OIL REFINERIES LTD

Condensed Consolidated Interim Financial Statements as at September 30 , 2019

(Unaudited)

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Contents

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Directors' Report on the State of the Company's Affairs for the Period ended September 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 September 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. Bazan Group Operating Segments

Bazan Ltd. ("the Company" or "Bazan") and its subsidiaries ("Bazan Group" or "the Group") are industrial companies involved in four primary synergistic segments of operation: Fuels (through the Company), Polymers - Carmel Olefins (through Carmel Olefins), Polymers - Ducor (through Ducor) and Aromatics (through Gadiv). In addition, Group companies also engage in operations that are not material: primarily the Trade segment (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

The price of crude oil

Brent1 crude oil prices in 2018-2019 (USD/barrel)

Source: Reuters

Dated Brent[1]

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)

1-9.2019	1-9.2018	Change	7-9.2019	7-9.2018	Change
64.6	72.1	- 10%	62.0	75.2	- 18%

- The sharp rise in the Brent price during the Reporting Period is mainly due to a decline in supply as a result of OPEC's production reduction policy and US sanctions on Iran and Venezuela. As of the second quarter of 2019, the rise ceased due to concerns regarding deterioration of the global economy, among other things, as a result of the US-China trade war.
- In the third quarter of 2019 the Brent price was highly volatile, trading between USD 55 and USD 68 per barrel, and was mainly affected by the continuing negative macroeconomic atmosphere on the one hand and increased geopolitical tension in the Persian Gulf region on the other, culminating with the terrorist attack on Saudi Arabia in September. Towards the end of the quarter, Saudi Arabia announced it was returning to full production and the Brent price declined again.
- Subsequent to Reporting Date, Brent traded at between USD 58 and USD 63 per barrel, and at the date of publication of the Report its price was set at USD 60 per barrel.
- In the Reporting Period, the Ural price was highly volatile compared with Brent, and was traded at between a discount of USD 2 and premium of USD 1.4 per barrel, and was mainly affected by a temporary shortage of Ural as a result of contamination in Russia's crude oil supply to Europe, which ended in Q3 2019.
- In the Reporting Period, the crude oil futures market curve was in backwardation at average of USD 0.4 per barrel per month compared to USD 0.2 per barrel in the corresponding period last year. In the third quarter of 2019, backwardation deepened to an average of USD 0.5 per barrel per month compared to a balanced market curve in the corresponding period last year. Subsequent to Reporting Date, remained backwardation at average of USD 0.5 per barrel per month.

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

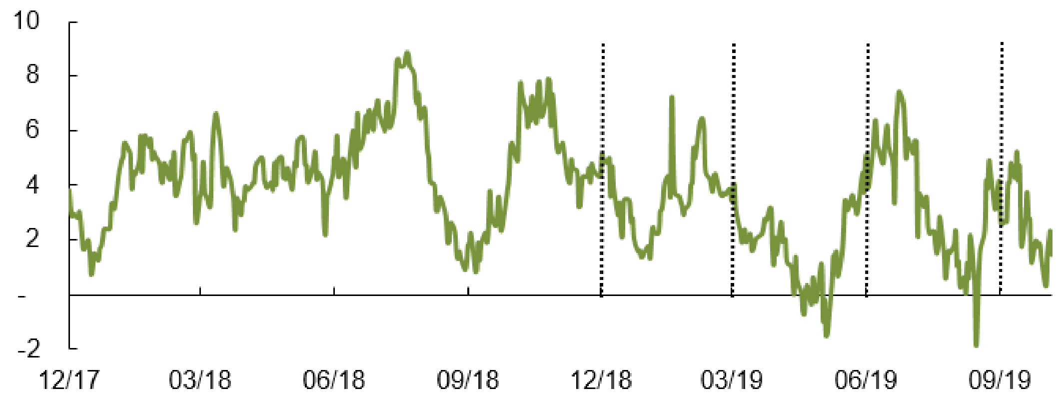
B. Business environment and Bazan Group profitability - contd.

Fuel segment – contd.

<u>Refining margin</u>

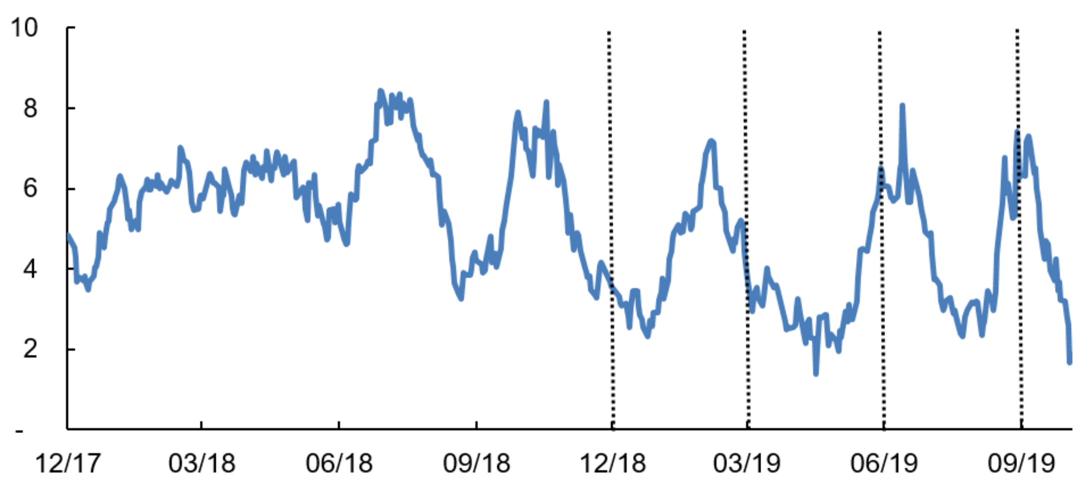
Reuters Ural Margin and Bloomberg Average Ural Margin [1]

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



Source: Reuters

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



Source: Bloomberg

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

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B. Business environment and Bazan Group profitability - contd.

Fuel segments - contd.

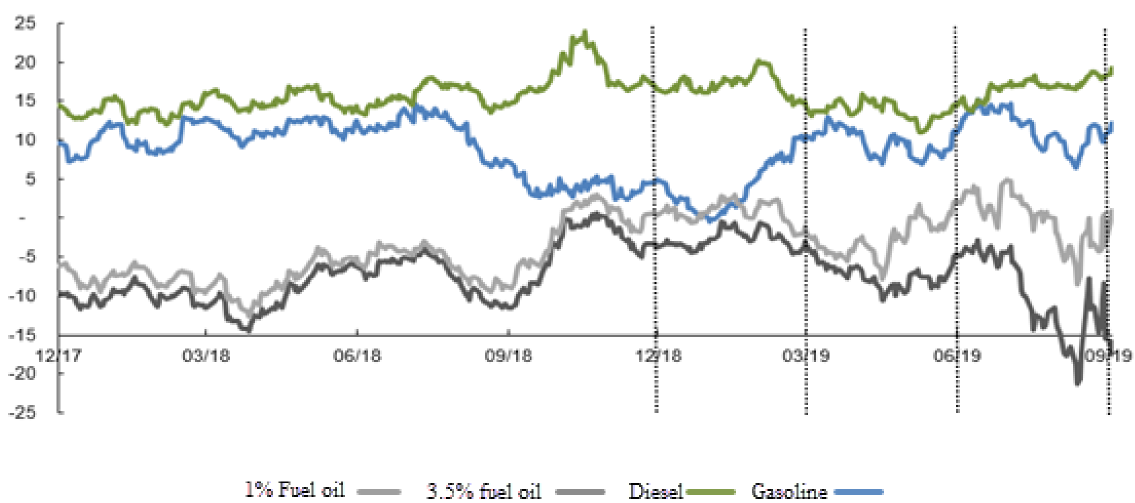
<u>Refining margin - contd.</u>

Bloomberg Average Ural Margin (USD/barrel)

	1-9.2019	1-9.2018	Change	7-9.2019	7-9.2018	Change
Reuters Ural	2.9	4.5	(1.6)	3.3	5.2	(1.9)
Bloomberg Average Ural	4.1	5.9	(1.8)	4.6	6.2	(1.6)

- In the Reporting Period, and particularly in the third quarter of 2019, the Reuters Ural margin was volatile and declined sharply compared with the corresponding periods last year. The decrease was mainly due to the relative increase in the Ural as described above and a sharp decline in the sulfur-rich fuel oil margin (3.5%) as compared with Brent, in particular since August 2019.
- In the Reporting Period, as well as in the third quarter of 2019, the Bloomberg Ural margin was volatile, also declining compared with the corresponding period last year, although less so than the Reuters Ural margin, mainly due to the significantly lower sulfur content (3.5%) and the decline in the natural gas price in Europe.
- Towards the end of the quarter, Reuters and Bloomberg Ural margins increased significantly due to the terror attack in Saudi Arabia.
- Subsequent to Reporting Date and through to close to publication of the report, the Reuters and Bloomberg Ural margins rallied, reaching an average price of USD 1.9 and USD 3.6 per barrel.

Mediterranean transport diesel fuel (1), gasoline (2), 3.5% fuel oil (3) and 1% fuel oil (4) compared with Brent crude oil (5) (USD/barrel)



Source: Reuters

(1) ULSD CIF Med

(2) Prem Unl CIF Med

(3) Fuel Oil 3.5% CIF Med

(4) Fuel Oil 1% CIF Med

(5) Brent (Dated)

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

B. Business environment and Bazan Group profitability - contd.

Fuel segments - contd.

Refining margin - contd.

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

	1-9.2019	1-9.2018	Change
Diesel fuel (1)	15.9	14.8	1.1
Gasoline (2)	8.4	10.8	(2.4)
3.5% Fuel oil (3)	(6.7)	(9.0)	2.3
1% Fuel oil (5)	(0.6)	(7.1)	6.5

	7-9.2019	7-9.2018	Change
Diesel fuel (1)	16.8	15.6	1.2
Gasoline	11.5	11.1	0.4
3.5% Fuel oil (4)	(10)	(7.4)	(2.6)
1% Fuel oil (5)	(0.1)	(5.8)	5.7

(1) The increase, particularly in the third quarter of 2019, is due to the new international standard that becomes effective in January 2020, which will require ships to meet fuel emissions levels with a maximum sulfur content of 0.5% (compared to 3.5% today) - IMO 2020. At the end of the quarter, the fuel oil margin compared to Brent was set at NIS 19 per barrel and subsequent to the Reporting Date at an average of USD 19 per barrel.

(2) The decline is mainly due to a decrease in demand and an increase in supply in the US and the Persian Gulf region.

(3) The steep increase is mainly due to an increase in demand for cracking, industrial and maritime transport, together with a decrease in supply of heavy crude oils.

(4) The sharp decline is due to preparations for IMO 2020 taking effect. At the end of the quarter, the sulfur-rich fuel oil margin compared to Brent was set at minus NIS 16 per barrel and subsequent to the Reporting Date at an average of minus USD 21 per barrel.

(5) The sharp increase is due to preparations for IMO 2020 taking effect. At the end of the quarter, the low sulfur (1%) fuel oil margin compared to Brent was set at minus NIS 1 per barrel and subsequent to the Reporting Date at an average of plus USD 3 per barrel.

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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] (Ktons)

	7-9.2019	4-6.2019	1-3.2019	10-12.2018	7-9.2018	4-6.2018	1-3.2018
Transportation fuels	2,112	1,975	1,878	1,888	1,988	1,932	1,828
Other distillates	628	645	708	660	635	690	660
Total	**2,740**	**2,620**	**2,586**	**2,548**	**2,623**	**2,622**	**2,488**

Source: Ministry of National Infrastructure

- Transportation fuel consumption (gasoline, diesel fuel and kerosene) increased by 4% in the Reporting Period compared to the corresponding period last year, and increased by 6% in the third quarter of 2019 compared to the corresponding period last year.

(1) Domestic consumption of distillates (transportation, industrial and heating fuels) rose by 3% compared to the corresponding period last year and by 4% in Q3 2019 compared with the corresponding quarter last year.

Refining volume

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

	1-9.2019	1-9.2018	7-9.2019	7-9.2018
Utilization of crude oil refining facilities	96%	90% [1]	96%	75% [1]
Volume of crude oil refining	7,053	6,622	2,392	1,866
Volume of heavy vacuum diesel processed	776	392	269	111
Total	**7,829**	**7,014**	**2,661**	**1,977**

(1) The utilization rate of the refining facilities in the Reporting Period, had the foregoing periodic maintenance work not been carried (assuming a utilization rate of 97% with the addition of downstream materials, a volume of approximately 18.7 million barrels per quarter), was estimated at 97% in the corresponding period last year.

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

	1-9.2019	% of total	1-9.2018	% of total	7-9.2019	% of total	7-9.2018	% of total
Diesel fuel	3,021	39%	2,551	38%	1,008	39%	736	38%
Gasoline	1,074	14%	1,050	15%	379	15%	331	17%
Kerosene	673	9%	567	8%	270	10%	188	10%
Fuel oil [1]	1,378	18%	1,320	19%	436	17%	268	14%
Petrochemical products [2]	983	13%	793	12%	317	12%	208	11%
Others [3]	533	7%	547	8%	180	7%	185	10%
Total	**7,662**	**100%**	**6,828**	**100%**	**2,590**	**100%**	**1,916**	**100%**

(1) In the third quarter of 2019, approximately 30% of the Company's fuel oil production has 0.5% sulfur content, which complies with the IMO 2020 requirements (low sulfur fuel oil).

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

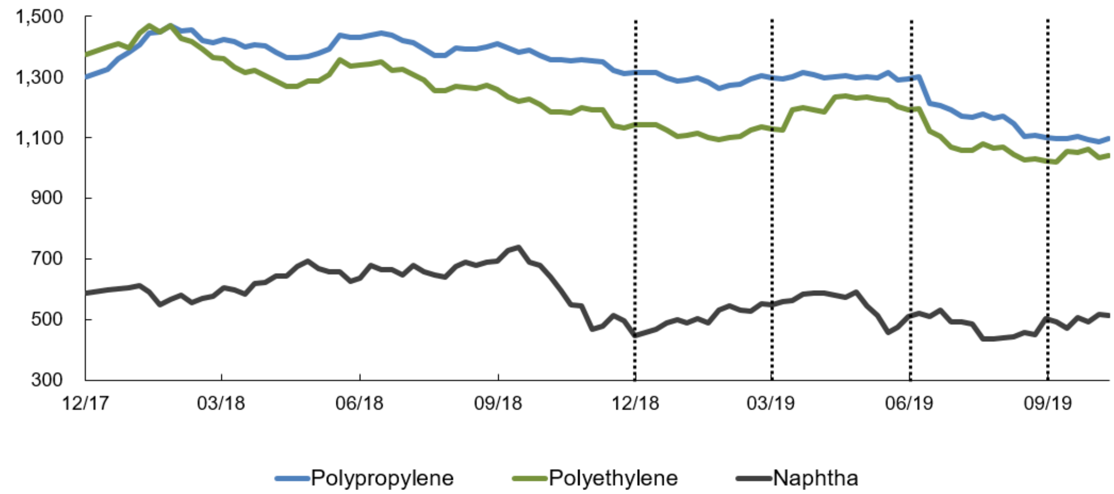
(3) Primarily includes: LPG and bitumen.

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)

	1-9.2019	1-9.2018	Change	7-9.2019	7-9.2018	Change
Naphtha	512	634	- 19%	474	672	- 30%
Polypropylene	1,247	1,405	- 11%	1,154	1,401	- 18%
Polyethylene	1,127	1,332	- 15%	1,058	1,280	- 17%

Raw material prices

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

Polymer prices

Polymer prices (polypropylene and polyethylene) declined during the Reporting Period, especially in the third quarter of 2019, compared with the corresponding periods last year, parallel with the decline in raw material and energy prices.

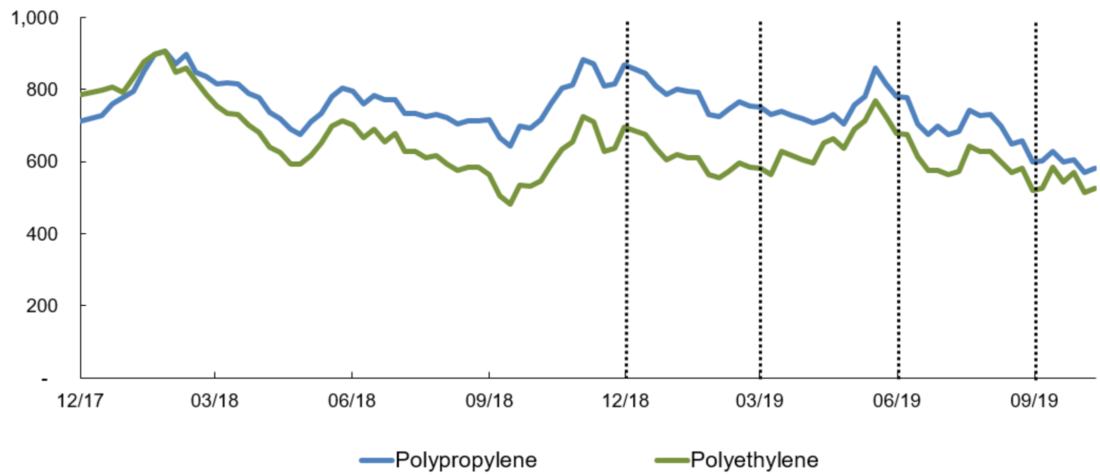
Chapter 1 - Description of the Company and its Business Environment - contd.

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

	1-9.2019	1-9.2018	Change	7-9.2019	7-9.2018	Change
Polypropylene	735	771	(36)	680	729	(49)
Polyethylene	615	698	(83)	584	608	(24)

In the Reporting Period, and particularly in the third quarter of 2019, there was a decrease in the difference between the average price of polypropylene and the average price of naphtha compared with the corresponding periods last year, mainly due to an increase in supply with the establishment of new production facilities in the East and the import of polypropylene into Europe, as well as in view of a slight decline in the demand for polypropylene due to concerns regarding a global economic slowdown.

In the Reporting Period, and to a lesser extent in the third quarter of 2019, there was a decrease in the difference between the average price of polyethylene and the average price of naphtha compared with the corresponding periods last year, mainly due to surplus supply and increase in production of polyethylene from shale oil and natural gas which cost less.

Polymer output volume - Carmel Olefins (thousand tons)

	1-9.2019	1-9.2018	7-9.2019	7-9.2018
Polymers	403	378	131	132

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 loss of profits was covered by insurance.

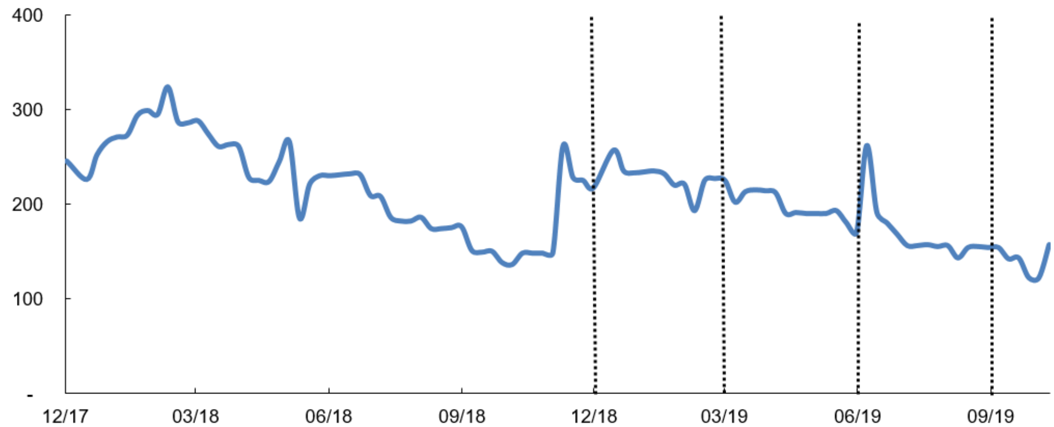
Chapter 1 - Description of the Company and its Business Environment - contd.

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 polymer and naphtha prices (USD / ton)

	1-9.2019	1-9.2018	Change	7-9.2019	7-9.2018	Change
Difference in price	196	236	(40)	160	190	(30)

In the Reporting Period and in the third quarter of 2019, the difference between the average price of polypropylene and the average price of propylene decreased compared with the corresponding periods last year, mainly as a result of the decrease in the supply of propylene due to the shutdown of production facilities in Europe, together with a decrease in the prices of polypropylene due to an increase in import supply.

Polypropylene output volume - Ducor (thousand tons)

	1-9.2019	1-9.2018	7-9.2019	7-9.2018
Polypropylene	112	102	35	26

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

B. Business environment and Bazan Group profitability - contd.

Aromatics Segment - Gadiv

Margins

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

Source: Reuters

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

	1-9.2019	1-9.2018	Change	7-9.2019	7-9.2018	Change
Difference in price	107	180	(73)	12	276	(264)

In the Reporting Period, and particularly in the third quarter of 2019, the difference between the average price of paraxylene and the average price of xylene decreased sharply compared to corresponding periods last year, due to an increase in supply of paraxylene with the establishment of new production facilities in the East and the United States.

Aromatics output volume (thousand tons)

	1-9.2019	1-9.2018	7-9.2019	7-9.2018
Aromatics	404	408	129	131

Chapter 2 - Results of Bazan Group operations in the nine and three months ended on September 30, 2019

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 nine and three month periods ending September 30, 2019 (USD millions):

	1-9.2019	1-9.2018	Change	7-9.2019	7-9.2018	Change
Revenue	4,875	4,898	(0%)	1,615	1,533	5%
Reported EBITDA	**336**	**441**	**(24%)**	**82**	**94**	**(13%)**
Depreciation	(127)	(129)	(2%)	(43)	(44)	(2%)
Other expenses, net (1)	(10)	(17)	(41%)	(4)	(5)	(20%)
Operating profit	**199**	**295**	**(33%)**	**35**	**45**	**(22%)**
Financing expenses, net (2)	(85)	(68)	25%	(27)	(27)	0%
Income tax (3)	(15)	(40)	(63%)	(1)	(2)	(50%)
Net profit	**99**	**187**	**(47%)**	**7**	**16**	**(56%)**
Fuel segment adjustments (*)	11	(48)		32	29	
Adjusted EBITDA	347	393	(12%)	114	123	(7%)
Adjusted operating profit	**210**	**247**	**(15%)**	**67**	**74**	**(9%)**
Net adjusted profit	**110**	**139**	**(21%)**	**39**	**45**	**(13%)**

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

(2) Including amortization of excess cost For further information concerning impairment of Haifa Basic Oils assets in the amount of USD 10 million that was recognized in the second quarter of 2018, see Note 11F to the annual reports.

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

	1-9.2019 compared with 1-9.2018	7-9.2019 compared with 7-9.2018
Net financing expenses in the corresponding period last year	68	27
Interest on borrowings, net (*)	(14)	(6)
Financing for working capital items, net	(1)	(1)
Exchange differences	28	7
Fair value of hedges	5	–
Others	(1)	–
Total change	17	–
Net financing expenses in Reporting Period	85	27

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

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

Chapter 2 - Results of Bazan Group's operations for the nine and three month periods - contd.

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

	1-9.2019	1-9.2018	Change	7-9.2019	7-9.2018	Change
Fuels (adjusted)	182	207	(25)	69	71	(2)
Polymers (Carmel Olefins and Ducor)	129	150	(21)	35	44	(9)
Aromatics	23	15	8	7	4	3
Others and adjustments	13	21	(8)	3	4	(1)
Total	**347**	**393**	**(46)**	**114**	**123**	**(9)**

	7-9.2019	4-6.2019	1-3.2019	10-12.2018	7-9.2018	4-6.2018	1-3.2018
Fuels (adjusted)	69	20	93	61	71	86	50
Polymers (Carmel Olefins and Ducor)	35	44	50	38	44	54	52
Aromatics (Gadiv)	7	7	9	6	4	4	7
Other segments and adjustments	3	9	1	9	4	7	10
Total	**114**	**80**	**153**	**114**	**123**	**151**	**119**

<u>Refining margin (USD/barrel)</u>

	7-9.2019	4-6.2019	1-3.2019	10-12.2018	7-9.2018	4-6.2018	1-3.2018
Bazan's adjusted refining margin	6.3	3.8	7.7	6.1	8.1	7.8	5.5
Bazan's adjusted proforma refining margin (*)	–	–	–	–	0.5	–	–
Bloomberg Average Ural Margin	4.6	3.4	4.5	5.5	6.2	6.0	5.4
Reuters Ural Margin	3.3	1.7	3.6	4.7	5.2	4.4	4.0

(*) For further information concerning the method used for calculating the proforma refining margin, see sections B3 and C3 below.

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Chapter 2 - Results of Bazan Group's operations for the nine and three month periods - contd.

B. Analysis of results for the nine month 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)	
	1-9.2019	**1-9.2018**	**1-9.2019**	**1-9.2018**	**1-9.2019**	**1-9.2018**
Fuels	3,835	3,804	79%	78%	550(1)	603
Carmel Olefins (2)	508	514	10%	11%	1,236	1,397
Ducor	174	164	3%	3%	1,337	1,523
Aromatics (3)	329	367	7%	7%	769	849
Others	29	49	1%	1%		
Total	**4,875**	**4,898**	**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 the price of polymers parallel to the decrease in the price of crude oil offset by an increase in sales volume as a result of the planned maintenance work in the ethylene facility in the first quarter of 2018.

(3) Mainly due to a decrease in aromatics prices parallel to the decrease in the price of crude oil

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Chapter 2 - Results of Bazan Group's operations for the nine and three month periods - contd.

B. Analysis of results for the nine month period

2. Consolidated adjusted EBITDA by operating segments

Main reasons for the change in the adjusted consolidated EBITDA - by operating segments (USD millions):

Increase (decrease)	Fuels	Polymers			Aromatics	others	Consolidated
		Carmel Olefins	Ducor	Total			
Adjusted EBITDA January-September 2018	**207**	**139**	**11**	**150**	**15**	**21**	**393**
Margin/contribution (1)	(70)	(17)	(14)	(31)	11	(13)	(103)
Sales volume	11	10	2	12	(1)	−	22
Loss of profits due to periodic maintenance (2)	45	−	2	2	−	−	47
Operating expenses (3)	(11)	(3)	(1)	(4)	(2)	5	(12)
Total change	**(25)**	**(10)**	**(11)**	**(21)**	**8**	**(8)**	**(46)**
Adjusted EBITDA January-September 2019	**182**	**129**	**−**	**129**	**23**	**13**	**347**

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

(2) In the third quarter of 2018, periodic maintenance work was carried out at some of the Company's manufacturing facilities, in particular CDU3 and the Hydrocracker facility. The company's total loss of profits in the third quarter amounted to USD 45 million. In addition, in the third and fourth quarters of 2018, periodic maintenance work was carried out at all Ducor facilities. The total loss of profits to Ducor amounted to USD 3 million (mainly in the third quarter).

(3) Includes fixed, production, general and administrative. The increase is mainly due to the effect of discounting of payroll expenses for the periodic maintenance work in the corresponding period last year, maintenance costs and the effect on NIS costs of the appreciation of the NIS against the USD.

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Chapter 2 - Results of Bazan Group's operations for the nine and three month periods - contd.

B. Analysis of results for the nine month 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):

		1-9.2019	1-9.2018
Reported EBITDA in the Fuels segment		**171**	**255**
Effects of timing differences (1)		5	(45)
Effect of adjusting value of inventory to market value, net		6	–
Effect of changes in fair value of derivatives and disposals		–	(3)
Total adjustments (2)		**11**	**(48)**
Adjusted EBITDA in the Fuels segment		**182**	**207**
Company's refining margin	**Adjusted margin (USD/barrel)**	**6.0**	**7.0 (3)**
Ural margins	**Reuters Ural margin (USD/barrel)**	**2.9**	**4.5**
	Bloomberg Ural margin (USD/barrel)	**4.1**	**5.9**

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

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

(3) The proforma margin for the corresponding period last year was USD 7.1 per barrel and was calculated as follows:

a. The estimated loss of USD 45 million in profits was added to the Company's actual adjusted refining margin for the relevant period, so that the standardized margin for the period is approximately USD 399 million.

b. The standardized margin was divided by the total number of barrels for the Reporting Period of 56 million barrels (the median number of barrels of crude oil and interim materials of 18.7 million barrels processed by the Company per quarter plus the actual number of barrels processed in the first half of 2018).

4. Net profit

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

Net income for the period 1-9,2018	**187**
Decrease in adjusted EBITDA	(46)
Change in adjustments	(59)
Decrease in depreciation expenses	2
Increase in net financing expenses	(17)
Decrease in tax expenses	25
Other	7
Net income for the period 1-9,2019	**99**

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Chapter 2 - Results of Bazan Group's operations for the nine and three month periods - contd.

C. Analysis of third quarter results

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)**	
	7-9.2019	**7-9.2018**	**7-9.2019**	**7-9.2018**	**7-9.2019**	**7-9.2018**
Fuels	1,293	1,190	80%	78%	546 (1)	657
Carmel Olefins (2)	154	164	10%	10%	1,196	1,396
Ducor	60	47	4%	3%	1,273	1,548
Aromatics (3)	101	119	6%	8%	762	889
Others	7	13	0%	1%		
Total	**1,615**	**1,533**	**100%**	**100%**		

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

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

(3) Mainly due to a decrease in aromatics prices parallel to the decrease in the price of crude oil

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Chapter 2 - Results of Bazan Group's operations for the nine and three month periods - contd.

C. Analysis of results for the nine month period – contd.

2. Consolidated adjusted EBITDA by operating segments

Main reasons for the change in the adjusted consolidated EBITDA - by operating segments (USD millions):

Increase (decrease)	Fuels	Polymers			Aromatics	others	Consolidated
		Carmel Olefins	Ducor	Total			
Adjusted EBITDA July-September 2018	**71**	**43**	**1**	**44**	**4**	**4**	**123**
Margin/contribution (1)	(40)	(6)	(6)	(12)	5	(3)	(50)
Sales volume	4	4	1	5	(1)	–	8
Loss of profits due to periodic maintenance (2)	45	–	2	2	–	–	47
Operating expenses (3)	(11)	(3)	(1)	(4)	(1)	2	(14)
Total change	**(2)**	**(5)**	**(4)**	**(9)**	**3**	**(1)**	**(9)**
Adjusted EBITDA July-September 2019	**69**	**38**	**(3)**	**35**	**7**	**3**	**114**

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

(2) For further information concerning the effect on the results of operations of the periodic maintenance work carried out in the third quarter of 2018, see section B2 above.

(3) Includes fixed, production, general and administrative. The increase is mainly due to the effect of discounting of payroll expenses for the periodic maintenance work in the corresponding period last year, maintenance costs and the effect on NIS costs of the appreciation of the NIS against the USD.

Chapter 2 - Results of Bazan Group's operations for the nine and three month periods - contd.

C. Analysis of third quarter results - contd.

Consolidated adjusted EBITDA by operating segments - contd.

3. Adjustment components in the fuels segment

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

		7-9.2019	7-9.2018
Reported EBITDA in the Fuels segment		**37**	**42**
Effects of timing differences (1)		19	1
Effect of adjusting value of inventory to market value, net		15	20
Effect of changes in fair value of derivatives and disposals		(2)	8
Total adjustments (2)		**32**	**29**
Adjusted EBITDA in the Fuels segment		**69**	**71**
Company's refining margin	**Adjusted margin (USD/barrel)**	**6.3**	**8.1 (3)**
Ural margins	**Reuters Ural margin (USD/barrel)**	**3.3**	**5.2**
	Bloomberg Ural margin (USD/barrel)	**4.6**	**6.2**

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

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

(3) The proforma margin for the corresponding period last year was USD 8.6 per barrel and was calculated as follows:

A. The estimated loss of USD 45 million in profits was added to the Company's actual adjusted refining margin for the quarter, so that the standardized margin for the quarter is approximately USD 160 million.

B. The standardized margin was divided by the total number of barrels for the quarter of 18.7 million barrels, the number of barrels representing crude oil and interim materials processed by the Company during the quarter.

4. Net profit

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

Net income for the period 7-9,2018	**16**
Decrease in adjusted EBITDA	(9)
Change in adjustments	(3)
Decrease in depreciation expenses	1
Decrease in tax expenses	1
Other	1
Net income for the period 7-9,2019	**7**

Chapter 3 - Analysis of Financial Position (Balance Sheet)
(USD thousands)

	Sept 30, 2019	Dec 31, 2018	Change	Explanation
Trade and other receivables	506	380	33%	Mainly due to an increase in receivables as a result of the increase in volume and a decrease in discount rates, and an increase in receivables as a result of an increase in prepaid expenses and in institutions.
Inventories	557	565	(1%)	Mainly due to decrease in volumes offset by price increase.
Property, plant & equipment, net (3)	2,332	2,365	(1.4%)	
Trade, other payables and provisions	828	759	9%	Mainly due to an increase in trade payables of USD 48 million, which is mainly due to the increase in volumes, an increase in other payables mainly due to an increase in customer deposits in the amount of USD 20 million, an increase in interest payable in the amount of USD 13 million and offsetting a decrease in provisions of USD 22 million which is mainly due to the payment of sewage levies as part of a settlement agreement with the Municipality of Haifa (for further information see Note 5A1).
Long term bank loans and debentures (including current maturities)	1,494	1,384	8%	Mainly due to the issue of debentures (Series J) in the amount of USD 116 million (for further information see Note 8A), receipt of a long-term loan of USD 100 million (for further information see Note 8A) and exchange rate and linkage differentials in the amount of USD 39 million less principal repayments on loans and debentures in the amount of USD 153 million.
Equity	1,415	1,320	7%	Mainly due to net income for the Period in the amount of USD 99 million offsetting other comprehensive loss for the Period in the amount of USD 3 million.
Shareholders equity to balance sheet ratio	34%	35%		

(*) Against the issue of NIS debentures, principal and interest swap transactions were executed and accordingly, the effect of debenture exchange rate and linkage differentials were substantially offset.

Chapter 4 - Liquidity Analysis

Working capital

Total current assets less current liabilities (USD millions)

Sept 30, 2019	Jun 30, 2019	March 31, 2019	Dec 31, 2018	Sept 30, 2018	Jun 30, 2018	March 31, 2018
558	451	513	377	549	534	478

Current ratio

The current ratio at September 30, 2019 is 1.49 and as at December 31, 2018 it was 1.37.

The Group's liquidity analysis is as follows:

	1-9.2019
	USD million
Cash and deposits as at December 31, 2018	**429**
Income after adjustments that do not involve cash flow (1)	341
Increase in working capital (2)	(69)
Interest paid, net (3)	(62)
Acquisition of property, plant & equipment (3)	(109)
Receipt of long-term loans (4)	100
Repayment of debentures	(105)
Repayment of long-term loans	(48)
Issue of debentures less capital raising costs (5)	116
Other (6)	29
Cash and deposits as at September 30, 2019	**622**

(1) Income after adjustments that do not involve cash flow, less net interest paid for the Reporting Period amounts to USD 279 million.

(2) Primarily an increase in trade receivables in an amount of USD 117 million, of which an amount of USD 51 million is due to a decrease in discounting rates, offsetting an increase in trade payables of USD 48 million.

(3) Including payments of principal, interest and linkage differentials in the amount of USD 19, and USD 4 million for sewerage levies as part of a settlement agreement with the Municipality of Haifa (for further information, see Note 5A1).

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

(5) For further information see Note 8K to the consolidated financial statements.

(6) Mainly an increase in customer deposits.

	7-9.2019
	USD million
Cash and deposits as at June 30, 2019	**488**
Income after adjustments that do not involve cash flow (1)	60
Increase in working capital (2)	1
Interest paid, net	(7)
Acquisition of property, plant & equipment	(32)
Repayment of long-term loans	(13)
Issue of debentures less capital raising costs (3)	116
Other	9
Cash and deposits as at September 30, 2019	**622**

(1) Income after adjustments that do not involve cash flow, less net interest paid for the third quarter amounted to USD 53 million.

(2) Primarily an increase in trade receivables in an amount of USD 38 million, of which an amount of USD 41 million is due to a decrease in discounting rates, offsetting a decrease in inventory in the amount of USD 35 million.

(3) For further information see Note 8K to the consolidated financial statements.

Chapter 5Chapter 5 - Total credit from financial institutions

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

Total net financial debt

	Sept 30, 2019	Jun 30, 2019	March 31, 2019	Dec 31, 2018	Sept 30, 2018	Jun 30, 2018	March 31, 2018
Short-term borrowings (1)	16	13	8	8	11	2	–
Bank loans (2)	404	417	439	352	413	423	442
Debentures (2)	1,089	960	1,012	1,038	1,127	1,163	1,228
Liquid financial assets (3)	(622)	(487)	(511)	(428)	(516)	(511)	(534)
Hedging transactions on debentures (4)	(28)	(21)	(11)	(2)	(11)	(12)	(22)
Total net financial debt	859	882	937	968	1,024	1,065	1,114

(1) With regard to Ducor

(2) Including current maturities Displayed in accordance with adjusted par value (without interest payable).

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

(4) Based on the Group's hedging policy, principal and interest swap transactions were carried out against the issuance of NIS bonds. The transactions are presented concurrently with the presentation of the debentures, at their adjusted par value (without interest receivable/payable), less or plus the related 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 September 30, 2019, the Group has unutilized secured credit facilities in the amount of USD 177 million (utilization is for letters of credit and guarantees only).

Financial leverage

	Sept 30, 2019	Dec 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 the costs of capital raising) of USD 1,437million, net operating capital of USD 243 million (of which the average for trade receivables is USD 410 million and the average for trade payables is USD 668 million).

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Chapter 6 - Exposure to market risk and risk management methods

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

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

Chapter 7 - Corporate governance

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

Chapter 8 - Disclosure of financial reporting

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

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

Without derogating from our following conclusion, we draw your attention to the provisions of Notes 5A2 and 5C2 to the financial statements (including by way of reference to Notes 20A (3), (5), (6) and 20C (2) to the annual financial statements) with regard to legal, administrative and other proceedings, other contingencies and laws and regulations relating to environmental protection which, based on the opinions of their legal counsels, the managements of the Company and its subsidiaries believe that it is not possible at this stage to assess the foregoing impact on the results of operations and on the financial position, if any, and therefore no provision regarding this matter was included in the financial statements.

B. Use of estimates and judgments

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

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

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

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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, and particularly to the upgrading of the Company’s rating by Maalot (S&P) to ilA and the public issue of new debentures (Series J), as set out in Notes 8H and 8K to the consolidated financial statements.

For further information concerning the financial covenants, see Note 6A to the consolidated statements.

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

Chapter 10 – Significant subsequent events

For details see Note 8 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 Basson**
Chairman of the Board of Directors	**Acting CEO**

November 13, 2019

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

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

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

A. Further to that stated in section 1.6.2.1.3 regarding the expected change in the marine fuel standard at the beginning of 2020, 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 during the Reporting Period from Dor Chemicals Ltd. ("Dor"), providing the Company with a additive required for producing gasoline (MTBE), the Municipality of Haifa informed Dor regarding the expiry of the temporary permit it received for transporting hazardous materials in underground pipelines. In accordance with the court's decision in a petition filed by Dor, the temporary permit granted to Dor will continue to be valid until the end of its term, namely December 26, 2019. Furthermore, according to messages the Company received from Dor, the Ministry of Environmental Protection has instructed it to cease pumping MTBE in the section of the pipeline leading to the Company's facilities, pending completion of certain measures required by the Ministry of Environmental Protection. Since these notices were given, in May 2019, Dor has not manufactured MTBE in its facilities and the Company imports MTBE (at a higher cost than Dor's production costs) and it is unloaded via an underground pipeline to the Dor plant and then conveyed to the Company by mobile tankers. In the third quarter of 2019, Dor again began manufacturing MTBE at its facilities and pumping the MTBE to the Company via its underground pipeline.

C. Further to that stated in section 1.12.8 with regard to the appeal filed against the District Court's ruling relating to petitions filed against the National Planning and Building Council's decision to approve the outline plan for the Bazan compound land, during the Reporting Period a judgment was handed on the appeals, granting 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 Gulf... The Local Committee requests that the Government of Israel adopt this plan and implement it in the near future, with the cooperation of Government Ministries and the Local Authority." It should be noted that this is not a statutory process or a decision that has statutory status. Moreover, on June 13, 2019 the Company received, as part of a petition it filed under the Freedom of Information Law, 1998 to the District Court of Jerusalem, a report prepared by McKenzie for the National Economic Council on the Future of the Petrochemical Industry in Haifa Bay (below - "the Report"). For further information see Note 5C1 to the Consolidated Interim Financial Statements.

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

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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, 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. For further information concerning a hearing on this matter held by the Company and Gadiv during 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, inter alia, on the actual results achieved due to the measures adopted by the companies to reduce benzene emissions from their facilities, as well as the timing of implementing the required measures, and it may differ, if these results will be different from the current assessment.

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 February 29, 2020.

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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 cease.

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

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

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

	at		
	Sept 30, 2019	**Sept 30, 2018**	**Dec 31, 2018**
	(Unaudited)		**(Audited)**
Current assets			
Cash and cash equivalents	19,680	20,306	24,436
Customers	152,570	134,819	130,052
Other receivables	5,912	10,694	4,071
Financial derivatives	5,813	11,270	603
Inventories	75,049	101,880	89,728
Total current assets	**259,024**	**278,969**	**248,890**
Non-current assets			
Long term loans and debit balances	5,836	4,907	4,578
Long term loans to parent company	140,000	–	45,000
Fixed assets, net	615,594	640,921	635,890
Right of use assets, net	9,249	10,241	9,989
Intangible assets, net	7,418	9,937	9,301
Total non-current assets	**778,097**	**666,006**	**704,758**
Total assets	**1,037,121**	**944,975**	**953,648**

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

	at		
	Sept 30,	Sept 30,	Dec 31,
	(Unaudited)		(Audited)
Current liabilities			
Loan to subsidiary (including current maturities)	22,040	16,950	13,767
Trade payables	64,813	61,814	72,129
Other payables	30,755	16,169	18,113
Financial derivatives	263	100	440
Provisions	122	3,057	4,265
Total current liabilities	**117,993**	**98,090**	**108,714**
Non-current liabilities			
Liabilities to banks, net	2,437	8,187	6,750
Other long-term liabilities	16,084	17,223	16,940
Employee benefits, net	20,209	18,246	17,321
Deferred tax liabilities, net	68,238	76,133	74,650
Total non-current liabilities	106,968	119,789	115,661
Total liabilities	224,961	217,879	224,375
Equity			
Share capital	116,997	116,997	116,997
Capital reserves	(8,143)	(2,583)	(10,657)
Retained earnings	703,306	612,682	622,933
Total capital	**812,160**	**727,096**	**729,273**
Total liabilities and capital	**1,037,121**	**944,975**	**953,648**

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

	Nine months ended:		Three months ended		Year ended
	Sept 30, 2019	Sept 30, 2018	Sept 30, 2019	Sept 30, 2018	Dec 31, 2018
	(Unaudited)		(Unaudited)		(Audited)
Revenue	682,856	678,936	214,558	210,675	929,790
Cost of sales	(552,133)	(534,301)	(178,439)	(168,608	(747,474)
Gross profit	**130,723**	**144,635**	**36,119**	**42,067**	**182,316**
Sales and Marketing Expenses	(26,386)	(21,456)	(9,130)	(7,418	(30,335)
General and Administrative Expenses	(11,802)	(11,699)	(4,182)	(3,726	(16,661)
Operating profit	**92,535**	**111,480**	**22,807**	**30,923**	**135,320**
Financing revenues	3,104	2,929	496	2,493	584
Financial expenses	(2,993)	(5,508)	(1,424)	(952	(6,833)
Financing income (expenses), net	111	(2,579)	(928)	1,541	(6,249)
Profit before income tax	**92,646**	**108,901**	**21,879**	**32,464**	**129,071**
Income tax expenses	(10,293)	(15,775)	(2,196)	(3,790	(24,263)
Net profit for the period	**82,353**	**93,126**	**19,683**	**28,674**	**104,808**
Items of other comprehensive income (loss) transferred to profit or loss					
Foreign currency translation differences for foreign operations	(270)	(517)	(235)	36	(535)
Effective share of the change in fair value of cash flow hedging, net of tax	2,996	9,298	(851)	272	1,221
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	**2,726**	**8,781**	**(1,086)**	**308**	**686**
Items of other comprehensive income (loss) not transferred to profit or loss					
Reclassification of defined benefit plan, net to tax	(1,980)	166	(1,082)	(2	265
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	**(1,980)**	**166**	**(1,082)**	**(2**	**265**
Total income for the period	**83,099**	**102,073**	**17,515**	**28,980**	**105,759**

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

	Nine months ended		Three months ended		Year ended
	Sept 30, 2019	Sept 30, 2018	Sept 30, 2019	Sept 30, 2018	Dec 31, 2018
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Net profit for the period	82,353	93,126	19,683	28,674	104,808
Adjustments to cash flows from operating activities:					
Revenue and expenses not involving cash flows (Appendix A – section A)	45,105	64,023	13,394	21,176	88,069
	127,458	157,149	33,077	49,850	192,877
Changes in assets and liabilities items (Appendix A - section B)	(17,057)	(59,933)	18,525	878	(27,725)
Interest paid, net (1)	(584)	(6,744)	(346)	(1,594)	(7,922)
Income tax received (paid) to the tax authorities	1,177	(4,781)	(149)	(40)	(4,703)
Accounting for utilization of parent company's carryforward losses	(23,569)	(19,299)	(6,034)	(15,662)	(26,133)
Net cash from operating activities	**87,425**	**66,392**	**45,073**	**33,432**	**126,394**
Cash flow used for investing activities					
Long term loan to parent company	(95,000)	–	(40,000)	–	(45,000)
Change in debit balance of parent company	(354)	(4,511)	(354)	(4,511)	–
Purchase of property plant and equipment (including periodic maintenance) (1)	(21,190)	(40,401)	(5,564)	(9,008)	(49,005)
Other	–	–	–	29	–
Net cash used in investing activities	**(116,544)**	**(44,912)**	**(45,918)**	**(13,490)**	**(94,005)**
Cash flow from financing operations					
Change in short-term credit from parent company, net	20,272	(48,059)	(1,818)	(27,744)	(50,120)
Change in short-term loan, net	8,884	11,518	4,098	9,090	8,275
Repayment of long-term bank loans	(4,313)	(4,313)	(1,438)	(1,438)	(5,750)
Payment of liability for lease	(125)	(130)	(41)	(41)	(170)
Dividend paid	–	(9,275)	–	(9,275)	(9,275)
Net cash from (used for) financing operations	**24,718**	**(50,259)**	**801**	**(29,408)**	**(57,040)**
Net decrease in cash and cash equivalents	**(4,401)**	**(28,779)**	**(44)**	**(9,466)**	**(24,651)**
Effect of exchange rate fluctuations on cash and cash equivalents	(355)	(465)	(105)	103	(463)
Cash and cash equivalents at beginning of period	24,436	49,550	19,829	29,669	49,550
Cash and cash equivalents at end of period	**19,680**	**20,306**	**19,680**	**20,306**	**24,436**

(1) The nine-month period ended September 30, 2019, includes payments of principal, interest and linkage differentials for levies of USD 3 and USD 1 million, respectively. The nine-month period ended September 30, 2018, includes payments of principal, interest and linkage differentials for levies of USD 12 and USD 2 million, respectively.

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

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

	Nine months ended		Three months ended		Year ended
	Sept 30, 2019	Sept 30, 2018	Sept 30, 2019	Sept 30, 2018	Dec 31, 2018
	(Unaudited)		(Unaudited)		(Audited)
a. Income and expenses not that do not involve cash flows:					
Amortization and depreciation	35,841	38,898	11,943	13,037	52,196
Financing expenses, net	748	5,656	339	1,304	6,461
Net change in fair value of inventory derivatives and margins	(1,565)	3,544	(1,136)	3,060	4,978
Payment transactions based on parent company shares	(212)	150	52	(15)	171
Income tax expenses	10,293	15,775	2,196	3,790	24,263
	45,105	**64,023**	**13,394**	**21,176**	**88,069**
b. Changes in assets and liabilities					
Change in trade receivables	(23,797)	(7,418)	8,399	17,500	(3,019)
Change in other receivables	(538)	(5,356)	872	14,428	(1,040)
Change in inventory	13,764	(25,753)	9,253	(10,500)	(12,360)
Change in payables	(4,235)	(19,103)	1,007	(22,126)	(7,369)
Change in other payables and provisions	(2,864)	(1,208)	(1,222)	1,848	(2,297)
Change in employee benefits, net	613	(1,095)	216	(272)	(1,640)
	(17,057)	**(59,933)**	**18,525**	**878**	**(27,725)**

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

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 September 30, 2019 and the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine 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, November 13, 2019

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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 November 13, 2019 on the Company's condensed consolidated financial information as of September 30, 2019 and for the nine and three months then ended.

(2) Review report of the auditor of November 13, 2019, on the Company's condensed separate financial information as at September 30, 2019 and for the nine 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, November 13, 2019

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

	September 30, 2019	September 30, 2018	December 31, 2018
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	534,742	474,993	384,373
Deposits	87,523	40,677	45,073
Trade receivables	472,982	433,993	357,053
Other receivables	33,028	27,551	22,407
Financial derivatives	21,176	12,814	17,099
Inventory	556,654	740,186	565,071
Total current assets	**1,706,105**	**1,730,214**	**1,391,076**
Non-current assets			
Loan to Haifa Early Pensions Ltd.	41,183	43,373	40,538
Long term loans and receivables	6,376	5,306	8,144
Financial derivatives	32,778	27,017	10,377
Fixed assets, net	2,167,092	2,220,472	2,204,285
Right-of-use assets, net	135,737	136,671	132,660
Intangible assets and deferred expenses, net	28,882	27,867	27,787
Total non-current assets	**2,412,048**	**2,460,706**	**2,423,791**
Total assets	**4,118,153**	**4,190,920**	**3,814,867**

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

Approval date of the condensed consolidated interim financial statements: November 13, 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, USD thousands

	September 30, 2019	September 30, 2018	December 31, 2018
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings (including current maturities)	311,699	260,844	243,675
Trade payables	669,984	768,041	621,594
Other payables	152,046	118,486	109,010
Financial derivatives	7,774	11,322	11,174
Provisions (see Note 5A1)	6,212	22,755	28,529
Total current liabilities	**1,147,715**	**1,181,448**	**1,013,982**
Non-current liabilities			
Liabilities to banks, net (see Note 8A)	317,051	340,758	277,280
Debentures, net (see Note 8K)	880,976	966,752	870,846
Other long-term liabilities	99,827	109,797	99,025
Financial derivatives	4,450	2,768	6,557
Employee benefits, net	61,131	53,396	49,883
Deferred tax liabilities, net	191,529	176,862	177,542
Total non-current liabilities	**1,554,964**	**1,650,333**	**1,481,133**
Total liabilities	**2,702,679**	**2,831,781**	**2,495,115**
Equity			
Share capital	807,574	806,954	807,081
Share premium	32,738	32,120	32,652
Capital reserves	23,833	61,896	20,781
Retained earnings	551,329	458,169	459,238
Total capital	**1,415,474**	**1,359,139**	**1,319,752**
Total liabilities and capital	**4,118,153**	**4,190,920**	**3,814,867**

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

This translation of the financial statement is for convenience purposes only.
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Bazan Ltd – Condensed Consolidated Interim Statement of Income and Other Comprehensive Income, USD thousands

	Nine months ended		Three months ended		Year ended
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018	December 31, 2018
	(Unaudited)		(Unaudited)		(Audited)
Revenue	4,875,336	4,898,327	1,615,605	1,533,413	6,675,621
Cost of sales	(4,554,290)	(4,483,426)	(1,540,091)	(1,452,479)	(6,199,007)
Gross profit	**321,046**	**414,901**	**75,514**	**80,934**	**476,614**
Selling and marketing expenses	(81,206)	(75,538)	(26,982)	(22,729)	(103,305)
General and administrative expenses	(39,345)	(36,503)	(12,825)	(11,299)	(51,254)
Other financing income (expenses), net	(1,280)	2,323	(839)	(2,066)	919
Impairment loss from cash-generating units	–	(10,041)	–	–	(10,041)
Operating profit	**199,215**	**295,142**	**34,868**	**44,840**	**312,933**
Financing income	8,327	27,893	3,119	5,895	49,407
Financing expenses	(93,880)	(96,327)	(30,700)	(32,327)	(128,241)
Financing expenses, net	**(85,553)**	**(68,434)**	**(27,581)**	**(26,432)**	**(78,834)**
Profit before taxes on income	**113,662**	**226,708**	**7,287**	**18,408**	**234,099**
Income tax expenses	(14,776)	(39,688)	(411)	(2,282)	(46,998)
Net profit for the period	**98,886**	**187,020**	**6,876**	**16,126**	**187,101**
Items of other comprehensive income (loss) transferred to profit or loss:					
Foreign currency translation differences for foreign operations	(311)	(549)	(269)	32	(583)
Effective share of the change in fair value of cash flow hedging, net of tax	2,789	36,467	(9,554)	9,380	(6,412)
Change in fair value hedging costs, net of tax	215	1,237	888	1,279	1,192
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	**2,693**	**37,155**	**(8,935)**	**10,691**	**(5,803)**
Items of other comprehensive income (loss) not transferred to profit or loss:					
Remeasurement of a defined benefit plan, net of tax	(6,881)	779	(3,524)	–	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	1,532	3,143	611	(578)	5,367
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	–	(2)	–	13	(3)
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	**(5,349)**	**3,920**	**(2,913)**	**(565)**	**7,335**
Total other comprehensive income (loss) for the period, net of tax	**(2,656)**	**41,075**	**(11,848)**	**10,126**	**1,532**
Comprehensive income(loss) for the period	**96,230**	**228,095**	**(4,972)**	**26,252**	**188,633**
Earnings per share (USD)					
Basic and diluted earnings per 1 ordinary share	**0.031**	**0.058**	**0.002**	**0.005**	**0.058**

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, 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
	Nine months ended September 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	–	–	–	–	–	–	–	–	**98,886**	**98,886**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(311)	–	–	–	–	–	(311)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	215	–	–	215
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	2,789	–	–	2,789
Remeasurement of a defined benefit plan, net of tax	–	–	–	–	–	–	–	–	(6,881)	(6,881)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	1,532	–	1,532
Total other comprehensive income (loss) for the period, net of tax	–	–	–	**(311)**	–	–	**3,004**	**1,532**	**(6,881)**	**(2,656)**
Total comprehensive income (loss) for the period	–	–	–	**(311)**	–	–	**3,004**	**1,532**	**92,005**	**96,230**
Share-based payment	–	–	**(508)**	–	–	–	–	–	–	**(508)**
Exercised share options	**493**	**86**	**(579)**	–	–	–	–	–	–	–
Expired share options	–	–	**(86)**	–	–	–	–	–	**86**	–
Balance as at September 30, 2019	**807,574**	**32,738**	**539**	**5,842**	**(6,801)**	**28,478**	**(3,265)**	**(960)**	**551,329**	**1,415,474**

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
	Nine months ended September 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	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**187,020**	**187,020**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(549)	–	–	–	–	–	(549)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	1,237	–	–	1,237
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	36,467	–	–	36,467
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	–	–	–	–	–	–	–	3,143	–	3,143
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(2)	–	–	–	–	(2)
Total other comprehensive income (loss) for the period, net of tax	**–**	**–**	**–**	**(549)**	**(2)**	**–**	**37,704**	**3,143**	**779**	**41,075**
Total comprehensive income (loss) for the period	**–**	**–**	**–**	**(549)**	**(2)**	**–**	**37,704**	**3,143**	**187,799**	**228,095**
Share-based payment	**–**	**–**	**521**	**–**	**–**	**–**	**–**	**–**	**–**	**521**
Exercised share options	**1,184**	**141**	**(1,325)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Expired share options	**–**	**–**	**(1,698)**	**–**	**–**	**–**	**–**	**–**	**1,698**	**–**
Dividend declared and paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(65,000)**	**(65,000)**
Balance as at September 30, 2018	**806,954**	**32,120**	**2,092**	**6,187**	**(6,800)**	**28,478**	**36,655**	**(4,716)**	**458,169**	**1,359,139**

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 September 30, 2019 (unaudited)									
Balance as at July 1, 2019	**807,506**	**32,721**	**398**	**6,111**	**(6,801)**	**28,478**	**5,401**	**(1,571)**	**547,977**	**1,420,220**
Net profit for the period	–	–	–	–	–	–	–	–	**6,876**	**6,876**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	(269)	–	–	–	–	–	(269)
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	888	–	–	888
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	(9,554)	–	–	(9,554)
Remeasurement of a defined benefit plan, net of tax	–	–	–	–	–	–	–	–	(3,524)	(3,524)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	611	–	611
Total other comprehensive income (loss) for the period, net of tax	**–**	**–**	**–**	**(269)**	**–**	**–**	**(8,666)**	**611**	**(3,524)**	**(11,848)**
Total comprehensive income (loss) for the period	**–**	**–**	**–**	**(269)**	**–**	**–**	**(8,666)**	**611**	**3,352**	**(4,972)**
Share-based payment	**–**	**–**	**226**	**–**	**–**	**–**	**–**	**–**	**–**	**226**
Exercised share options	**68**	**17**	**(85)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance as at September 30, 2019	**807,574**	**32,738**	**539**	**5,842**	**(6,801)**	**28,478**	**(3,265)**	**(960)**	**551,329**	**1,415,474**

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 September 30, 2018 (unaudited)									
Balance as at July 1, 2018	**806,150**	**32,183**	**4,565**	**6,155**	**(6,813)**	**28,478**	**25,996**	**(4,138)**	**440,345**	**1,332,921**
Net profit for the period	–	–	–	–	–	–	–	–	**16,126**	**16,126**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	–	–	–	32	–	–	–	–	–	32
Change in fair value hedging costs, net of tax	–	–	–	–	–	–	1,279	–	–	1,279
Effective share of the change in fair value of cash flow hedging, net of tax	–	–	–	–	–	–	9,380	–	–	9,380
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	–	–	–	–	–	–	–	(578)	–	(578)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	13	–	–	–	–	13
Total other comprehensive income (loss) for the period, net of tax	–	–	–	32	13	–	10,659	(578)	–	10,126
Total comprehensive income (loss) for the period	**–**	**–**	**–**	**32**	**13**	**–**	**10,659**	**(578)**	**16,126**	**26,252**
Share-based payment	–	–	**(34)**	–	–	–	–	–	–	**(34)**
Exercised share options	**804**	**(63)**	**(741)**	–	–	–	–	–	–	–
Expired share options	–	–	**(1,698)**	–	–	–	–	–	**1,698**	–
Balance as at September 30, 2018	**806,954**	**32,120**	**2,092**	**6,187**	**(6,800)**	**28,478**	**36,655**	**(4,716)**	**458,169**	**1,359,139**

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.

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

	Nine months ended		Three months ended		Year ended
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018	December 31, 2018
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Profit for the period	**98,886**	**187,020**	**6,876**	**16,126**	**187,101**
Adjustments to cash flows from operating activities:					
Income and expenses not included in cash flows: (Appendix A – section A)	242,062	281,581	53,304	107,554	300,688
	340,948	**468,601**	**60,180**	**123,680**	**487,789**
Changes in assets and liabilities (Appendix A – section B)	(68,603)	1,667	(122)	41,352	115,790
Income tax received (paid), net	628	(5,396)	(359)	(317)	(5,692)
Net cash from operating activities	**272,973**	**464,872**	**59,699**	**164,715**	**597,887**
Cash flow used for investing activities					
Interest received	5,064	2,191	1,124	775	3,781
Change in deposits, net	(39,731)	39,797	15,730	(220)	39,577
Repayment of a loan from Haifa Early Pension	4,118	–	–	–	3,894
Acquisition of fixed assets including periodic maintenance (1) (2)	(108,784)	(178,951)	(31,808)	(64,821)	(222,339)
Other	242	911	–	(420)	2,600
Net cash used for investing activities	**(139,091)**	**(136,052)**	**(14,954)**	**(64,686)**	**(172,487)**
Cash flow from financing activities					
Change in short-term credit, net	8,884	11,518	4,098	9,090	8,275
Change in deposits from customers and others, net	26,826	(9,740)	3,897	(1,426)	(15,597)
Interest paid (1) (3)	(66,750)	(93,307)	(8,380)	(45,174)	(132,891)
Derivative transactions, net	3,470	3,699	1,077	895	2,390
Repayment of long-term bank loans (see Note 8A)	100,000	–	–	–	–
Repayment of long-term bank loans, including early repayment	(48,186)	(37,968)	(13,094)	(9,688)	(98,808)
Repayment of debentures (3)	(105,033)	(84,451)	(253)	(39,937)	(153,920)
Issue of debentures, net of raising costs (see Note 8K)	116,259	114,996	116,259	–	114,996
Payment of liabilities for lease	(16,416)	(19,219)	(4,970)	(6,592)	(25,985)
Dividend paid	–	(65,000)	–	–	(65,000)
Net cash from (used for) financing activities	**19,054**	**(179,472)**	**98,634**	**(92,832)**	**(366,540)**
Net increase in cash and cash equivalents	**152,936**	**149,348**	**143,379**	**7,197**	**58,860**
Effect of exchange rate fluctuations on cash and cash equivalents	(2,567)	(826)	(450)	(989)	(958)
Cash and cash equivalents at beginning of period	384,373	326,471	391,813	468,785	326,471
Cash and cash equivalents at the end of the period	**534,742**	**474,993**	**534,742**	**474,993**	**384,373**

(1) In the nine months ended September 30, 2019, including principal payments, interest, and linkage differentials for levies in the amount of USD 19 million and USD 4 million, respectively. In the nine months ended September 30, 2018, including principal payments, interest, and linkage differentials for levies in the amount of USD 67 million and USD 14 million, respectively.

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

(3) As at September 30, 2019, principal and interest payments on the debentures in the amount USD 6 million and USD 6 million, respectively, were deferred under the deeds of trust to the next quarter, since the contractual repayment date is not a business day. In addition, principal and interest payments for debentures in the amount of USD 33 million and USD 26 million, respectively, were deferred from June 30, 2018 to July 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

	Nine months ended		Three months ended		For the year ended
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018	December 31, 2018
	(Unaudited)		(Unaudited)		(Audited)
A. Income and expenses not included in cash flows:					
Depreciation and amortization	135,807	138,095	46,024	46,683	193,221
Other expenses (income), net	1,280	(2,323)	839	2,066	(919)
Impairment loss from cash-generating units	–	10,041	–	–	10,041
Financing expenses, net	83,424	78,147	25,542	33,553	90,842
Changes in fair value and movement in deposits for inventory derivatives and margins	9,463	17,131	(19,107)	23,039	(40,654)
Changes in fair value the of the loan to Haifa Early Pensions	(2,180)	281	(631)	(35)	563
Share-based payments	(508)	521	226	(34)	596
Income tax expenses	14,776	39,688	411	2,282	46,998
	242,062	**281,581**	**53,304**	**107,554**	**300,688**
B. Changes in assets and liabilities					
Change in trade receivables	(117,208)	39,125	(38,121)	38,422	115,698
Change in other receivables	(11,040)	(9,121)	21,276	18,778	(5,272)
Change in inventory	7,502	(47,493)	35,087	(47,787)	128,862
Change in trade payables	48,125	38,282	(20,721)	33,840	(100,665)
Change in other payables and provisions	1,004	(16,682)	1,464	(1,749)	(18,307)
Change in employee benefits, net	3,014	(2,444)	893	(152)	(4,526)
	(68,603)	**1,667**	**(122)**	**41,352**	**115,790**

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

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

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 condensed consolidated interim financial statements as at September 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 Financial 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 November 13, 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 Financial 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 9 million in the reporting period and USD 3 million in the third 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 Financial Statements

NOTE 4 – SEGMENT REPORTING

Further to Note 28 to the Annual Financial Statements, as at September 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.

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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
	Nine months ended September 30, 2019 (unaudited)								
Revenue from external sources - Israel	2,313,598	220,421	–	220,421	34,217	2,568,236	5,024	–	2,573,260
Revenue from external sources - other countries	1,521,800	287,833	173,763	461,596	294,388	2,277,784	24,292	–	2,302,076
Total revenue from external sources	**3,835,398**	**508,254**	**173,763**	**682,017**	**328,605**	**4,846,020**	**29,316**	**–**	**4,875,336**
Revenue from inter-segment sales (1)	483,173	11,757	–	11,757	29,009	523,939	8,392	(532,331)	–
Segment revenue	**4,318,571**	**520,011**	**173,763**	**693,774**	**357,614**	**5,369,959**	**37,708**	**(532,331)**	**4,875,336**
Reported EBITDA	**171,110(2)**	**128,737**	**(356)**	**128,381**	**23,258**	**322,749**	**14,360**	**(807)**	**336,302**
Depreciation and amortization	**(68,039)**	**(31,733)**	**(2,722)**	**(34,455)**	**(8,386)**	**(110,880)**	**(16,191)**	**–**	**(127,071)**
Reported EBITDA less amortization and depreciation									**209,231**
Amortization of excess cost arising on acquisition of subsidiaries									(8,736)
Other expenses, net									(1,280)
Operating profit									**199,215**
Financing expenses, net									(85,553)
Profit before taxes on income									**113,662**

(1) Mainly in Israel

(2) Adjusted EBITDA in the fuel segment for the nine months ended September 30, 2019 - USD 182,026 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
	Nine months ended September 30, 2018 (unaudited)								
Revenue from external sources - Israel	2,424,478	283,215	–	283,215	25,310	2,733,003	20,119	–	2,753,122
Revenue from external sources - other countries	1,379,607	231,086	163,813	394,899	342,157	2,116,663	28,542	–	2,145,205
Total revenue from external sources	**3,804,085**	**514,301**	**163,813**	**678,114**	**367,467**	**4,849,666**	**48,661**	**–**	**4,898,327**
Revenue from inter-segment sales [1]	561,878	13,751	–	13,751	28,274	603,903	8,183	(612,086)	–
Segment revenue	**4,365,963**	**528,052**	**163,813**	**691,865**	**395,741**	**5,453,569**	**56,844**	**(612,086)**	**4,898,327**
Reported EBITDA	**254,933**[2]	**139,463**	**10,937**	**150,400**	**14,952**	**420,285**	**17,643**	**3,027**	**440,955**
Depreciation and amortization	**(62,924)**	**(34,952)**	**(2,472)**	**(37,424)**	**(8,690)**	**(109,038)**	**(19,556)**	**–**	**(128,594)**
Reported EBITDA less amortization and depreciation									**312,361**
Impairment loss from cash-generating units									(10,041)
Amortization of excess cost arising on acquisition of subsidiaries									(9,501)
Other revenues, net									2,323
Operating profit									**295,142**
Financing expenses, net									(68,434)
Profit before taxes on income									**226,708**

(1) Mainly in Israel

(2) Adjusted EBITDA in the fuel segment for the nine months ended September 30, 2018 - USD 207,209 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 September 30, 2019 (unaudited)								
Revenue from external sources - Israel	820,420	66,110	–	66,110	12,165	898,695	49	–	898,744
Revenue from external sources - other countries	472,704	88,050	60,096	148,146	88,714	709,564	7,297	–	716,861
Total revenue from external sources	**1,293,124**	**154,160**	**60,096**	**214,256**	**100,879**	**1,608,259**	**7,346**	**–**	**1,615,605**
Revenue from inter-segment sales (1)	159,697	4,078	–	4,078	10,051	173,826	840	(174,666)	–
Segment revenue	**1,452,821**	**158,238**	**60,096**	**218,334**	**110,930**	**1,782,085**	**8,186**	**(174,666)**	**1,615,605**
Reported EBITDA	**36,616(2)**	**37,472**	**(2,719)**	**34,753**	**7,275**	**78,644**	**3,560**	**(473)**	**81,731**
Depreciation and amortization	**(23,989)**	**(10,593)**	**(893)**	**(11,486)**	**(2,746)**	**(38,221)**	**(4,897)**	**–**	**(43,118)**
Reported EBITDA less amortization and depreciation									**38,613**
Amortization of excess cost arising on acquisition of subsidiaries									(2,906)
Other expenses, net									**(839)**
Operating profit									34,868
Financing expenses, net									(27,581)
Profit before taxes on income									**7,287**

(1) Mainly in Israel

(2) Adjusted EBITDA in the fuel segment for the three months ended September 30, 2019: USD 68,759 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 September 30, 2018 (unaudited)								
Revenue from external sources - Israel	892,115	87,713	–	87,713	9,360	989,188	5,131	–	994,319
Revenue from external sources - other countries	297,932	75,599	47,084	122,683	109,636	530,251	8,843	–	539,094
Total revenue from external sources	**1,190,047**	**163,312**	**47,084**	**210,396**	**118,996**	**1,519,439**	**13,974**	**–**	**1,533,413**
Revenue from inter-segment sales [1]	191,504	7,371	–	7,371	9,972	208,847	2,055	(210,902)	–
Segment revenue	**1,381,551**	**170,683**	**47,084**	**217,767**	**128,968**	**1,728,286**	**16,029**	**(210,902)**	**1,533,413**
Reported EBITDA	**42,221[2]**	**42,519**	**1,449**	**43,968**	**3,832**	**90,021**	**3,819**	**(251)**	**93,589**
Depreciation and amortization	**(21,524)**	**(11,816)**	**(746)**	**(12,562)**	**(2,926)**	**(37,012)**	**(6,520)**	**–**	**(43,532)**
Reported EBITDA less amortization and depreciation									**50,057**
Amortization of excess cost arising on acquisition of subsidiaries									(3,151)
Other revenues, net									(2,066)
Operating profit									**44,840**
Financing expenses, net									(26,432)
Profit before taxes on income									**18,408**

(1) Mainly in Israel

(2) Adjusted EBITDA in the fuel segment for the three months ended September 30, 2018: USD 71,320 thousand.

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

C. In the reporting period, the Company received a notice before filing a claim regarding the pollution of land and groundwater by fuels, which constitutes an environmental hazard as defined in the Prevention of Environmental Nuisances (Civil Action) Law, 1992, and water pollution in accordance with the Water Law, 1959. The notice was received in the name of two citizens who identified themselves as Haifa residents, and they demanded that the Company take various measures to restore the situation and take action to prevent further contamination. The Company sent a letter of response to the applicants requesting further information about the alleged pollution and about the source of the alleged right on which their claim is based. The Company believes that at this stage, it is not possible to estimate the exposure in respect of the notice, if at all.

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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.)

D. Further to Note 20A3 to the Annual Financial Statements, regarding the claim and motion for certification as a class action for the fire that broke out in the intermediate materials storage tank on the Company's premises, on September 24, 2019, a motion for certification of the settlement was filed at the Tel Aviv District Court, according to which the Company will pay a total amount of USD 0.4 million (NIS 1.4 million). The claim is covered by insurance. The settlement does not affect the results of the Group’s activity in the reporting period. As at the approval date of the financial statements, a court ruling approving the settlement has not yet been received.

E. As set out in Notes 20A3, 20A5, and 20A6 to the Annual Financial Statements, there are legal, administrative and other proceedings, including civil claims, warnings, and investigations against the 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 September 30, 2019. Accordingly, the Company includes provisions in immaterial amounts in its financial statements, which it believes adequately reflect the amounts that will more likely than not be paid, and for proceedings whose effect cannot be estimated, no provisions were included in the financial statements.

B. Agreements

Further to Note 20B to the Annual Financial 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 Financial 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 Energean starts to deliver gas to the Company under the agreement signed with Energean, 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.

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

B. Agreements (contd.)

1. (contd.)

   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.

2 Further to Note 20B3 of the Annual Financial Statements, in July 2019, 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.

3 Further to Note 20B5 to the Annual Financial Statements regarding the inventory availability agreement, subsequent to the reporting date, the Company signed an agreement to extend the inventory availability agreement ("the New Agreement") for up to 1.8 million barrels (250 thousand tons) of various types of crude oil at an estimated value of USD 110 million as at the reporting date, for a period of five years beginning in February 2020, upon termination of the current inventory availability agreement, and in consideration for payment of an availability fee in an updated amount to be set by the effective date of the New Agreement and which will reflect the changes in market conditions (and considering the amounts that the Company would have born had it held similar quantities of crude oil inventory itself, the additional cost to the Company is immaterial). The other terms of the New Agreement are essentially the same as the terms of the current agreement set out in Note 20B5 to the Annual Financial Statements.

C. Other developments and events

Further to Note 20C to the Annual Financial 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 to 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.

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

C. Other developments and events (contd.)

1. (contd.)
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.

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.

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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 Financial Statements, in the period, 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 31, 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.

In 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.

D. Guarantees and liens

Further to Note 19 to the Annual Financial 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

Below is information about the financial covenants referring to the Group’s material obligations.

A. The Company

Further to Note 13C1 to the Annual Financial 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 September 30, 2019:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated adjusted equity (USD million)	≥	750	1,446.9
Consolidated adjusted equity to total consolidated statement of financial position	≥	20.0%	40.0%
Consolidated ratio (net financial debt + factoring receivables) to consolidated adjusted EBITDA	≥	5.0	2.2
Consolidated principal and interest cover ratio	≥	1.1	2.5
Separate cash statement (USD millions)	≥	75	582.6

In addition, as set out in Note 8K and Note 13C(1) and 14C to the Annual Financial Statements, as at September 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, I, and J). 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 estimates that it is unlikely that it will violate covenants with the foreign bank or with the debenture holders without violating the covenants set out above.

NOTE 6 - FINANCIAL COVENANTS

A. The Company

As at September 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, I, and J).

In the third quarter, the Company issued new public debentures (Series J), as set out in Note 8K below.

Below are the financial covenants of Debentures (Series J), as defined in the deed of trust as at September 30, 2019:

	Required	Required ratio/amount	Actual ratio/amount
Adjusted equity (USD million)	≥	630	1,640.0
Adjusted equity plus shareholders' loans to total consolidated statement of financial position (2)	≥	15%	45.8%
Net debt divided by the average consolidated annual adjusted EBITDA	≥	8	1.9
Consolidated cash and cash equivalents (USD millions)	≥	50	610.3

As at September 30, 2019, the Company is in compliance with the financial covenants for the public debentures (Series J).

Further to Note 14C to the Annual Financial Statements, as at September 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 Financial Statements, as at September 30, 2019, Carmel Olefins is in compliance with the financial covenants (as defined in the Note), to which it is subject under the agreements with the banks.

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

NOTE 7 - FINANCIAL INSTRUMENTS - FAIR VALUE

A. Fair value of financial instruments for disclosure purposes only

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, long-term loans and debts, deposits, financial derivatives, bank overdraft, short-term loans and borrowings, trade payables, other payables and marketable debentures (Series A-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:

	September 30, 2019			
	Adjusted par value	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Private debentures (1)	255	255	–	259
Marketable Debentures (Series F, I, and J) (1)(2)(5)	621,402	622,885	651,598	–
Marketable Debentures (Series D-E) (2)(3)	360,484	373,792	404,552	–
Bank loans (4)	404,169	385,985	–	407,510
	1,386,310	**1,382,917**	**1,056,150**	**407,769**
Debentures at fair value (2):				
Marketable Debentures (Series A)	69,880	72,390	72,390	–
Marketable Debentures (Series G)	37,321	38,129	38,129	–
	107,201	**110,519**	**110,519**	**–**

	September 30, 2018			
	Adjusted par value	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Private debentures (1)	3,129	3,129	–	3,216
Marketable Debentures (Series F and I) (1)(2)	523,543	526,620	545,366	–
Marketable Debentures (Series D-E) (2)(3)	396,043	405,107	442,421	–
Bank loans (4)	413,196	405,651	–	442,934
	1,335,911	**1,340,507**	**987,787**	**446,150**
Debentures at fair value (2):				
Marketable Debentures (Series A)	133,370	141,388	141,388	–
Marketable Debentures (Series G)	71,230	75,259	75,259	–
	204,600	**216,647**	**216,647**	**–**

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

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

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

	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	6.8%-5.88%
	1,224,532	**1,210,385**	**904,454**	**350,284**	
Debentures at fair value [2]:					
Marketable Debentures (Series A)	96,894	101,177	101,177	–	
Marketable Debentures (Series G)	68,998	72,222	72,222	–	
	165,892	**173,399**	**173,399**	**–**	

(1) The carrying amount of the private debentures and of Debentures (Series E, I, and J) 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) and to the extent relevant 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 Financial Statements.

(5) As at September 30, 2019, the carrying amount, adjusted par value, and fair value of Series I include a principal of USD 6 million, which was postponed to October 2, 2019. Accordingly, as at the reporting date, the TASE closing price for Series I as at the reporting date is USD 206 million (and in total for Series F, I, and J, USD 646 million).

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

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

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

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

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

	September 30, 2019			
	Level 1 (1)	Level 2	Level 3	Total
Financial assets				
Derivatives used for accounting hedging				
CCIRS (3)	–	35,031	–	35,031
Derivatives for margins	–	–	5,054	5,054
Interest rate swaps	–	194	–	194
Derivatives that are not used for accounting hedging				
CCIRS (3)	–	7,792	–	7,792
Derivatives for inventory	1,734	–	–	1,734
Derivatives for margins	–	2,188	–	2,188
Interest rate swaps	–	54	–	54
Forward contracts	–	1,907	–	1,907
	1,734	**47,166**	**5,054**	**53,954**
Financial liabilities				
Non-derivative				
Marketable Debentures (Series A, G)	110,519	–	–	110,519
Derivatives used for accounting hedging				
CCIRS (3)	–	3,645	–	3,645
Derivatives for inventory (2)	3,094	–	–	3,094
Interest rate swaps	–	4,204	–	4,204
Derivatives that are not used for accounting hedging				
Interest rate swaps	–	34	–	34
Forward contracts	–	1,247	–	1,247
	113,613	**9,130**	**–**	**122,743**

(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 nine and three months ended September 30, 2019, a profit (before tax) of USD 3 million and a loss (before tax) of USD 10 million, respectively, was recognized as a hedging reserve for the effective share of the fair value change of futures on Brent. As at September 30, 2019, the balance of the hedge fund (before tax) amounts to USD 3 million (debit).

(3) Below are the main assumptions used to determine the fair value of the principal and interest swap contracts as at September 30, 2019:
- NIS interest (used for discounting the NIS component) 0.83% - (0.60%)
- CPI-linked NIS interest (used to discount the NIS-linked component): 0.53% - (1.74%)
- USD interest (used to discount the USD component) 1.25%-2.08%
- Exchange rate (NIS/USD) as at September 30, 2019

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

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

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

	September 30, 2018			
	Level 1 (1)	Level 2	Level 3	Total
Financial assets				
Derivatives used for accounting hedging				
CCIRS (3)	–	17,353	–	17,353
Derivatives for margins	–	–	8,364	8,364
Interest rate swaps	–	2,373	–	2,373
Derivatives that are not used for accounting hedging				
CCIRS (3)	–	10,017	–	10,017
Interest rate swaps	–	461	–	461
Forward contracts	–	1,263	–	1,263
	–	**31,467**	**8,364**	**39,831**
Financial liabilities				
Non-derivative				
Marketable Debentures (Series A, G)	216,647	–	–	216,647
Derivatives used for accounting hedging				
CCIRS (3)	–	7,810	–	7,810
Interest rate swaps	–	256	–	256
Derivatives that are not used for accounting hedging				
CCIRS (3)	–	3,241	–	3,241
Derivatives for inventory (2)	2,452	–	–	2,452
Derivatives for margins	–	159	–	159
Forward contracts	–	172	–	172
	219,099	**11,638**	**–**	**230,737**

(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 nine and three months ended September 30, 2018, a pre-tax profit of USD 31 million and USD 10 million, respectively, was recognized as a hedging reserve for the effective share of the fair value change of futures on Brent. Accordingly, as at September 30, 2018, the balance of the hedge fund (before tax) amounts to USD 32 million (credit).

(3) Below are the main assumptions used to determine the fair value of the principal and interest swap contracts as at September 30, 2018:

- NIS interest (used for discounting the NIS component) 1.20% - (0.48%)
- CPI-linked NIS interest (used to discount the NIS-linked component): 0.61% - (1.46%)
- USD interest (used to discount the USD component) 2.18%-3.08%
- Exchange rate (NIS/USD) as at September 30, 2018

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

NOTE 7 - 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) 1.25% - (0.63%)
- CPI-linked NIS interest (used to discount the NIS-linked component): 1.85% - (1.62%)
- USD interest (used to discount the USD component) 2.29%-2.78%
- Exchange rate (NIS/USD) as at December 31, 2018

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

A. In the reporting period, the Company took out a long-term bank loan 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 Financial Statements.

C. Further to Note 27B3b and 27B3d to the Annual Financial 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 Financial Statements.

E. Further to Note 21B to the Annual Financial Statements, in the reporting period, the Chairman of the Board of Directors Ovadia Eli, exercised 2,000 thousand options for the Company's shares (545 thousand shares). The shares were sold at the same time as 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 general meeting of the Company's shareholders that was scheduled for June 27, 2019 to approve the terms of Johanan Locker's office.

In this context, on August 15, 2019, after receiving the approval of the Company's Board of Directors on July 9, 2019 ("the Record Date"), the general meeting of the Company's shareholders approved the allocation of 18.3 million of the Company's options to Ovadia Eli under the Company's 2007 options plan, as set out in Note 21B to the Annual Financial 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	-0.9%	20.1%	1.975	1.765	3

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

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

G. Further to Note 6B to the Annual Financial Statements regarding the factoring agreements of the Company and its subsidiaries Carmel Olefins and Gadiv, as at September 30, 2019 and December 31, 2018, the Company, Carmel Olefins and Gadiv derecognized an amount of USD 134 million and USD 185 million, respectively, from their trade receivables, in accordance with IFRS 9 (as at September 30, 2018, USD 212 million).

H. On April 8, 2019, S&P Maalot 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 Financial Statements, expired. The Company's Board of Directors resolved to appoint Shlomi Basson, served at that time as Deputy CEO and VP of Human Resources, Safety, Environmental Quality, and Security, as Acting CEO (interim) as from June 1, 2019.

J. On October 3, 2019, the general meeting approved with a special majority, after the approval of the Company's Board of Directors, the distribution of a dividend amounting to USD 50 million on the basis of the Company's financial statements as at September 30, 2019. On October 31, 2019, the dividend was paid. The dividend is from profits that are not eligible for benefits by virtue of the Encouragement of Capital Investments Law, 1959.

K. On September 15, 2019, the Company issued NIS 414,344,000 par value Debentures (Series J) ("the Debentures), unlinked, NIS. The consideration of the issuance amounted to USD 117 million, before raising costs. The debentures were rated ilA by S&P Maalot with stable outlook.

The debentures are repayable in 23 unequal semi-annual payments, to be paid on September 25 of each of the years 2020 to 2031 (inclusive) and on March 25 of each of the years 2021 to 2031 (inclusive). In each of the first to the ninth payments (inclusive), 2.5% of the principal will be repaid; in the tenth to the thirteenth payments (inclusive), 12.5% of the principal will be repaid; in the fourteenth to the twenty-first payments (inclusive), 2.5% of the principal will be repaid; and in the twenty-third and last payment, 5% of the principal will be repaid.

The debentures bear fixed annual interest at a rate of 2.7%. The interest on the unpaid balance of the debenture principal will be paid twice a year, on September 25 and on March 25 of each of the years from 2020 to 2031 (inclusive).

Concurrently with the issuance of the Debentures, the Company entered into a principal and interest swap transactions to reduce currency exposure, and elected to apply cash flow hedge accounting principles. The interest in the issuance (in terms of USD interest after taking into account the swap transaction) is 4.1%.

The definitions of the financial covenants, limits on dividend distribution, and the undertaking for a negative lien on the deed of trust of Debentures (Series J), are similar in their essential properties to the terms of the Debentures (Series I), which are set out in Notes 14C1c and 14E to the Annual Financial Statements. For further information about the Company's compliance with the financial covenants for Series J, see Note 6A above.

The deed of trust includes interest rate adjustment mechanisms arising from non-compliance with financial covenants and arising from a change in the debenture rating.

The deed of trust established grounds to call for immediate payment, including if there is a call for immediate payment of one of the following: 1. Another debenture series issued by the Company to the public, whether traded on the TASE or not; or 2. the Company's debt or debts to a financial institution and/or a number of financial institutions, including an institutional body (with the exception of a non-recourse debt to Company in an amount exceeding the lower of the following: (1) USD 150 million or (2) 15% of the Company's liabilities to financial institutions. The above information is in accordance with its most recent financial statements prior to the call for immediate payment.

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

K. (contd.)

The Company may redeem all or some of the debentures ahead of their due date, at its own initiative, at its sole discretion, and in such a case the provisions set out in the deed of trust will apply. The amount payable to the debenture holders will be the higher of the following: (1) the market value of the balance of the debentures in circulation; or (2) the commitment value of the debentures in circulation placed for early repayment; or (3) the cash flow of the debentures placed for early repayment (principal plus interest), discounted on the basis of the return on government bonds as defined in the deed of trust, plus 2% interest.

L. 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.

Bazan Ltd.

Separate Financial Information
As of September 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 Basson – Acting CEO and VP Human Resources, Safety, Environment and Security
2. Ana Berenshtein – CFO
3. The other members of Bazan 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

   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 June 30, 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;

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

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 third 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.

November 13, 2019

Shlomi Basson,
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 third 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.

November 13, 2019

Ana Berenshtein,
CFO