–	–	**11,670**	**921**	**88,653**	**101,202**
Share-based payment	–	–	**(734)**	–	–	–	–	–	–	**(734)**
Exercised share options	**425**	**69**	**(494)**	–	–	–	–	–	–	–
Expired share options	–	–	**(86)**	–	–	–	–	–	**86**	–
Balance as at June 30, 2019	**807,506**	**32,721**	**398**	**6,111**	**(6,801)**	**28,478**	**5,401**	**(1,571)**	**547,977**	**1,420,220**

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

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Bazan Ltd – Condensed Consolidated Interim Statement 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, 2018 (unaudited)									
Balance as at January 1, 2018 (audited)	**805,770**	**31,979**	**4,594**	**6,736**	**(6,798)**	**28,478**	**(1,049)**	**(7,859)**	**342,583**	**1,204,434**
Effect of initial application of IFRS 9(2014)	–	–	–	–	–	–	–	–	(8,911)	(8,911)
Balance as at January 1, 2018 subsequent to initial application	**805,770**	**31,979**	**4,594**	**6,736**	**(6,798)**	**28,478**	**(1,049)**	**(7,859)**	**333,672**	**1,195,523**
Net profit for the period	–	–	–	–	–	–	–	–	**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**
Share-based payment	–	–	**555**	–	–	–	–	–	–	**555**
Exercised share options	**380**	**204**	**(584)**	–	–	–	–	–	–	–
Dividend declared and paid	–	–	–	–	–	–	–	–	**(65,000)**	**(65,000)**
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.

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

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

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Bazan Ltd – Condensed Consolidated Interim Statement 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**
Net 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**
Share-based payment	–	–	**219**	–	–	–	–	–	–	**219**
Exercised share options	**379**	**203**	**(582)**	–	–	–	–	–	–	–
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.

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Bazan Ltd – Condensed Consolidated Interim Statement of Changes in Equity (contd.), USD thousands

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial assets at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Year ended December 31, 2018 (audited)									
Balance as at January 1, 2018	**805,770**	**31,979**	**4,594**	**6,736**	**(6,798)**	**28,478**	**(1,049)**	**(7,859)**	**342,583**	**1,204,434**
Effect of initial application of IFRS 9(2014)	–	–	–	–	–	–	–	–	(8,911)	(8,911)
Balance as at January 1, 2018 subsequent to initial application	**805,770**	**31,979**	**4,594**	**6,736**	**(6,798)**	**28,478**	**(1,049)**	**(7,859)**	**333,672**	**1,195,523**
Net profit for the year	–	–	–	–	–	–	–	–	**187,101**	**187,101**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(583)	–	–	–	–	–	(583)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	1,192	–	–	1,192
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	(6,412)	–	–	(6,412)
Remeasurement of a defined benefit plan, net of tax	–	–	–	–	–	–	–	–	1,971	1,971
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	5,367	–	5,367
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(3)	–	–	–	–	(3)
Total other comprehensive income (loss) for the year, net of tax	**–**	**–**	**–**	**(583)**	**(3)**	**–**	**(5,220)**	**5,367**	**1,971**	**1,532**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**(583)**	**(3)**	**–**	**(5,220)**	**5,367**	**189,072**	**188,633**
Share-based payment	–	–	**596**	–	–	–	–	–	–	**596**
Exercised share options	**1,311**	**673**	**(1,984)**	–	–	–	–	–	–	–
Expired share options	–	–	**(1,494)**	–	–	–	–	–	**1,494**	–
Dividend declared and paid	–	–	–	–	–	–	–	–	**(65,000)**	**(65,000)**
Balance as at December 31, 2018	**807,081**	**32,652**	**1,712**	**6,153**	**(6,801)**	**28,478**	**(6,269)**	**(2,492)**	**459,238**	**1,319,752**

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

Bazan Ltd – Condensed Consolidated Interim Statement of Cash Flows, USD thousands

	Six months ended		Three months ended		Year ended
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	December 31, 2018
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Profit for the period	**92,010**	**170,894**	**29,362**	**96,723**	**187,101**
Adjustments to cash flows from operating activities:					
Income and expenses not included in cash flows: (Appendix A – section A)	188,758	174,027	76,523	106,416	300,688
	280,768	344,921	105,885	203,139	487,789
Changes in assets and liabilities (Appendix A – section B)	(68,481)	(39,685)	29,792	(95,751)	115,790
Income tax received (paid), net	987	(5,079)	(489)	(4,836)	(5,692)
Net cash from operating activities	**213,274**	**300,157**	**135,188**	**102,552**	**597,887**
Cash flow used for investing activities					
Interest received	3,940	1,416	2,409	337	3,781
Change in deposits, net	(55,461)	40,017	(808)	40,021	39,577
Repayment of loan from Haifa Early Pensions Ltd.	4,118	–	4,118	–	3,894
Acquisition of fixed assets including periodic maintenance (1) (2)	(76,976)	(115,351)	(46,118)	(28,837)	(222,339)
Other	242	2,552	–	5	2,600
Net cash (used for) from investment activities	**(124,137)**	**(71,366)**	**(40,399)**	**11,526**	**(172,487)**
Cash flow used for financing activities					
Change in short-term credit, net	4,786	2,428	4,888	2,428	8,275
Change in deposits from customers and others, net	22,929	(8,314)	10,234	(8,104)	(15,597)
Interest paid (1) (3)	(58,370)	(48,133)	(41,698)	(29,878)	(132,891)
Derivative transactions, net	2,393	2,804	1,414	270	2,390
Repayment of long-term bank loans (see Note 7A)	100,000	–	–	–	–
Repayment of long-term bank loans, including early repayment	(35,092)	(28,280)	(21,998)	(18,592)	(98,808)
Repayment of debentures (3)	(104,780)	(44,514)	(62,243)	(43,293)	(153,920)
Issue of debentures (less issuance expenses)	–	114,996	–	–	114,996
Payment of liabilities for lease	(11,446)	(12,627)	(5,366)	(6,715)	(25,985)
Dividend paid	–	(65,000)	–	–	(65,000)
Net cash used for financing activities	**(79,580)**	**(86,640)**	**(114,769)**	**(103,884)**	**(366,540)**
Net increase (decrease) in cash and cash equivalents	**9,557**	**142,151**	**(19,980)**	**10,194**	**58,860**
Effect of exchange rate fluctuations on cash and cash equivalents	(2,117)	163	(1,153)	(288)	(958)
Cash and cash equivalents at beginning of period	384,373	326,471	412,946	458,879	326,471
Cash and cash equivalents at the end of the period	**391,813**	**468,785**	**391,813**	**468,785**	**384,373**

(1) In the six and three month periods ended on June 30, 2019, including principal payments, interest, and linkage differentials for development levies in the amount of USD 19 million and USD 4 million, respectively. In the six months ended June 30, 2018, including payments of principal, interest, and linkage differentials for levies in the amount of USD 67 million and USD 14 million, respectively (in the three month period ended on June 30, 2018, including interest payments and linkage differentials in the amount of USD 8 million).

(2) For information about the cost of periodic maintenance and planned maintenance in 2018, see Note 11A to the Annual Statements.

(3) As at June 30, 2018, principal and interest payments on the debentures in the amount USD 33 million and USD 26 million, respectively, were deferred under the deeds of trust to the next quarter, since the contractual repayment date was not a business day. In addition, principal and interest payments for debentures in the amount of USD 42 million and USD 8 million, respectively, were deferred from March 31, 2018 to April 1, 2018.

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

Bazan Ltd – Condensed Consolidated Interim Statement 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, 2019	June 30, 2018	June 30, 2019	June 30, 2018	December 31, 2018
	(Unaudited)		(Unaudited)		(Audited)
A. Income and expenses not included in cash flows:					
Depreciation and amortization	89,783	91,412	44,397	46,151	193,221
Other expenses (income), net	441	(4,389)	–	–	(919)
Impairment loss from cash-generating units	–	10,041	–	10,041	10,041
Financing expenses, net	57,882	44,594	29,535	16,739	90,842
Net changes in fair value and movement of deposits for derivatives for inventory and margins	28,570	(5,908)	(458)	10,750	(40,654)
Changes in fair value of the loan to Haifa Early Pensions Ltd.	(1,549)	316	(550)	235	563
Share-based payments	(734)	555	(787)	219	596
Income tax expenses	14,365	37,406	4,386	22,281	46,998
	188,758	**174,027**	**76,523**	**106,416**	**300,688**
B. Changes in assets and liabilities					
Change in trade receivables	(79,087)	703	(62,929)	(105,799)	115,698
Change in other receivables	(32,316)	(27,899)	13,329	(735)	(5,272)
Change in inventory	(27,585)	294	84,865	(19,240)	128,862
Change in trade payables	68,846	4,442	881	34,302	(100,665)
Change in other payables and provisions	(460)	(14,933)	(7,161)	(2,986)	(18,307)
Change in employee benefits, net	2,121	(2,292)	807	(1,293)	(4,526)
	(68,481)	**(39,685)**	**29,792**	**(95,751)**	**115,790**

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

NOTE 1 – GENERAL

A. Reporting entity

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

B. The interim condensed consolidated interim financial statements as at June 30, 2019 include the statements of the Company and its subsidiaries (jointly: "the Group").

NOTE 2 ‑ BASIS OF PREPARATION

A. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required in the full annual financial statements. These statements should be read together with the financial statements as at December 31, 2018 and for the year then ended ("the Annual Statements"). Additionally, these statements have been prepared in accordance with the provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed consolidated interim financial statements were approved by the Company's Board of Directors on August 5, 2019.

B. Use of estimates and judgments

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The Group's accounting policy in these condensed consolidated interim statements is the same policy applied in the Annual Statements.

NOTE 4 – SEGMENT REPORTING

Further to Note 28 to the Annual Statements, as at June 30, 2019, there was no change in the composition of the Group's reportable segments or in the measurement method of segment results by the chief operating decision maker.

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

(1) Mainly in Israel

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

Bazan Ltd – Notes to the Condensed Consolidated Interim Statements, 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**
Reported EBITDA	**212,712[(2)]**	**96,944**	**9,488**	**106,432**	**11,120**	**330,264**	**13,824**	**3,278**	**347,366**
Depreciation and amortization	**(41,400)**	**(23,136)**	**(1,726)**	**(24,862)**	**(5,764)**	**(72,026)**	**(13,036)**	**–**	**(85,062)**
Reported EBITDA less amortization and depreciation									**262,304**
Impairment loss from 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)
Profit before taxes on income									**208,300**

(1) Mainly in Israel

(2) Adjusted EBITDA in the fuel segment for the six months ended June 30, 2019: USD 135,889 thousand.

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

(1) Mainly in Israel

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

Bazan Ltd – Notes to the Condensed Consolidated Interim Statements, 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**
Reported EBITDA	**127,405(2)**	**47,554**	**6,139**	**53,693**	**3,776**	**184,874**	**6,744**	**(84)**	**191,534**
Depreciation and amortization	**(20,499)**	**(11,845)**	**(839)**	**(12,684)**	**(2,884)**	**(36,067)**	**(6,918)**	**–**	**(42,985)**
Reported EBITDA less amortization and depreciation									**148,549**
Impairment loss from 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)
Profit before taxes on income									**119,004**

(1) Mainly in Israel

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

Bazan Ltd – Notes to the Condensed Consolidated Interim Statements, USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Polymers - Ducor	Total polymers	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Year ended December 31, 2018 (audited)								
Revenue from external sources - Israel	3,269,362	357,127	–	357,127	36,258	3,662,747	28,137	–	3,690,884
Revenue from external sources - other countries	1,915,193	340,373	231,148	571,521	457,863	2,944,577	40,160	–	2,984,737
Total revenue from external sources	**5,184,555**	**697,500**	**231,148**	**928,648**	**494,121**	**6,607,324**	**68,297**	**–**	**6,675,621**
Revenue from inter-segment sales (1)	730,138	20,623	–	20,623	39,553	790,314	12,537	(802,851)	–
Segment revenue	**5,914,693**	**718,123**	**231,148**	**949,271**	**533,674**	**7,397,638**	**80,834**	**(802,851)**	**6,675,621**
Reported EBITDA	**276,330(2)**	**178,553**	**8,999**	**187,552**	**21,136**	**485,018**	**26,033**	**4,225**	**515,276**
Depreciation and amortization	**(91,494)**	**(46,967)**	**(3,285)**	**(50,252)**	**(12,612)**	**(154,358)**	**(26,219)**	**–**	**(180,577)**
Reported EBITDA less amortization and depreciation									**334,699**
Impairment loss from cash-generating units									(10,041)
Amortization of excess cost arising on acquisition of subsidiaries									(12,644)
Other revenues, net									919
Operating profit									**312,933**
Financing expenses, net									(78,834)
Profit before taxes on income									**234,099**

(1) Mainly in Israel

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

NOTE 5 – CONTINGENT LIABILITIES, AGREEMENTS AND DEVELOPMENTS AND OTHER EVENTS, GUARANTEES AND LIENS

A. Contingent liabilities

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

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

Further to Note 20A2 to the Annual Statements, in the reporting period, the court validated the settlement agreement between the Group companies and Haifa Municipality, whereby the Group paid NIS 85 million (USD 23 million) in the second quarter of 2019, in exchange for a final and complete settlement of the payment demands for the sewage levy amounting to NIS 170 million (for the dates of the original demands - 2010), including all linkage differentials and interest and cancellation of the demands for payment of the water pipeline installation levy issued by the water and sewage corporation Mei Carmel, amounting to NIS 90 million (for the dates of the original demands - 2014), reserving the right of Mei Carmel to issue a demand for payment based on the installation fee method - water only (but not a water pipeline installation levy), and reserving all the rights, grounds and claims of the parties, without derogating from the right of Bazan Group to raise any possible claim against any such requirements. Since the settlement amount is fully reflected in the Annual Statements, this does not affect the results of the Group's activity in the reporting period.

2 Liabilities relating to environmental quality

A. On May 19, 2019, the Company and Gadiv were informed that the Ministry of Environmental Protection - Marine Environment Protection Division - is conducting an investigation against Gadiv regarding the hydrocarbon leak at the chemicals port, which had occurred several months earlier. In this context, investigators visited the offices of Gadiv with a search warrant and seized documents and information.

The management of Gadiv believes, based on the opinion of its legal counsel, that at this early stage, Gadiv is unable to estimate the results of the investigation and its implications, if any, on its operating results.

B. Further to Note 20A3 to the Annual Statements, subsequent to the reporting period, the Citizens for the Environment Association filed a claim and motion for certification of the claim as a class action against thirty defendants, including the Company, Carmel Olefins, Gadiv, and Haifa Basic Oils, regarding claims referring to air pollution in Haifa Bay and the illnesses it allegedly causes to the population in the Haifa area. In applicant is petitioning for declarative relief and the establishment of a mechanism for awarding compensation, but does not specify the amounts of the compensation claimed or, alternatively, the splitting-up of remedies that will allow each member of the class to sue for damages in a separate proceeding. The Company has not yet filed a response to the motion.

The managements of the Company and the subsidiaries believe, based on the opinion of their legal counsel, that at this early stage, it is not possible to estimate the exposure for the claim and its implications, if any, on the operating results of the Group companies.

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

A. Contingent liabilities (contd.)

2. Liabilities relating to environmental quality (contd.)

C. As set out in Notes 20A(3), 20A(5), and 20A(6) to the Annual Statements, there are legal, administrative and other proceedings, including civil claims and warnings against Group companies regarding environmental quality. An indictment was filed against the Company and four managers, following a fire in an intermediate materials storage tank on the Company's premises in 2016. Various warnings were received from the Ministry of Environmental Protection for alleged violations of the emission permits, poisons permits, and personal orders issued to them relating to air quality, including claims of non-compliance with maximum emission values, failure to perform various actions on time, and failure to comply with regulations of the Ministry of Environmental Protection. A notice was issued by the Ministry of Environmental Protection on its intention to impose a financial sanction. The Ministry of Environmental Protection is investigating a number of issues against the Company, Carmel Olefins and Gadiv (including as set out in section A above), and in some of the investigations, also against managers who served at the dates relevant to the investigation of the companies, including for alleged violations of the personal orders and emissions permits issued to the companies at the dates on which they were valid and/or due to malfunctions in their facilities. For some of these proceedings, the managements of the Company and its subsidiaries believe, based on the opinion of their legal counsel, that, at this stage, it is not possible to assess their effect, if any, on the financial statements as at June 30, 2019. Accordingly, the Company's financial statements include provisions in amounts that are immaterial, which the Company believes adequately reflect the amounts that will more likely than not be paid, and for the proceedings for which their effect cannot be estimated, as aforesaid, no provision regarding this matter was included in the financial statements.

B. Agreements

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

1 Further to Note 20B1 to the Annual Statements regarding agreements for the purchase of natural gas for the plants of the Group companies, to ensure a continuous supply of natural gas after the Tamar agreement expires and until gas starts to flow to the Company under the agreement signed with Energean ("the Interim Period"), in the reporting period, the Company signed an agreement for the purchase of natural gas from the Tamar partnership ("the Agreement"), which was approved by the general meeting of the Company's shareholders by a special majority on May 28, 2019.

The main terms of the Agreement are as follows:

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

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

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

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

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

B. Agreements (contd.)

1 Further to Note 20B3 of the Annual Statements, subsequent to the reporting period, the Supreme Court handed down a judgment on the appeals that were filed on the judgment of the appeal against the judgment of the Haifa Administrative Court regarding the decisions of the National Planning and Building Council, which approved the urban building plan for the Bazan complex ("the Plan"), which came into effect in March 2018. The judgment stated that construction of production facilities (or structures) having a significant impact on the environment, in categories to be determined by the National Council, is subject to the preparation of a detailed plan for the facility (or structure). In addition, within a year, the National Council is required to establish additional provisions in the plan, regarding the types of facilities that will require detailed planning. In the absence of such determination, the plan will be canceled. The judgment also states that building permits for the facilities, which will be granted in accordance with the plan in the interim period until the determination of the National Council, will be subject to the decision of the National Council.

B. Other developments and events

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

1 On June 13, 2019, the Company received a report prepared by the consulting firm McKinsey for the National Economic Council on the future of the petrochemical industry in the Haifa Bay ("the Report"), according to a petition under the Freedom of Information Law, 1998. . The purpose of the report, which was conducted 12 months prior to its receipt by the Company, is to provide an economic analysis of four alternatives regarding the future of the Bazan Group's operations to the interministerial team that was established by the National Economic Council to examine the future of Bazan Group in Haifa Bay:

A. The continued activity of Bazan Group in the current location and configuration

B. Transfer of Bazan Group a non-urban area

C. Partial closure of the activity in the present Bazan complex

D. Closure of all the activity in the Bazan complex, with a number of possible dates in the future, the latest date being 2030.

The main points of the report are as follows:

A. The report includes an economic analysis only of these alternatives and assessment of the economic results of each of them in terms the general economy, based on the real-estate value of the land for residential construction.

B. The report does not include any recommendation.

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

C. Other developments and events (contd.)

1. (contd.)

C. The authors of the report note that:

1. The report is based on preliminary and incomplete information and that before making a decision, the data should be updated and processed, which may affect the results of the analysis, including the value of the land that was assumed in the report and the costs of cleaning the land, market forecasts/refining margins, and information that was not disclosed to those preparing the report due to security restrictions.
2. Any decision about the future of Bazan should take into account a range of considerations that go beyond the economic aspect, including employment considerations and urban environmental analyzes. These considerations are not analyzed in the report.
3. Implementation of some of the alternatives, especially those addressing the closure of Bazan's operations, are subject to the establishment of alternative infrastructures, including for the import and storage of fuels/LPG and the manufacture of bitumen, which will take at least four years.

It should be noted that the report does not include a significant analysis of the alternative infrastructure that is required and of the feasibility of their implementation within the relevant periods.

D. According to the results of the partial economic assessment of the alternatives in the report:

1. The transfer of Bazan Group to a non-urban area (the cost of establishing the current activity at another site) does not justify the investment.
2. The closure of part of the activity at the Bazan complex will not release the value of the land, but will reduce emissions from the complex.
3. Based on the assumptions in the report, the alternative of full closure of the activity at the Bazan complex, which was assessed at various times, the latest of which is 2030, will yield the highest economic value if carried out in the latest year that was assessed, which is 2030. This is after taking into account all the relevant income and costs, including compensation to the shareholders of Bazan, based on the net present value of the Company's profits at the closing date.

It is further noted that in the legal proceedings that the Company took to receive the report, the National Economic Council and the Prime Minister's Office clarified that the work on the report is still being discussed internally, and that the government ministries are studying and commenting on the report. In addition, it was clarified that the professional team appointed to review the matter had not yet completed its work, that the matter was still in the stage of formulating the policy, and that the government had not yet formulated its conclusions regarding the findings of the report.

The Company is studying the details of the report in order to present its position to the competent authorities.

As at the approval date of the financial statements, the Company is unable to assess the results of the team's work (including in view of the reservations presented by the authors of the report and hearing the Company's position), whether and when such results will be presented to the government, and the date and content of any government decision that may be received.

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

C. Other developments and events (contd.)

2 Further to Note 20C2 to the Annual Statements, in the reporting, the Ministry of Environmental Protection presented the Company and Gadiv with an administrative order to prevent or reduce air pollution, according to which the companies were required to install means to reduce emission in the storage tanks that that significantly contribute to benzene emissions, and to replace equipment components in which benzene flows with equipment components that comply with the best available technique in the timetables set out in the administrative order, some of which do not correspond with the shutdown dates scheduled by the Company, including their replacement in crude oil refining unit 4, the isomerization unit, and the continuous catalytic reforming (CCR) unit, no later than August 8, 2020. The Company is preparing to implement the requirements of the administrative order and is in contact with the Ministry of Environmental Protection on this matter. Subsequent to the reporting period, a hearing was held for the Company and Gadiv relating to the administrative order, which the Ministry of Environmental Protection claimed was breached. The companies clarified their position and as at the reporting date, it is unable to estimate the results of the hearing.

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

C. Guarantees and liens

Further to Note 19 to the Annual Statements, there were no significant changes in the Group's guarantees and liens in and subsequent to the reporting period, other than changes in the normal course of business in the amount of open short-term documentary letters of credit to suppliers.

NOTE 6 - FINANCIAL COVENANTS

A. The Company

Further to Note 13C1 to the Annual Statements, the following financial covenants, as defined in the Note, apply to the banks by virtue of the long-term loan agreements and to the holders of private debentures as at June 30, 2019:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated adjusted equity (USD million)	≥	750	1,431.8
Consolidated adjusted equity to total consolidated statement of financial position	≥	20.0%	39.8%
Consolidated ratio (net financial debt + factoring receivables) to consolidated adjusted EBITDA	≤	5.0	2.3
Consolidated principal and interest cover ratio	≥	1.1	2.3
Separate cash statement (USD millions)	≥	75	455.9

In addition, as set out in Note 13C(1) and 14C to the Annual Statements, as at June 30, 2019, the Company is subject to financial covenants under a long-term loan agreement with a foreign bank that provided financing for establishment of the Hydrocracker and deeds of trust of the public debentures (Series D, E, F, G, and I). Definitions and calculation of the covenants for the loan and for the debentures are similar to the definitions and calculation of the covenants set out above. Taking this into consideration, the Company believes that it is unlikely that it will violate the covenants with the foreign bank or with the debenture holders without violating the covenants set out above.

As at June 30, 2019, the Company is in compliance with the financial covenants for the bank agreements, private debentures and public debentures (Series D, E, F, G, and I).

Further to Note 14C to the Annual Statements, as at June 30, 2019, Carmel Olefins is in compliance with the financial covenants (as defined in the Note), that are applicable to it regarding Debentures (Series G) of the Company.

B. Carmel Olefins

Further to Note 13D1 to the Annual Statements, as at June 30, 2019, Carmel Olefins is in compliance with the financial covenants (as defined in the Note), that are applicable to the banks.

C. Ducor

Further to Note 13A(1)b to the Annual Statements, as at June 30, 2019, Ducor is in compliance with the financial covenants.

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

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

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

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

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

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

F. In the reporting period, the chairman of the Company's Board of Directors, Ovadia Eli, announced the termination of his term as chairman and director in the Company, as from June 30, 2019. The board of directors of the Company resolved to appoint Johanan Locker as a director and to appoint him as chairman of the board of directors as from the end of the office of Ovadia Eli. On June 26, 2019, the board of directors of the Company and Johanan Locker announced that they had reached a joint agreement according to which Johanan Locker will not take up his position as a director and the chairman of the board of directors of Bazan. The board of directors of the Company asked Ovadia Eli to withdraw his resignation notice, and Ovadia Eli agreed to return to serve as a director and as the chairman of the board of directors of Bazan for an unlimited time. The Company announced the cancellation of the shareholders' meeting, which was scheduled for June 27, 2019 to approve the terms of Johanan Locker's office.

On July 9, 2019 ("the Record Date"), after receiving the approval of the compensation committee and subject to the approval of the general meeting, which had not been received as at the approval date of the report, the board of directors approved the allotment of 18.3 million options of the Company to Ovadia Eli, under the Company's existing options plan of 2007, as set out in Note 21B to the Annual Statements. The options will vest over three years as from the effective date, in three equal lots at the end of each year for three years. The options that vest in the first lot will be exercisable for two years from their vesting date, and the options that vest in each of the two additional lots will be exercisable for one year from the vesting date.

In the event of the termination of the office or employment of Ovadia Eli in the Company, whichever is later, the options that vested by the end of the term of office or employment may be exercised over 180 days from the termination date of employment or office (but in any case, no later than the expiry date of the options). The remaining options allotted to the offeree will expire on the date the office or employment is terminated.

Below is a summary of the terms of the options:

No. of instruments (millions)	Vesting period (years)	Life of options (years)	Average interest rate	Expected fluctuations	Exercise price (NIS, linked to the CPI)	Share price as a basis for option price	Bonus value (NIS millions) (*)
18.3	1-3	3-4	-0.69% - - 0.78%	20.0%- 20.7%	1.975	1.790	3.2

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

Bazan Ltd – Notes to the Condensed Consolidated Interim Statements, USD thousands

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

G. 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, 2019 and December 31, 2018, the Company, Carmel Olefins and Gadiv derecognized an amount of USD 174 million and USD 185 million, respectively, from their trade receivables, in accordance with IFRS 9.

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

I. On May 6, 2019, the Company’s CEO, Yashar Ben Mordechai, announced the termination of his duties in Company on May 31, 2019. Upon termination of his office, 4.5 million options that were granted to him as part of the terms of his employment with the Company, as set out in Note 21B to the Annual Statements, will expire. The Company’s Board of Directors resolved to appoint Shlomo Basson, who currently serves as Deputy CEO and VP of Human Resources, Safety, Environmental Quality, and Security, as Acting CEO as from June 1, 2019.

J. On August 5, 2019, the Company's Board of Directors approved the distribution of a dividend in the amount of USD 50 million, based on the Company's financial statements as at June 30, 2019, subject to the approval of the general meeting of the Company’s shareholders with a special majority. The dividend is from profits that are not eligible for benefits by virtue of the Encouragement of Capital Investments Law, 1959.

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

NOTE 8 - FINANCIAL INSTRUMENTS - FAIR VALUE

A. Fair value of financial instruments for disclosure purposes only

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

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

	June 30, 2019			
	Adjusted par value	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Private debentures (1)	502	502	–	513
Marketable Debentures (Series F and I) (1)(2)	502,406	504,873	533,096	–
Marketable Debentures (Series D-E) (2)(3)	351,992	362,797	389,753	–
Bank loans (4)	417,263	397,890	–	423,701
	1,272,163	**1,266,062**	**922,849**	**424,214**

	June 30, 2019	
	Adjusted par value	Carrying amount
Debentures at fair value (2):		
Marketable Debentures (Series A)	68,707	71,238
Marketable Debentures (Series G)	36,695	38,721
	105,402	**109,959**

Bazan Ltd – Notes to the Condensed Consolidated Interim Statements, USD thousands

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

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

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

	June 30, 2018	
	Adjusted par value	Carrying amount
Debentures at fair value [(2)]:		
Marketable Debentures (Series A) [(5)]	165,336	172,735
Marketable Debentures (Series G)	70,641	75,853
	235,977	**248,588**

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

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

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

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

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

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

(5) As at 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 was USD 140 million.

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

Bazan Ltd – Notes to the Condensed Consolidated Interim Statements, USD thousands

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

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

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

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

(1) Marketable derivatives for inventory/cash flow exposure for acquisition of inventory (basic) at the end of the inventory availability transaction, are presented net of the amounts of the accounting.

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

(3) Below are the main assumptions used to determine the fair value of the principal and interest swap contracts as at June 30, 2019:
- NIS interest (used for discounting the NIS component) (0.24%) - 0.56%
- CPI-linked NIS interest (used to discount the NIS-linked component): (1.64%) - 0.16%
- USD interest (used to discount the USD component) 1.51%-2.37%
- Exchange rate (NIS/USD) as at June 30, 2019

Bazan Ltd – Notes to the Condensed Consolidated Interim Statements, USD thousands

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

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

	June 30, 2018			
	Level 1)1(	Level 2	Level 3	Total
Financial assets				
Derivatives used for accounting hedging				
CCIRS (4)	–	16,299	–	16,299
Derivatives for inventory (2)	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) (3)	248,588	–	–	248,588
Derivatives used for accounting hedging				
CCIRS (4)	–	8,085	–	8,085
Derivatives that are not used for accounting hedging				
CCIRS (4)	–	3,061	–	3,061
Forward contracts	–	100	–	100
	248,588	**11,246**	**–**	**259,834**

(1) Marketable derivatives for inventory/cash flow exposure for acquisition of inventory (basic) at the end of the inventory availability transaction, are presented net of the amounts of the accounting.

(2) In the six and three months ended June 30, 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. As at June 30, 2019, the balance of the hedge fund (before tax) amounts to USD 22 million (credit).

(3) 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.

(4) 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) (0.32%) - 1.14%
- CPI-linked NIS interest (used to discount the NIS-linked component): (3.37%) - (0.19%)
- USD interest (used to discount the USD component) 1.94%-2.90%
- Exchange rate (NIS/USD) as at June 30, 2018

Bazan Ltd – Notes to the Condensed Consolidated Interim Statements, USD thousands

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

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

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

(1) Marketable derivatives for inventory/cash flow exposure for acquisition of inventory (basic) at the end of the inventory availability transaction, are presented net of the amounts of the accounting.

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

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

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

Bazan Ltd.

Separate Financial Information
As of June 30, 2019

(This part is available only in Hebrew)

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

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

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

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

1. Shlomi Bassoon – Acting CEO and VP Human Resources, Safety, Environment and Security
2. Ana Berenshtein – CFO
3. The other members of management as of the report date:

   Assaf Almagor – Acting Deputy CEO and VP Business Unit, Polyolefins and Aromatics

   Yariv Gretz – VP Business Unit, Fuels

   Limor Pesher-Cohen – VP Integrated Planning and Commerce

   Michal Minzer – Legal Counsel

   Yaron Nimrod – VP Technology and Projects

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

Internal control of financial reporting and disclosure includes controls and procedures existing in the Company which were designed by the CEO and the most senior financial officer or under their supervision, or by whoever actually fulfills those roles, under the supervision of the Board of Directors of the Company, and are intended to provide reasonable assurance as to the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, and to ensure that information that the Company is required to disclose in the reports that it publishes as required by law, is gathered, processed, summarized and reported on the date and in the format prescribed in law.
Internal control includes, inter alia, controls and procedures designed to ensure that information that the Company is required to disclose as aforesaid, is accumulated and forwarded to the Company's management, including the CEO and the most senior financial officer or to whoever actually fulfills those roles, so as to enable decisions to be made at the appropriate time with regard to the disclosure requirement.
Owing to its inherent limitations, internal control of financial reporting and disclosure is not intended to provide absolute assurance that a misleading presentation or the omission of information in the reports will be prevented or will come to light.
In the quarterly report on the effectiveness of the internal control of financial reporting and disclosure attached to the Periodic Report for the period ended March 31, 2019 (“the Last Quarterly Report on Internal Control”), the internal control was found to be effective.
Up to the reporting date no event or matter that might change the assessment of the effectiveness of the internal control has been brought to the attention of the Board of Directors and management, as is to be found in the Last Quarterly Report on Internal Control;
As of the reporting date, based upon what is stated in the Last Quarterly Report on Internal Control, and based on information brought to the attention of the Board of Directors and management as stated above, the internal control is effective;

Certifications

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

I, Shlomi Basson, declare that:

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

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

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

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

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

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

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

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

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

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

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

August 5, 2019

Shlomi Bassoon,
Acting CEO

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

I, Ana Berenshtein, declare that –

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

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

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

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

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

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

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

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

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

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

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

August 5, 2019

Ana Berenshtein,
CFO