

Convenience Translation
The Hebrew version is the binding version

Bazan Ltd. ("the Company")

March 18, 2020

The Securities Authority
Via Magna

The Tel Aviv Stock Exchange Ltd.
Via Magna

Re: **Immediate Report: Implications of the Corona virus
for the Group's business activities**

In view of recent developments stemming from the spread of the Corona virus and the steps taken to limit it, which affect the activities of the Company and the Group companies, the Company wishes to report as follows:

1. In January 2020 the Corona virus erupted in China. As of the date of this report, the virus continues to spread worldwide, including in Israel, generating considerable uncertainty. Stock markets are plummeting and the volume of financial activity in many regions of the world, including Israel, is in decline, with fears of continuing slowdown in global and local economic activity for some time. As part of dealing with the spread of the virus and the effort to slow it, many regions of the world, including Israel, are instituting ever-stricter measures that significantly limit travel, impose social distancing and ban gatherings of more than a specified number of people.
2. Against this backdrop, there has been a decline, inter alia, in the volume of global traffic, particularly air and sea traffic. As a result, the global demand for fuel products, notably jet fuel and diesel fuel for marine vessels, which could well be reflected in a decrease in the refining margins in the market and/or a reduction in the quantities manufactured. Furthermore, the economic slowdown could lead to recession and a decrease in demand, and accordingly, to narrower margins for petrochemicals and/or decreased production.
3. **Principal effects on the business of the Company around the date of this report**
 - 3.1 Compared to the fourth quarter of 2019 (eliminating periodic treatments and planned maintenance work), during this quarter up to the date of this report there has been no noticeable decline in sales of the products of the Group companies in their markets of operation, with the exception of jet fuel sales in Israel (we note that jet fuel output averages approximately 8% of the total output of the Fuels sector), regarding which the Company has relative flexibility by adjusting the product mix. However, with the increasingly severe restrictions imposed in Israel since the beginning of this week, there could be a significant decrease in demand in the local market for diesel fuel and gasoline and a further decline in the demand

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for jet fuel, although as of the date of publication of this Immediate Report, there is no noticeable decrease in the local market for other products of the Group companies, including petrochemical products. Insofar as this assessment becomes reality as regards diesel fuel, gasoline and jet fuel, the Company will act to divert its sales to the export market and limit the import of gasoline, but there is no guarantee of demand for the Company's products in its export markets. In such a case, the Company will lower its production volumes and stock levels, which could also affect the production levels of the subsidiaries.

- 3.2 Brent has fallen sharply and is trading at about USD 30 per barrel. If the price of crude remains at its present level at the end of the first quarter of 2020, this is likely to have a materially negative effect (non-cash flow) on the unhedged inventory balances of the Company and the subsidiaries. Nevertheless, we can expect positive effects for the Group from the decline in the price of crude oil being reflected in quasi-reduction of the costs of certain operations (including losses), as well as lower costs of financing operating capital.
 - 3.3 As far as market margins are concerned, the Reuters Ural margin and the average Bloomberg Ural and Azari margins (for the period from the beginning of 2020) are USD 0.7, 2.5 and 3.3 per barrel, respectively. In addition, the average polypropylene and polyethylene margins over naphtha (for the period from the beginning of 2020) are USD 575 and 521 per ton, respectively.
 - 3.4 There are no significant difficulties in workforce availability for the regular operation of the Group's facilities.
4. If the decline in the volumes of economic activity owing to the worldwide outbreak of the virus continues and/or gathers momentum, including in Israel, the negative effect on the demand for fuel and/or petrochemical products will increase, and accordingly, the negative effect on refining and/or petrochemical margins will also increase. Moreover, the Group companies are preparing to take steps to adapt production, including smaller volumes if the volume of economic activity and/or the decline in demand continues and/or increases. As essential enterprises, the Group companies will act to adapt the work format to enable, to the extent possible, the availability of the workforce needed for their activities. However, the supply chain and the availability of equipment and experts might be harmed, which could lead to delays in the completion times of certain projects, including as concerns quality of the environment. If necessitated by circumstances, the Company will request that the Ministry for Environmental Protection permit postponement of timetables for completion of such projects.

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If the above becomes reality, there could be significant negative impact on the results of operations and the cash flows from normal operations of the Group, erosion of its equity and deterioration in financial relations, including the financial criteria applicable to the Company under finance agreements and deeds of trust.

5. It should be noted that as of the date of this Immediate Report, the Company has cash balances and deposits in significant amounts, including considerable use of secured credit lines, and also has unsecured credit lines, as described in Note 13A2 of the consolidated financial statements of the Company for 2019¹ ("the 2019 Financial Statements"). In addition, the Company has worked in recent years to significantly lower the amount of net financial debt, and the average duration of life of the Company's long-term liabilities is appropriate to its needs. For details about long-term loans from banks, particularly for extension of the life of the Syndicate Agreement, as well as the Company's debentures, including debentures issued in the reporting period and at the beginning of 2020, see Notes 13 and 14 to the 2019 Financial Statements.
6. **Forward-looking information:** As of the date of this Immediate Report, the Company is unable to assess the duration and/or the possible effects of the outbreak of the virus on the results of the Group's operations. The Company's assessments as written in this Immediate Report, of future developments in the global and local economic environment, as well as concerning possible implications of these developments for the Group's activities, are forward-looking information as defined in section 32A of the Securities Law. These developments and implications are beyond the Company's control, they are not certain and are based on the information available to the Company as of the date of publication of this report, which is based, inter alia, on publications in Israel and around the world and on the directives of the relevant authorities, and they could change from time to time. If the global crisis deepens and continues, this could give rise to significant deterioration in the results of the Company's operations, including its financial ability to contend with the event.

Bazan Ltd.
Adv. Eli Mordoch
Company Secretary

¹ As will be published today, March 18, 2020.

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