OIL REFINERIES LTD

Condensed Consolidated Interim Financial Statements as of June 30, 2017

(Unaudited)

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

Contents

Directors' Report on the State of the Company's Affairs For the Period Ended June 30, 2017

The Board of Directors is pleased to present the Directors' Report on the State of the Company's Affairs for the period ended June 30, 2017 ("the Reporting Period"). The report is presented under the assumption that the Company's Report for 2016 ("the Periodic Report") is available to the reader.

1 Description of the Company and its Business Environment

1.1 General

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

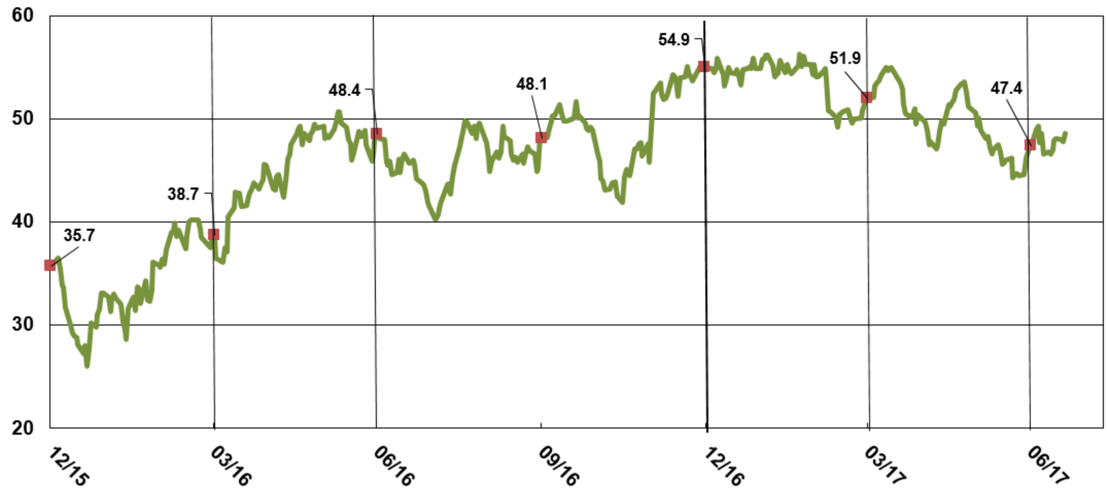
The subsidiaries' plants (with the exclusion of Ducor, which is located in the Netherlands) are downstream facilities of the Company and they receive most or all of the required feedstock from the Company on an ongoing basis through pipelines, and return all or part of the products of their facilities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

1.2 Business environment and Bazan Group profitability

<u>Fuels</u>

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

Brent crude oil prices in 2016-2017 (USD/barrel)



Source: Reuters

Average price of Brent crude (USD/barrel)

1-6.2017	1-6.2016	Change	4-6.2017	4-6.2016	Change
51.7	39.8	30%	49.6	45.6	9%

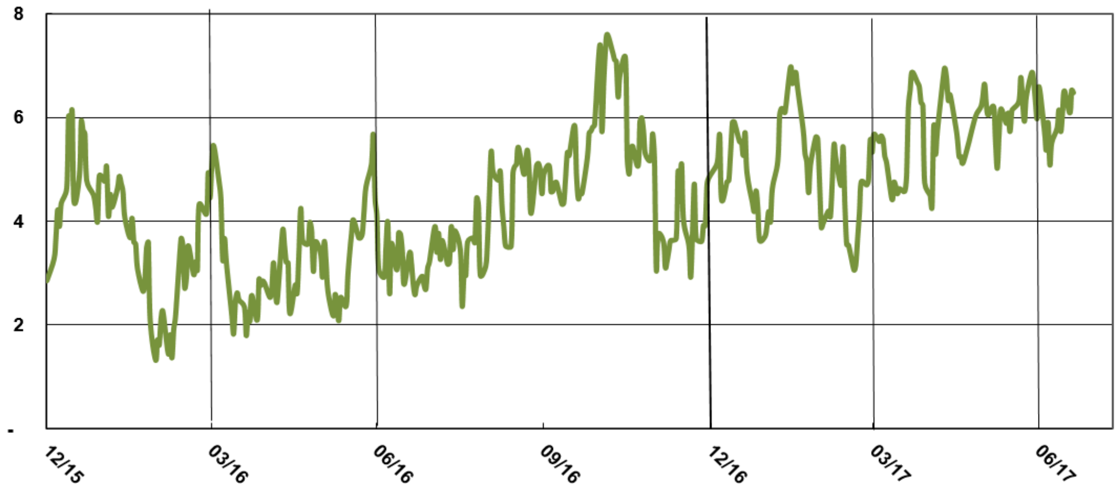
In the first quarter of 2017, the trend that began in December last year, which was affected by the decision of OPEC member countries to limit output, continued and Brent oil was traded at USD 50 - 55 per barrel. In the second quarter, the Brent price dropped to USD 44 per barrel, the lowest price in seven months. This is despite the fact that the OPEC countries decided at the end of May to continue reducing production through to March 2018. The decline in price was mainly due to the increase in oil production in non-OPEC countries and in the US. At the end of June, the Brent price increased following publication of information regarding the expected decrease in output in the US and Libya. Close to Reporting Date, the Brent price was fixed at USD 47 per barrel. Close to Reporting Date, the Brent price was fixed at USD 53 per barrel.

In the Reporting Period the price of Ural crude oil, which is heavy crude oil, weakened compared to Brent prices (which is light crude oil), with disparity of USD 1.3 per barrel, compared with USD 1.7 per barrel in the corresponding period last year. The difference in the price of heavy crude compared with light crude was extremely volatile, ranging between USD 1 and USD 2.5 per barrel, due to the increase in the supply of Ural crude oil substitutes from outside the Mediterranean region.

In the Reporting Period, the futures market for crude oil continued to be contango at average rate of USD 0.3 per barrel per month.

Refining margin

Benchmark Margin[1] in 2016-2017 (USD per barrel)



Source: Reuters

[1] The Ural margin is the margin published by Reuters for a typical refinery in the Mediterranean region with the capability of cracking Ural-type crude oil. For further explanation, see section 1.6.2.4 in the Description of the Company's Affairs chapter.

Average Ural margin (USD/barrel)

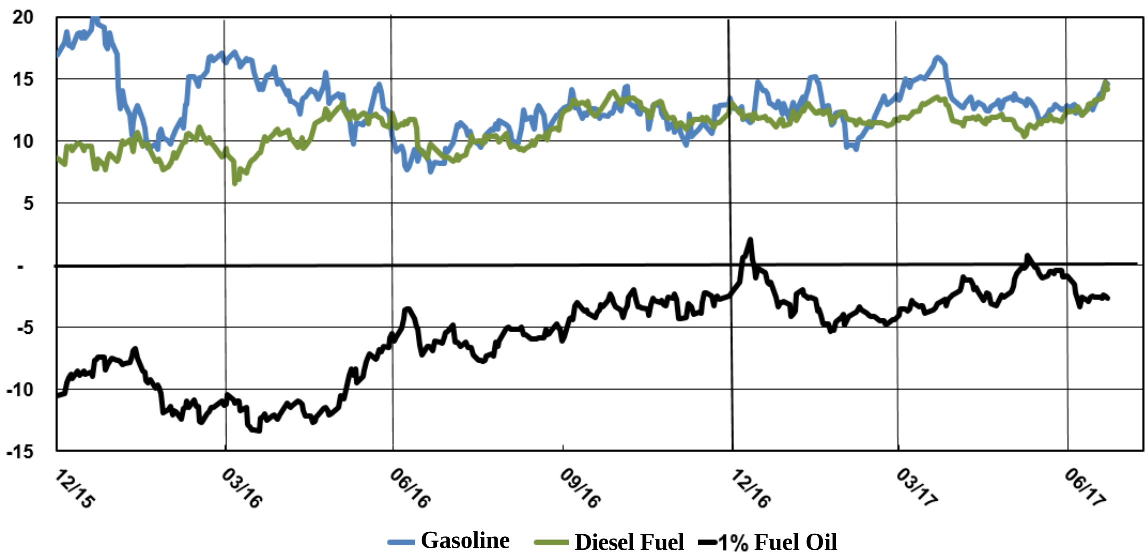
1-6.2017	1-6.2016	Change	4-6.2017	4-6.2016	Change
5.4	3.5	54%	5.8	3.2	81%

The Ural margin increased in the Reporting Period compared with the corresponding period last year. The main reasons for the increase were the relatively harsh winter in Europe and the United States, and planned and unplanned shutdowns of refining facilities.

Subsequent to the reporting date and through to close to publication of the report, the Ural margin strengthened, reaching an average price of USD 6.1 per barrel.

For information regarding the Company's refining margins see section 2.1.2 below.

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



Source: Reuters

Average transportation diesel fuel, gasoline and fuel oil margins (USD per barrel)

	1-6.2017	1-6.2016	Change	4-6.2017	4-6.2016	Change
Gasoline	13.0	14.3	- 9%	13.5	13.8	- 2%
Diesel fuel	11.9	10.0	19%	11.9	10.6	12%
1% Fuel oil	2.5 -	10.1 -	75%	1.9 -	10.5 -	82%

The diesel margin increased compared with the corresponding period last year, while the gasoline margin, which reached record highs in mid-2016, declined.

The fuel oil margin has increased significantly since the fourth quarter of 2016.

Refining volume

Breakdown of utilization of crude oil refining facilities, crude oil refining volume and HVGO imports in the Fuels segment (thousands of tons)

	1-6.2017	1-6.2016	4-6.2017	4-6.2016
Utilization of refining plants	86% (*)	94%	98%	94%
Refining volume	4,219	4,604	2,418	2,313
Import (export) of HVGO, net	302	42	167	(10)
Total	**4,521**	**4,646**	**2,585**	**2,303**

The refining volume decreased by 385 thousand tons in the Reporting Period compared to the corresponding period last year. Input volume, including diesel and HVGO, decreased by 125 thousand tons in the Reporting Period compared with the corresponding period last year. The decrease in refining volume is mainly due to periodic maintenance work carried out on part of the Company's facilities in the first quarter of 2017, particularly the continuous catalytic reformer (CCR) plant, due to which some of the Company's refining and downstream facilities were shut down. For information regarding the effect of the periodic maintenance work on the margins in the Reporting Period, see section 2.1.2 below.

In the second quarter of 2017, refining volume increase by approximately 105 thousand ton compared with the corresponding quarter last year. Input volume, including diesel and HVGO, increased by 282 thousand tons in the second quarter, compared with the corresponding period last year. The increase in refining volume in the second quarter is mainly due to resuming high output after completion of the periodic maintenance work carried out on the Company's plants in the previous quarters.

(*) Utilization of the refining facilities in the Reporting Period had the foregoing periodical maintenance work not been carried out in the first quarter of 2017, on the assumption that 36.3 million barrels of crude oil and interim materials are processed per six months (the median number of barrels of crude oil and interim materials of 17.5 million barrels processed by the Company per quarter plus the actual number of barrels processed in the second quarter of 2017) is estimated to be 96%.

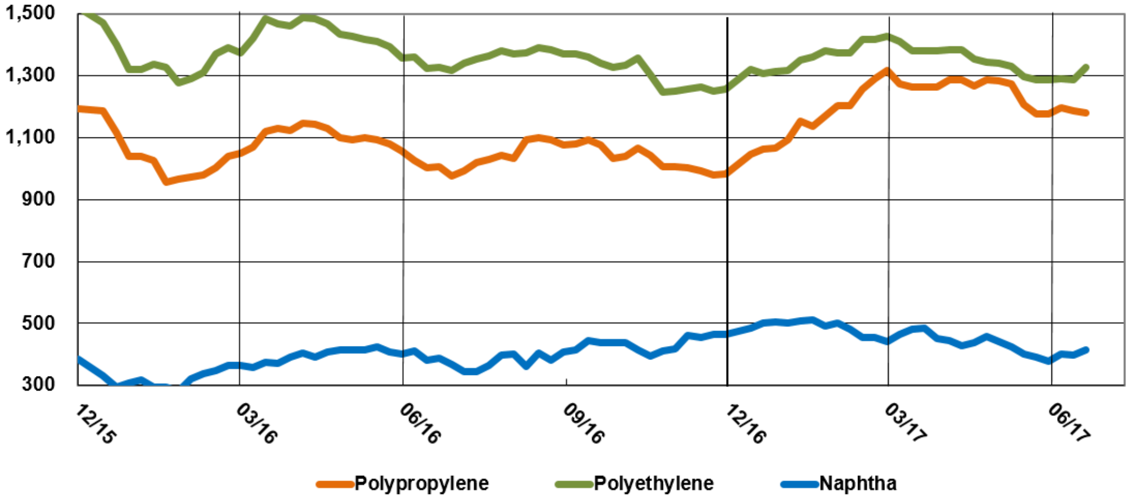
Breakdown of the Company's output by main product groups in the Fuels segment (in thousands of tons)

	1-6.2017	1-6.2016	4-6.2017	4-6.2016
Diesel fuel	1,591	1,620	931	786
Gasoline	725	900	493	457
Kerosene	317	330	198	195
Fuel oil	998	1,060	538	535
Others	796	624	369	269
Total	**4,427**	**4,534**	**2,529**	**2,242**

Polymers Segment

Polymers - Carmel Olefins

Polymer and naphtha prices in 2016-2017 (USD /ton)



Source: ICIS

Average polymer and naphtha prices (USD / ton)

	1-6.2017	1-6.2016	Change	4-6.2017	4-6.2016	Change
Naphtha	459	361	27%	432	398	9%
Polypropylene	1,212	1,070	13%	1,248	1,106	13%
Polyethylene	1,354	1,396	- 3%	1,342	1,439	- 7%

Raw material prices

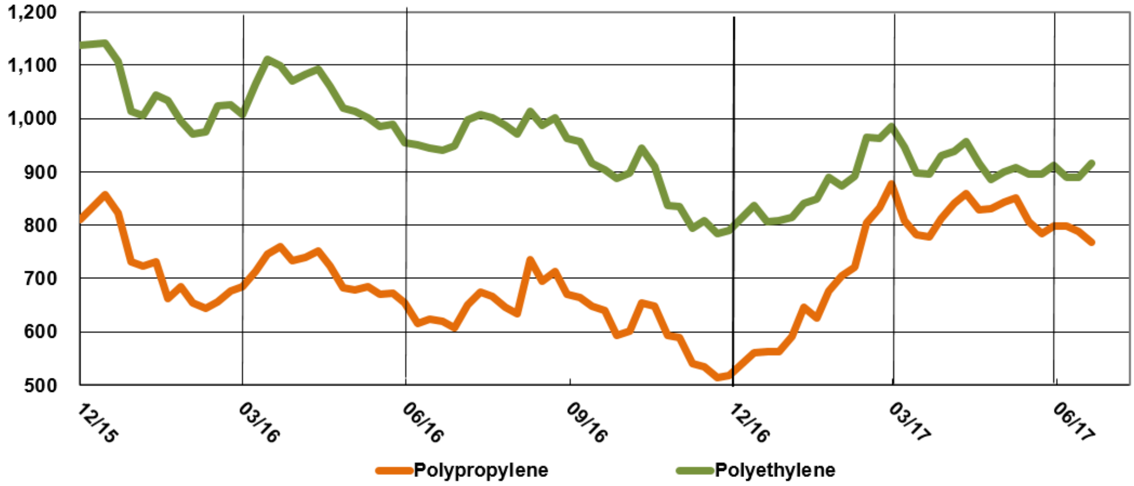
Raw material prices, particularly naphtha prices, increased in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices.

Polymer prices

Polypropylene prices increased and polyethylene decreased in the Reporting Period compared with the compared to the corresponding period last year. The difference in the volatility of polymer prices is due to the changes in the prices of raw material for the production of polymers in Europe (propylene and ethylene).

Margins

Difference between polymer and naphtha prices in 2016-2017 (USD /ton)



Source: ICIS

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

	1-6.2017	1-6.2016	Change	4-6.2017	4-6.2016	Change
Polypropylene	753	709	6%	816	708	15%
Polyethylene	896	1,035	- 13%	909	1,042	- 13%

In the Reporting Period, the difference between the price of polypropylene and the price of naphtha was higher compared with the corresponding period last year and the difference between the price of polyethylene and the price of naphtha was lower compared to the corresponding period last year. This, while the volatility of the polypropylene and polyethylene prices are affected, among other things, by the prices of the raw materials for the production of polymers in Europe (propylene and ethylene).

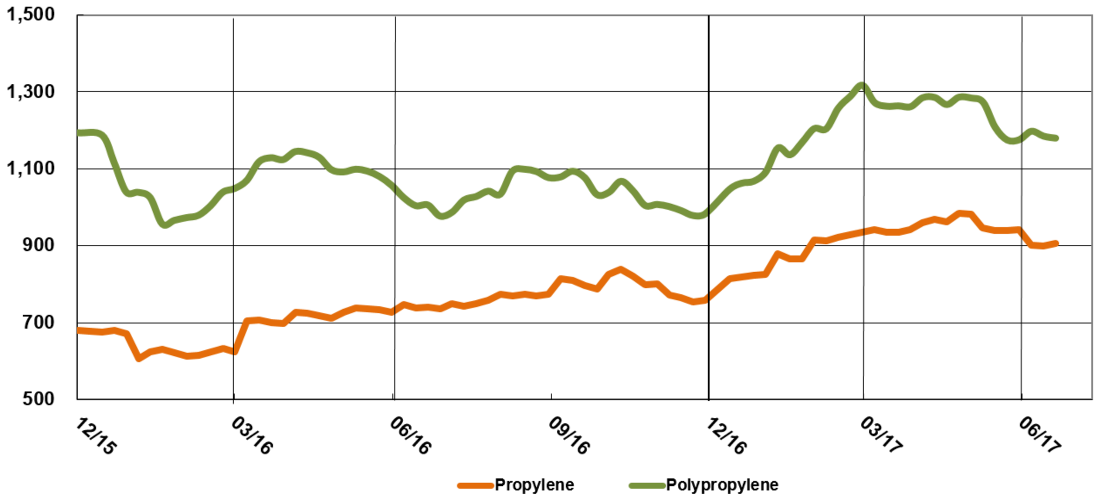
Polymer output volume (thousand tons)

	1-6.2017	1-6.2016	4-6.2017	4-6.2016 (*)
Polymers	267	187	133	55

(*) The low output of polymers at Carmel Olefins in the corresponding periods last year was due to the shutdown of all facilities for periodic maintenance work during the second quarter of 2016.

<u>Polymers - Ducor</u>

Polypropylene and propylene prices in 2016-2017 (USD /ton)



Source: ICIS

Average polypropylene and propylene prices (USD / ton)

	1-6.2017	1-6.2016	Change	4-6.2017	4-6.2016	Change
Polypropylene	1,212	1,070	13%	1,248	1,106	13%
Propylene	915	679	35%	949	719	32%

Raw material prices

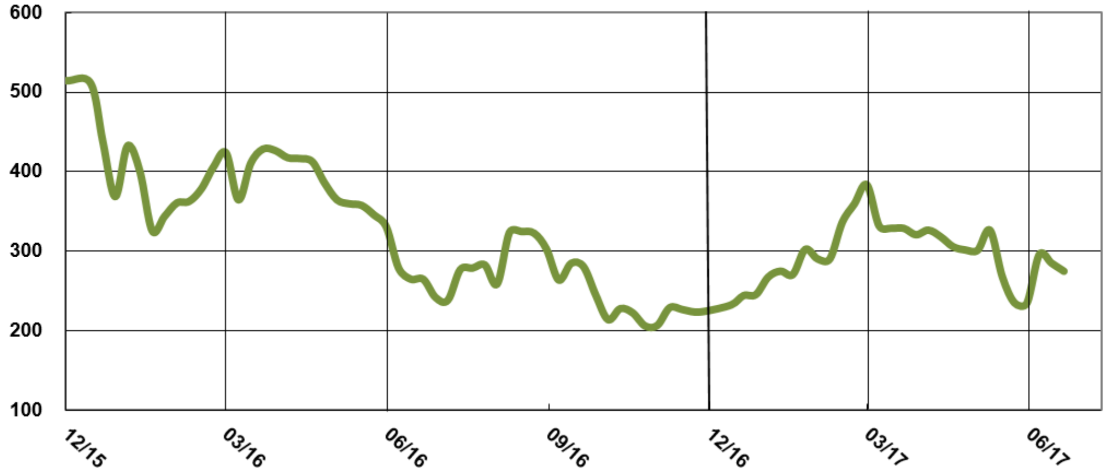
The prices of Ducor's primary raw material, propylene, increased in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices and the shutdown of production facilities in Europe.

Polypropylene prices

Polypropylene prices increased in the Reporting Period compared with the corresponding period last year, parallel to the increase in raw material and energy prices. The increase was not as high as the increase in raw material prices, among other things, as a result of the decrease in supply of propylene in Europe due to the shutdown of the production facilities.

Margins

Difference between polypropylene and propylene prices in 2016-2017 (USD /ton)



Source: ICIS

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

	1-6.2017	1-6.2016	Change	4-6.2017	4-6.2016	Change
Difference in price	297	391	- 24%	300	387	- 23%

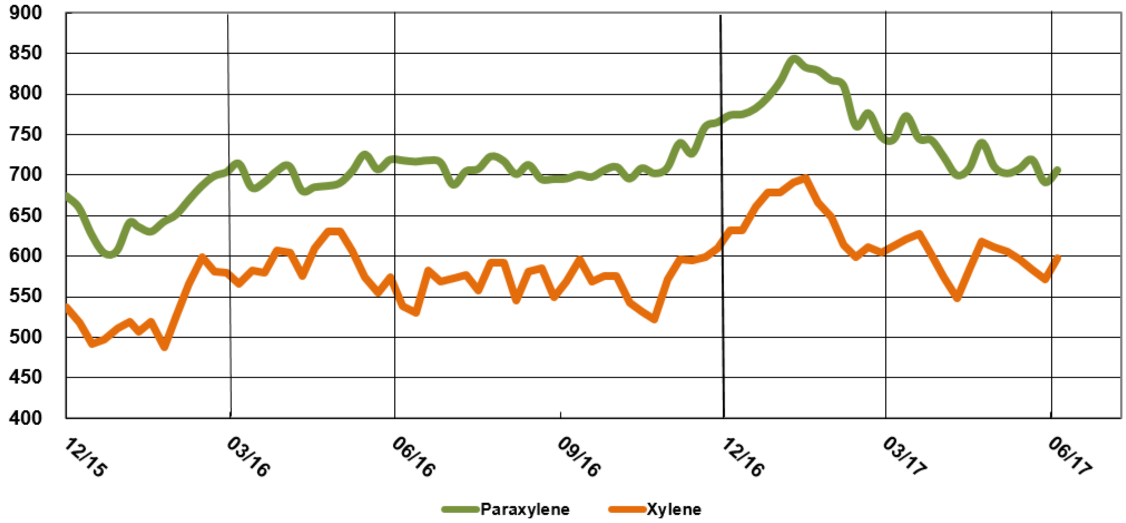
The difference between the price of polypropylene and the price of propylene in the Reporting Period was lower than in the corresponding period last year, mainly as a result of the decline in the polypropylene price compared with the propylene price due to the shutdown of production facilities in Europe.

Polypropylene output volume (thousand tons)

	1-6.2017	1-6.2016	4-6.2017	4-6.2016
Polypropylene	82	83	42	43

Aromatics Segment - Gadiv

Xylene and paraxylene prices in 2016-2017 (USD /ton)



Source: Reuters

Average xylene and paraxylene prices (USD / ton)

	1-6.2017	1-6.2016	Change	4-6.2017	4-6.2016	Change
Xylene	621	561	11%	595	593	1%
Paraxylene	758	675	12%	721	700	3%

Raw material prices

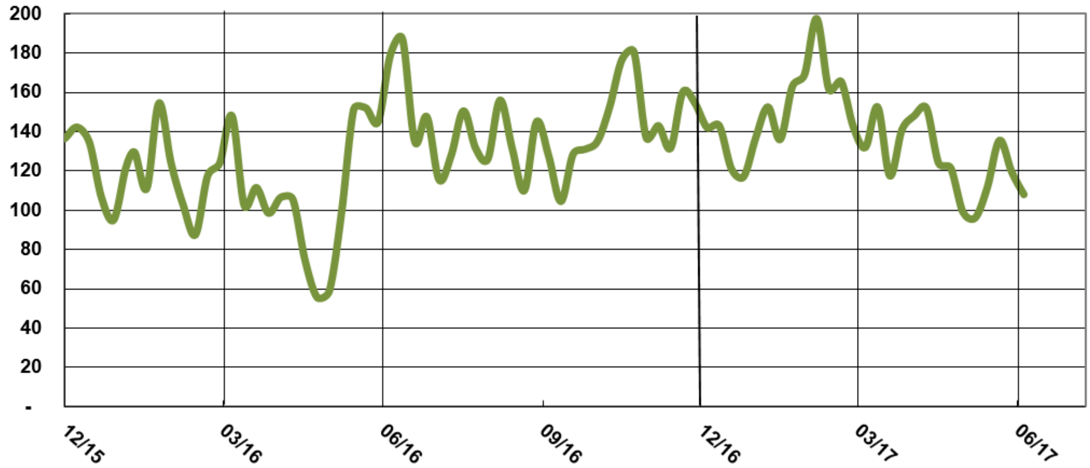
Raw material prices, particularly xylene prices, increased sharply in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices.

Aromatics prices

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

Margins

Difference between paraxylene and xylene prices in 2016-2017 (USD /ton)



Source: Reuters

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

	1-6.2017	1-6.2016	Change	4-6.2017	4-6.2016	Change
Difference in price	137	114	20%	125	107	15%

In the Reporting Period, the difference between the price of paraxylene and the price of xylene was higher that in the compared to the corresponding period last year, mainly as a result of the relative strengthening of the price of paraxylene due to the shutdown of production facilities in Europe.

Aromatics output volume (thousand tons)

	1-6.2017	1-6.2016	4-6.2017	4-6.2016
Aromatics	153	281	130	139

The decrease in aromatic output in the Reporting Period is mainly due to the shutdown of all Gadiv facilities for periodic maintenance work in the first quarter. For information regarding the effect of the periodic maintenance work on the margins in the Reporting Period, see section 2.1.2 below.

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

To present the results of the Fuels segment on an economic basis and for comparison with the Ural margin, the accounting effects in the fuel segment only are adjusted and presented in a way that the Company believes will allow better understanding of the Company's performance and closer comparison of the Fuels segment performance with the Ural margin. Consequently, the term "consolidated adjusted EBITDA" refers to the adjusted EBITDA in the Fuels segment together with the EBITDA reported in the Group's other operating segments.

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

	1-6.2017	1-6.2016	4-6.2017	4-6.2016
Revenue	2,583	2,057	1,378	1,132
EBITDA	**286**	**267**	**170**	**170**
Depreciation	(72)	(60)	(39)	(30)
Other expenses, net	(6)	(7)	(3)	(4)
Operating profit	**208**	**200**	**128**	**136**
Financing expenses, net	(83)	(62)	(36)	(26)
Income tax	(33)	(23)	(19)	(23)
Net income	**92**	**115**	**73**	**87**
Fuel segment adjustments (*)	(55)	(31)	(13)	(57)
Adjusted EBITDA	**231**	**236**	**157**	**113**
Adjusted operating profit	**153**	**169**	**114**	**79**
Net adjusted profit	**37**	**84**	**60**	**30**

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

	1-6.2017	1-6.2016	4-6.2017	4-6.2016
Fuels Segment:	161	154	97	115
Polymers Segment:				
Polymers - Carmel Olefins	100	87	60	37
Polymers - Ducor	12	16	5	9
Total Polymers Segment	112	103	65	46
Aromatics Segment - Gadiv	6	8	7	4
Other segments and adjustments	7	2	1	5
Total EBITDA	**286**	**267**	**170**	**170**
Fuel segment adjustments (*)	(55)	(31)	(13)	(57)
Fuels Segment - adjusted	**106**	**123**	**84**	**58**
Total adjusted EBITDA	**231**	**236**	**157**	**113**

(*) For further information about the adjustment components, see section 2.1.2 below.

2.1 Analysis of the results of Bazan Group's operations for the six and three-month periods

2.1.1 Breakdown of sales turnover by operating segment (including inter-segment sales)

Fuels Segment sales amounted to USD 2,227 million in the Reporting Period, compared to USD 1,742 million in the corresponding period last year. The average price per ton of the product index in the Mediterranean area, similar to the Company's product index, amounted to USD 462 in the Reporting Period, compared to USD 349 in the corresponding period last year. The increase in the average price of the product index is mainly due to the increase in energy prices, together with the increase in raw material prices. Part of the increase in sales is due to income from insurance indemnification for loss of profits of USD 7 million (see Note 8G to the consolidated financial statements) that was offset by a decrease in sales as a result of the shutdown of part of the Company's plants in the first quarter of 2017 for periodic maintenance.

Domestic consumption of distillates (transportation, industrial and heating fuels) rose by 2% compared to the corresponding period last year. There was an increase of 3% in consumption of transportation fuels (gasoline, diesel and kerosene) compared to the corresponding period last year.

Polymers - Carmel Olefins sales amounted to USD 346 million in the Reporting Period, compared to USD 250 million in the corresponding period last year, an increase of USD 96 million. The increase is mainly due to an increase in sales volume of USD 80 million following the periodic maintenance work carried out on Carmel Olefins facilities in the corresponding period last year, a selling price increase of USD 6 million and income from insurance indemnification in respect for loss of profits of USD 10 million (see Note 8G to the consolidated financial statements). The average price of the product mix was USD 1,257 per ton compared to US 1,227 per ton in the corresponding period last year.

Polymers - Ducor sales turnover amounted to USD 112 million in the Reporting Period, compared to USD 98 million in the corresponding period last year. The increase of USD 14 million is mainly due to a price increase amounting to USD 15 million offsetting a decrease in sales volume of USD 1 million. The average price of the product mix was USD 1,256 per ton compared to US 1,086 per ton in the corresponding period last year.

Aromatics - Gadiv sales amounted to USD 140 million in the Reporting Period, compared to USD 197 million in the corresponding period last year. Most of the USD 57 decrease is the result of a decrease in the amount of USD 72 million in sales volume due to the periodic maintenance work carried out on all of Gadiv's facilities in the first quarter of 2017, offsetting a selling price increase in the amount of USD 17 million. The average price of the product mix was USD 721 per ton compared to US 625 per ton in the corresponding period last year.

2.1.2 Breakdown of consolidated adjusted EBITDA by operating segment

Adjusted EBITDA operating profit amounted to USD 231 million in the Reporting Period, compared to USD 236 million in the corresponding period last year.

Below is a description of the main reasons for the adjusted consolidated EBITDA decrease in the period, in the amount of USD 5 million, by segment (USD million):

		Polymers					
	Fuels	**Carmel Olefins**	**Ducor**	**Total**	**Aromatics**	**Others**	**Consolidated**
Increase (decrease) in the margin/contribution (***)	15	(24)	(3)	(27)	--	5	(7)
Increase (decrease) in sales quantities	13	(4)	--	(4)	1	--	10
Increase (decrease) in loss of profits due to periodic maintenance work (*)	(56)	41	--	41	(4)	--	(19)
Increase (decrease) in other revenue	7(**)	10	--	10	(1)	--	16
Decrease (increase) in operating expenses	4	(10)	(1)	(11)	2	--	(5)
Total	**(17)**	**13**	**(4)**	**9**	**(2)**	**5**	**(5)**

(*) In the first quarter of 2017, the Company carried out planned periodic maintenance work on part of its downstream facilities, in particular the CCR plant, due to which part of the refining facilities were also shut down. In addition, all of Gadiv's plants were shut down to carry out planned periodic maintenance work. The Group estimates that the projected total loss of earnings caused due to these shutdowns, as reflected in the results of the period, amount to approximately USD 69 million (USD 61 million in the Fuels segment, USD 4 million in the Aromatics segment and USD 4 million in the Polymers - Carmel Olefins segment, due to derivative effects).

In the second quarter of 2016, all of Carmel Olefins plants and part of the Company's downstream plants, including for gasoline production, were shutdown for periodic maintenance. The Group estimates that the total loss of profits to the Group due to such shutdown, most of which are reflected in the results of the second quarter, amounts to USD 50 million (USD 5 million in the Fuels segment and USD 45 million in the Polymers - Carmel Olefins segment).

(**) Included in the refining margin of the Fuels segment.

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

Adjustment components in the Fuels segment

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

	1-6.2017	1-6.2016
Reported EBITDA	**161**	**154**
Expenses (income) from timing differences (1)	10	(17)
Expenses (income) from adjusting value of inventory to market value, net (2)	(27)	19
Effect of changes in fair value of derivatives and disposals (3)	(38)	(33)
Total adjustments	**(55)**	**(31)**
Adjusted EBITDA	**106**	**123**

(1) Expenses (income) arising from changes in the value of unhedged inventory. In accordance with the Company's policy, the Company does not engage in hedging contracts for inventory of up to 730 thousand tons, other than the inventories under the available inventory transaction as set out in Note 5B to the consolidated financial statements. As of June 30, 2017, the volume of unhedged inventories is 480 thousand tons.

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

(3) Expenses (income) arising from reevaluation of the fair value of open positions that do not relate to hedged inventory (hedging transactions on future cash flow exposure for base inventory purchase and hedging of refining margins). The cumulative profit or loss with regard to these positions, which are non-cash, will be attributed to the adjusted EBITDA when disposed. In the first half of 2017, most of this amount is from non-cash disposal of the loss in positions relating to the purchase of base inventory due to the termination of the available inventory transaction, as set out in Note 20C5 to the annual financial statements, in the second quarter of 2017.

Analysis of the Company's Fuels segment refining margins and comparison with the Ural margin

Breakdown of the comparison of the Company’s refining margins with the Ural margin:

	1-6.2017	1-6.2017 Proforma (*)	1-6.2016
Accounting margin (USD/ton)	**57.0**	**64.3**	**54.0**
Adjustments in the Fuels segment (USD/ton)	(12.1)	(11.0)	(6.5)
Adjusted margin (USD/ton)	**44.9**	**53.3**	**47.5**
Adjusted margin (USD/barrel)	**6.2**	**7.3**	**6.5**
Ural margin (USD/barrel)	**5.4**	**5.4**	**3.5**

(*) The pro forma margins for the Reporting Period set out in the foregoing table were computed as follows:

(1) The estimated loss of profits of USD 61 million was added to the actual adjusted refining margin of the Company in the Reporting Period, which was USD 204 million (hereinafter together: the “Adjusted Margin”).

(2) The Adjusted Margin was divided by the total number of barrels for the Reporting Period of 36.3 million barrels (the median number of barrels of crude oil and interim materials of 17.5 million barrels processed by the Company per quarter plus the actual number of barrels processed in the second quarter of 2017).

It is noted that there are differences in a number of parameters between the Company’s refining margin and the Ural margin. These include composition of crude oil (the Company also refines crude oil types that are not Ural), composition and quality of products produced by the refineries, the energy source used for refining, and the difference generated due to the fact that the quote takes into account purchase and sale on the same day, while in practice, there is a gap between the purchase date of the crude and the selling date of distillates produced from the crude oil. Comparison to the Ural margin could provide insight in relation to development trends of the Company's refining margin, and does not constitute a precise parameter for estimating the Company's refining margin in the short term.

Operating expenses (including fixed production costs and general and administrative expenses)

Operating expenses decreased in the Reporting Period by approximately USD 5 million compared with the corresponding period last year, mainly as a result of a decrease in Carmel Olefins payroll expenses.

2.1.3 Adjusted consolidated operating profit

Adjusted consolidated operating profit amounted to USD 153 million in the Reporting Period, compared to USD 169 million in the corresponding period last year. The main factors that affected the operating profit, other than the adjusted EBITDA as set out in section 2.1.2 above, are depreciation and amortization and other expenses.

<u>Depreciation (without amortization of excess costs)</u>

Depreciation expenses in the Reporting Period amounted to USD 72 million compared with USD 60 million in the corresponding period of the previous year. The increase is mainly due to the addition of amortization relating to periodic maintenance work.

<u>Other expenses</u>

Other expenses in the Reporting Period amounted to USD 6 million and were mainly made up of amortization of excess costs. Other expenses amounted to USD 7 million in the corresponding period last year and were made up mainly of amortization of excess costs in the amount of USD 6 million and voluntary redundancy expenses of USD 2 million.

2.1.4 Net income

The net consolidated accounting profit amounted to USD 92 million in the Reporting Period, compared with USD 115 million in the corresponding period last year.

The adjusted consolidated net profit amounted to USD 37 million in the Reporting Period, compared with net profit of USD 84 million in the corresponding period last year. The main factors that affected the adjusted net profit, other than the adjusted operating profit as set out in section 2.1.3 above, are financing expenses and income tax.

Finance expenses

In the Reporting Period, the consolidated financing expenses amounted to USD 83 million, compared to USD 62 million in the corresponding period last year. Principal changes in financing expenses, based on financial analysis (USD millions):

	1-6.2017 compared to 1-6.2016
Decrease in interest on short term credit and for working capital items	3
Increase in interest on long term loans and debentures (*)	(2)
Changes in fair value of hedge transactions	5
Effect of exchange differences on financial items, net	10
Other	5
Total	**21**

Income tax

Net tax expenses in the Reporting Period amounted to USD 33 million compared to USD 23 million in the corresponding period last year. The increase in tax expenses in the Reporting Period compared to the corresponding period last year is mainly due to tax expenses of USD 8 million for distributed dividends (for further information see Note 8A to the consolidated financial statements).

2.2 Analysis of the results of Bazan Group's operations for the three-month period

2.2.1 Breakdown of sales turnover by operating segment (including inter-segment sales)

Fuels segment sales amounted to USD 1,190 million in the second quarter of 2017, compared to USD 975 million in the corresponding period last year. The average price per ton of the product index in the Mediterranean region, similar to the Company's product index, amounted to USD 452 in the second quarter of 2017, compared to USD 384 in the corresponding period last year. The increase in the average price of the product index is mainly due to the increase in energy prices, together with the increase in raw material prices. The increase in sales volume is also due to the income from insurance indemnification for loss of profits of USD 7 million (see Note 8G to the consolidated financial statements).

Domestic consumption of distillates (transportation, industrial and heating fuels) rose by 2% in the second quarter of 2017 compared to the corresponding period last year. There was an increase of 5% in consumption of transportation fuels (gasoline, diesel and kerosene) compared to the corresponding period last year.

Polymers segment - Carmel Olefins sales amounted to USD 180 million in the second quarter of 2017, compared to USD 107 million in the corresponding period last year, an increase of USD 73 million. This increase is mainly the result of an increase in sales volume of USD 63 million due to the periodic maintenance work carried out in the corresponding period last year, and income from insurance indemnification for loss of profits of USD 10 million (see Note 8G to the consolidated financial statements). The average price of the product mix was USD 1,268 per ton compared to US 1,266 per ton in the corresponding period last year.

Polymers - Ducor sales amounted to USD 57 million in the second quarter of 2017, compared to USD 52 million in the corresponding period last year. The increase of USD 5 million is mainly due to a price increase amounting to USD 7 million offsetting a decrease in sales volume of USD 2 million. The average price of the product mix was USD 1,294 per ton compared to US 1,116 per ton in the corresponding period last year.

Aromatics - Gadiv sales amounted to USD 103 million in the second quarter of 2017, compared to USD 105 million in the corresponding period last year. The decrease of USD 2 million is mainly due to a decrease in sales volume of USD 14 million offset by an increase in prices of USD 10 million. The average price of the product mix was USD 736 per ton compared to US 651 per ton in the corresponding period last year.

2.2.2 Breakdown of consolidated adjusted EBITDA by operating segment

Adjusted consolidated EBITDA for the operating segments amounted to USD 157 million in the second quarter of 2017, compared with USD 113 million in the corresponding period last year.

Below is a description of the main reasons for the increase in the adjusted consolidated EBITDA for the operating segments in the quarter, in the amount of USD 44 million (USD million):

		Polymers					
	Fuels (*)	**Carmel Olefins (*)**	**Ducor Operation**	**Total**	**Aromatics**	**Others**	**Consolidated**
Increase (decrease) in the margin/contribution (***)	12	(7)	(3)	(10)	2	(4)	--
Increase (decrease) in sales quantities	8	28	(1)	27	(1)	--	34
Increase in other revenue	7 (**)	10	--	10	2	--	19
Increase in operating expenses	(1)	(8)	--	(8)	--	--	(9)
Total	**26**	**23**	**(4)**	**19**	**3**	**(4)**	**44**

(*) For information regarding the estimated total loss of profits caused to the Group as the result of the periodic maintenance carried out on part of its plants and all of Carmel Olefins plants in the second quarter of 2016, see section 2.1.2 above.

(**) Included in the refining margin of the Fuels segment.

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

Adjustment components in the Fuels segment

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

	4-6.2017	4-6.2016
Reported EBITDA	**97**	**115**
Expenses (income) from timing differences (1)	17	(32)
Income from adjusting value of inventory to market value, net (2)	(1)	(5)
Effect of changes in fair value of derivatives and disposals (3)	(29)	(20)
Total adjustments	**(13)**	**(57)**
Adjusted EBITDA	**84**	**58**

(1) Expenses (income) arising from changes in the value of unhedged inventory. In accordance with the Company's policy, the Company does not engage in hedging contracts for inventory of up to 730 thousand tons, other than the inventories under the available inventory transaction as set out in Note 5B to the consolidated financial statements. As of June 30, 2017, the volume of unhedged inventories is 480 thousand tons.

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

(3) Expenses (income) arising from reevaluation of the fair value of open positions that do not relate to hedged inventory (hedging transactions on future cash flow exposure for base inventory purchase and hedging of refining margins). The cumulative profit or loss with regard to these positions, which are non-cash, will be attributed to the adjusted EBITDA when disposed. In the second quarter of 2017, most of this amount is due to non-cash disposal of the loss in positions relating to the purchase of basic inventories due to the termination of the available inventory transaction as set out in Note 20C5 to the annual financial statements.

Analysis of the Company's Fuels segment refining margins and comparison with the Ural margin

Breakdown of the comparison of the Company's refining margins with the Ural margin.

	4-6.2017	4-6.2016
Accounting margin (USD/ton)	**58.4**	**69.6**
Adjustments in the Fuels segment (USD/ton)	(4.9)	(23.7)
Adjusted margin (USD/ton)	**53.5**	**45.9**
Adjusted margin (USD/barrel)	**7.3**	**6.3**
Ural margin (USD/barrel)	**5.8**	**3.2**

For an explanation regarding the differences between the Company's refining margin and the Ural margin, see section 2.1.2 above.

In the second quarter of 2017, the adjusted refining margin amounted to USD 7.3 per barrel compared with USD 6.3 per barrel in the corresponding quarter last year. The main reasons for the increase in refining margin compared with the corresponding quarter last year is an increase in the Ural margin of USD 2.6 per barrel that was offset by an adjustment of USD 1 per barrel from a loss for closing of positions relating to the purchase of base inventory due to the termination of the non-cash available inventory transaction during the quarter, net of income from insurance indemnification for loss of profits.

Operating expenses (including fixed production costs and general and administrative expenses)

In the second quarter of 2017 operating expenses decreased by approximately USD 9 million compared with the corresponding quarter last year, mainly as a result of capitalization of payroll expenses in the corresponding quarter last year for periodic maintenance.

2.2.3 Adjusted consolidated operating profit

The adjusted consolidated operating profit in the second quarter of 2017 amounted to USD 114 million, compared to USD 79 million in the corresponding period last year. The main factors that affected the operating profit, other than the adjusted EBITDA as set out in section 2.2.2 above, are depreciation and amortization and other expenses.

Depreciation (without amortization of excess costs)

Depreciation expenses in the second quarter of 2017 amounted to USD 39 million compared with USD 31 million in the corresponding period of the previous year. The increase is mainly due to the addition of depreciation relating to periodic maintenance work.

Other expenses

Other expenses in the second quarter of 2017 amounted to USD 3 million and were mainly made up of amortization of excess costs. Other expenses in the corresponding period last year amounted to USD 4 million and were made up mainly of amortization of excess costs in the amount of USD 3 million and voluntary redundancy expenses of USD 1 million.

2.2.4 Net income

The accounting consolidated net profit in the second quarter of 2017 amounted to USD 73 million, compared with USD 87 million in the corresponding period last year.

The adjusted consolidated net profit in the second quarter of 2017 amounted to USD 60 million, compared with USD net income of USD 30 million in the corresponding period last year. The main factors that affected the adjusted net profit, other than the adjusted operating profit as set out in section 2.2.3 above, are financing expenses and income tax.

Finance expenses

Net consolidated financing expenses in the second quarter of 2017 amounted to USD 36 million compared to USD 26 million in the corresponding period last year. Principal changes in financing expenses, based on financial analysis (USD millions):

	4-6.2017 compared to 4-6.2016
Decrease in interest on short term credit and for working capital items	2
Changes in fair value of hedge transactions	8
Total	**10**

Income tax

Tax expenses in the second quarter of 2017 amounted to USD 19 million, compared to USD 23 million in the corresponding period last year, mainly due to the increase in pre-tax profits.

3 Financial position

3.1 Current assets

As of June 30, 2017, current assets amounted to USD 1,362 million, representing 36% of total assets, compared to USD 1,309 million representing 36% of total assets, as of December 31, 2016. The increase of USD 53 million is mainly due to an increase of USD 5 million in cash and deposits, an increase in other receivables of USD 28 million mainly due to insurance indemnification receivable for loss of profits amounting to USD 13 million as set out in Note 8G to the consolidated financial statements, an increase in current maturities of a loan to Haifa Early Pensions in the amount of USD 4 million and an increase in prepaid expenses of USD 7 million, an increase in trade receivables of USD 28 million due mainly to an increase in prices, offset by a decrease in financial derivatives in the amount of USD 4 million and decrease in inventories of USD 5 million.

3.2 Non-current assets

At June 30, 2017, non-current assets amounted to USD 2,401 million, compared to USD 2,359 million at December 31, 2016. The increase of USD 42 million is mainly due to an increase of USD 5 million in property, plant and equipment, which includes an additional investment of USD 83 million (including for the periodic maintenance work as set out in section 2.1.2 above), less depreciation of USD 78 for the period, an increase in financial derivatives in the amount of USD 45 million offsetting a decrease in long term loans and debit balances in an amount of USD 8 million.

3.3 Current liabilities

At June 30, 2017, current liabilities amounted to USD 1,006 million, representing 37% of total liabilities, compared to USD 1,124 million, representing 43% of total liabilities as of December 31, 2016. The decrease of USD 118 million is mainly due to a decrease in trade payables in the amount of about USD 38 million, is primarily due to a payment to the Haifa Port in the amount of USD 47 million (see Note 5A1a to the consolidated financial statements) offsetting an increase in interest bearing supplier credit due to the periodic maintenance work carried out in the first quarter of 2017, a decrease of USD 64 million in short term borrowings mainly due to a decrease in current maturities of debentures of USD 71 million (see Notes 14A and B to the annual financial statements and Note 7 a to the consolidated financial statements), offset by an increase in current maturities of long-term bank loans in the amount of USD 9 million, a decrease in accounts payable of USD 20 million mainly due to a decrease in accrued interest on debentures (see Note 14 to the consolidated financial statements), a decrease in financial derivatives of USD 6 million, offset by an increase in provisions in the amount of USD 9 million.

3.4 Non-current liabilities

As of June 30, 2017, non-current liabilities amounted to USD 1,723 million, compared to USD 1,507 million at December 31, 2016. The increase of USD 216 million is mainly from a net increase in debentures in the amount of USD 196 million resulting from the net issue of debentures in the amount of USD 170 million as set out in Note 8E to the consolidated financial statements, a decrease in current maturities in the amount of USD 71 million, the effect of the appreciation and changes in fair value in the amount of USD 76 million offset by repayments for the period in the amount of USD 121 million, an increase in deferred tax liabilities of USD 20 million, an increase in other long term liabilities in the amount of USD 13 million, offsetting a decline in long term bank liabilities of USD 1 million, which is mainly due to repayments in the period of USD 28 offset by loans received in the amount of USD 34 million (net of capital raising costs) and a decrease in current maturities of USD 9 million offset by a decrease in financial derivatives of USD 16 million.

3.5 Capital

As of June 30, 2017, total equity amounted to USD 1,034 million, representing 27% of the statement of financial position, compared to USD 1,037 million, representing 28% of the statement of financial position at December 31, 2016. The decrease of USD 3 million in equity is mainly due to the profit for the period of USD 92 million, net of declared and distributed dividends in the amount of USD 85 million, as set out in Note 8A to the consolidated financial statements, the change in costs of fair value hedging in the amount of USD 2 million, change in the fair value of cash flow hedges in the amount of USD 10 million as set out in Note 3 to the consolidated financial statements, a share-based payment of USD 1 million, and a net change in the fair value of the debentures which is attributed to changes in the Group's credit risk in the amount of USD 1 million.

4 Liquidity

Total current assets less current liabilities as of June 30, 2017 amounted to USD 356 million and to USD 185 million as of December 31, 2016.
The current ratio as of June 30, 2017 is 1.35 and at December 31, 2016 was 1.16.

Cash flows from Bazan Group’s ongoing operating activities in the Reporting Period amounted to USD 182 million and are mainly due to profits in the period of USD 92 million, adjustment of non-cash income and expenses in the amount of USD 150 million, offset by changes in income and liability items of USD 52 million and offset by an amount of USD 8 million in income taxes paid mainly with regard to the dividends that were announced and paid in the Reporting Period, as set out in Note 8A to the consolidated financial statements.

Cash flows from Bazan Group's operating activities, which take into account net interest payments of USD 84 million, classified under financing and investment activities, amounted to USD 98 million in the Reporting Period.

Cash used for investment activities in the Reporting Period amounted to USD 52 million and were mainly used to finance an investment of USD 84 million in property, plant and equipment (including periodic maintenance) offsetting a decrease in deposits in the amount of USD 31 million and interest receipts of USD 1 million.

Cash used for financing activities amounted to USD 98 million in the Reporting Period. The cash was used mainly to repay short-term borrowings of USD 1 million and long-term borrowings and debentures in the amount of USD 149 million, for the distribution of a dividend in the amount of USD 85 million (as set out in Note 8A to the consolidated financial statements), for interest payments in the amount of USD 85 million, offset by net proceeds of USD 170 million from the issue of debentures (as set out in Note 8A to the consolidated financial statements), receipt of long term borrowings (less capital raising costs) amounting to USD 31 million and deposits received from customers and others in the amount of USD 21 million.

Sources of Finance

Composition of Bazan Group financing sources and uses:

	1-6.2017	1-6.2016
	USD millions	
Sources		
Dividend from investees	--	2
Cash from operating activities (prior to changes in working capital)	242	256
Decrease in deposits, net	31	--
Derivative transactions, net	--	1
Issue of debentures, net	170	145
Receipt of long term borrowings, net of capital raising costs	31	55
Receipt of short-term credit and deposits from customers and others, net	20	--
Total sources	**494**	**459**
Uses		
Increase in working capital	52	12
Dividend paid	85	--
Investments in property, plant and equipment and intangible assets	84	79
Interest paid, net	84	58
Repayment of long-term loans and debentures, net	149	160
Increase in cash for the period	32	50
Increase in deposits, net	--	18
Receipt of short-term credit and deposits from customers and others, net	--	82
Income tax payments less	8	--
Total uses	**494**	**459**

Total credit from financial institutions

Breakdown of Bazan Group's net debt to financial institutions and debenture holders as of June 30, 2017 (USD million):

	Bazan	Subsidiaries	Total
Short-term loan (1)	--	--	--
Bank loans (2)	467	21	488
Debentures (2)(3)	1,188	--	1,188 (*)
Liquid financial assets (4)	(315)	(61)	(376)
Total net financial debt	1,340	(40)	1,300

(1) At Bazan - offset by the short-term debt to subsidiaries

(2) Including current maturities

(3) Presented at liability value

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

At December 31, 2016, the Group's net financial debt amounted to approximately USD 1,178 million and at March 31, 2017 to approximately USD 1,261 million.

(*) In accordance with the Company's hedging policy, principal and interest swap transactions were carried out against the issue of NIS debentures, the liability value balance of which as of June 30, 2017 is an asset of USD 44 million (at December 31, 2016 a liability of USD 22 million and at March 31, 2017 an asset of USD 16 million).

For further information concerning short term secured lines of credit through December 31, 2017 see Note 13A to the annual financial statements. As of June 30, 2017, the Group has unused secured bank credit facilities of USD 303 million (the Company's share of which is USD 257 million).

5 Average volume of sources of finance in the Reporting Period

Long term loans and debentures (including current maturities, net of capital raising costs) amounts to USD 1,616 million, short term financial borrowings amount to USD 53 million, net working capital amounts to USD 139 million (of which the average for trade receivables is USD 373 million and trade payables is USD 694 million).

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, 2015.

7 Corporate governance

7.1 Directors with accounting and financial expertise

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

7.2 Independent directors

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

7.3 Salaries of officers and considerations on which the Board of Directors base such salaries

There was no change to the Board of Directors' considerations underlying the salaries of officers, in respect of the disclosure in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2016.

7.4 Disclosure regarding the internal auditor in a reporting corporation

In the Reporting Period, there was no change in the disclosure given in this matter in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2016.

8 Disclosure of financial reporting

8.1 Additional information contained in the auditors' report to shareholders

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

the provisions in Note 5A to the financial statements (including the reference to the content of Note 20 to the annual financial statements), with regard to administrative and other proceedings, other contingencies, and laws and regulations relating to the environment. Based on the opinions of their legal counsels, the managements of the Company and the subsidiaries, believe that it is not possible at this stage to assess the foregoing impact on the results of operations and on the financial situation, if any exists, and therefore, no provision regarding this matter was included in the financial statements.

8.2 Use of estimates and judgments

For further information regarding the use of estimates and judgments, see Note 2 to the consolidated financial statements.

8.3 Definition of insignificant transactions in the Company's financial statements

In the Reporting Period, there were no changes in the definition of insignificant transactions with regard to the disclosure given in this regard in the 2016 Periodic Report.

9 Details of outstanding debentures

In the Reporting Period, no changes were made 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 calling for immediate redemption of the debentures, in the Company's compliance with these conditions and in the collateral provided for the debentures, as described in the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2016 and in the notes to the financial statements for that year, other than the upgrading of the rating for the debentures and the issue of new debentures (Series I), as set out in Notes 8D and 8E 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 financing banks 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.

10 Significant subsequent events

10.1 For further information see Notes 5 and 8 to the Consolidated Financial Statements and revised description of the Corporation's business as set out below.

10.2 Effect of changes in exchange rates and prices of crude oil

Changes in exchange rates: from the end of the Reporting Period through date of approval of the interim financial statements, there was a depreciation of 3.2% in the shekel-dollar exchange rate. The Company uses hedging transactions to partially offset this exposure, as part of its risk management policy.

10.3 Changes in crude oil prices: The price of oil, which was USD 47 per barrel as at the Reporting Date, was USD 53 per barrel shortly before the publication date of the interim financial statements.

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

Ovadia Eli	Avner Maimon
Chairman of the Board of Directors	**CEO**

August 6, 2017

Revision of the Description of the Company's Businesses in the Periodic Report as at December 31, 2016

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:

1. Further to that stated in section 1.19.7 of Chapter A of the Periodic Report concerning licenses held by the Group companies, the temporary permits held by the Group companies that were issued by Haifa Municipality, were extended until October 30, 2017.
2. Further to that stated in section 1.12.4 of Chapter A of the Periodic Report concerning the decision of the National Planning and Building Council (the "National Council") to hold an additional hearing on the outline plan for the land on which the facilities of the Group companies are located, on June 8, 2017 the Company received the decision of the National Council, approving the plan with amendments as set out in the decision, mainly reducing additional building permittable in the compound to 5% of the current existing building in the compound. Subsequent to the Reporting Period, an administrative petition was filed against the decision of the National Council.
3. Further to the provisions of section 1.18.2 of Chapter A of the Periodic Report, the Minister of Environmental Protection informed the Company in the Reporting Period that at certain monitoring stations in the Haifa Bay area higher pollution levels were recorded for Bazan than in the past and that it was considering adopting measures including the issue of a temporary injunction and an order to reduce air emissions pursuant to the Clean Air Law, which will include a requirement to map and treat suspected sources of benzene emissions, reducing time schedules for implementing emission reducing measures in benzene containing equipment and other measures. The Company has submitted its mapping plan to the Ministry as required and is in touch with it regarding this matter.
4. Further to that stated in section 1.6.13.5 of Chapter A of the Periodic Report concerning the dates of the planned periodic maintenance work on the Company's plants, periodic maintenance work was carried out in the Reporting Period on part of the Company's plants and on Carmel Olefins plants. The Company also decided that the periodic maintenance work on the crude refining plant 3 and related facilities planned for 2017, will be carried out in 2018.
5. Further to the provisions of section 1.2.6 of Chapter A of the Periodic Report, on July 16, 2017 the Company announced that it was conducting negotiations with Energean Israel Limited ("Energean"), the leaseholder of the Karish and Tanin gas reservoirs (the "Gas Reservoir"), to formulate a non-binding Memorandum of Understanding (the "MOU") based on which, if and when it is signed, the parties will conduct negotiations for signing a detailed and binding agreement for the supply of natural gas (if it will be signed), under which the Company will purchase natural gas in volumes and for periods that will be agreed upon under the supply agreement. This for the purpose of running the plants of the Company and the subsidiaries operating in the Haifa Bay.

The highlights of the draft MOU are as follows:

(a) The total volume of gas that the Company is expected to purchase from Energean is 17 BCM throughout the entire expected supply period.

(b) The supply period will commence once the flow of gas from the Gas Reservoir begins and is expected to end once the total contractual volume is consumed or 15 years from the date on which the natural gas is piped to the Company, on the earlier of these dates, and if the total contractual volume is not consumed, the parties may extend the term of the agreement (if it will be signed) for an additional term, and this subject to compliance with conditions and targets that will be defined under the binding agreement.

(c) A Take or Pay mechanism for a minimum annual volume of natural gas to be fixed and in accordance to a mechanism that will be defined.

(d) The price of the natural gas will be linked to an electricity generation component and will include a minimum price.

The negotiations with Energean are being conducted by the Company, Israel Chemicals Ltd.[2], and OPC Energy Ltd.[3] (the "Purchasers"), jointly, to leverage the combined purchasing power of the Purchasers in order to obtain preferred purchase terms from Energean.

The Purchasers' intention is that at the end of the process, each of the Purchasers will sign a separate MOU. Nonetheless, further negotiations for a binding supply agreement may be subject to each of the Purchasers signing a MOU. To the best of the Company's knowledge, no MOU has yet been signed between any of the Purchasers and Energean.

It is clarified that if and when they will be signed, the MOUs are non-binding and the engagement in an agreement for the supply of gas and the actual supply of gas thereunder are subject, among other things, to conclusion of the negotiations, signing of the binding agreement and compliance with various milestones and contingencies. If and when it will be signed, it will be approved as required by the competent organs of the Company.

Forward-looking information: The information set out above concerning the draft MOU, including with regard to concluding negotiations, signing the MOU and its terms and conditions, are forward looking information, as defined in the Securities Law, and is contingent and pending several factors. The foregoing information may not materialize or may materialize in a manner significantly different from that set out above due to various factors, including failure to reach an agreement between the parties or failure to obtain the required approvals regarding the MOU criteria.

[2] A public company controlled by Israel Corp Ltd., the controlling shareholder of the Company.

[3] According to information given to the Company, a company controlled by Kanon Holdings Ltd. ("Kanon"). Kanon is an affiliate of the controlling shareholders of Israel Corp, and its shares are listed in a dual listing and are traded on the New York Stock Exchange (NYSE) and the Tel Aviv Stock Exchange Ltd. (TASE).

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

Upon completion of the arrangement to replace Carmel Olefins debentures with debentures (Series G) of the Company, under which Carmel Olefins provided collateral for the Company's obligations to the holders of its debentures (Series G) as set out in Note 14A to the Annual 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 Interim 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)

	As at		
	June 30, 2017	June 30, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	52,146	26,301	28,161
Customers	108,135	89,837	98,544
Other receivables	63,619	11,584 (*)	3,469
Financial derivatives	4,453	5,463	7,727
Inventories	56,903	37,902	51,119
Total current assets	285,256	171,087	189,020
Non-current assets			
Financial derivatives	8,099	404	453
Long term receivables	9,930	27,640 (*)	11,851
Property, plant and equipment, net	658,246	681,929	674,475
Intangible assets, net	6,745	7,475	7,164
Total non-current assets	683,020	717,448	693,943
Total assets	968,276	888,535	882,963

(*) Reclassified

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

	As at		
	June 30, 2017	June 30, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current liabilities			
Current maturities of bank loans	47,576	33,090	44,014
Loan to subsidiary (including current maturities)	5,750	50,655	2,808
Trade payables	56,037	69,793	39,844
Other payables	20,732	16,547	17,568
Financial derivatives	3,489	2,574	2,576
Provisions	7,754	5,763	6,090
Total current liabilities	141,338	178,422	112,900
Non-current liabilities			
Liabilities to banks, net	15,375	60,021	6,782
Loan from the parent company, net	119,003	105,740	149,428
Other long-term liabilities	11,887	--	9,852
Financial derivatives	116	1,351	756
Employee benefits, net	19,033	17,543	17,722
Deferred tax liabilities, net	81,776	58,821	70,396
Total non-current liabilities	247,190	243,476	254,936
Total liabilities	388,528	421,898	367,836
Capital			
Share capital	116,997	116,997	116,997
Capital reserves	(11,716)	(11,514)	(11,306)
Retained earnings	474,467	361,154	409,436
Total capital	579,748	466,637	515,127
Total liabilities and capital	968,276	888,535	882,963

B. Carmel Olefins - Condensed Consolidated Interim Statements of Income and Other Comprehensive Income

	The six months ended		The three months ended		Year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
Revenue	454,573	344,985	235,442	158,112	727,499
Cost of sales	344,523	242,196	172,395	112,877	529,990
Gross income	110,050	102,789	63,047	45,235	197,509
Selling and marketing expenses	14,288	11,007	6,996	5,087	24,439
General and Administrative Expenses:	8,123	6,751	4,154	3,395	14,177
Other income	--	--	--	--	(2,409)
Other expenses	--	2,074	--	894	4,459
Operating profit	87,639	82,957	51,897	35,859	156,843
Financing revenues	34	82	24	40	314
Finance expenses	(8,184)	(8,732)	(4,086)	(4,608)	(21,526)
Financing expenses, net	(8,150)	(8,650)	(4,062)	(4,568)	(21,212)
Income before taxes on income	79,489	74,307	47,835	31,291	135,631
Income tax	(14,458)	(14,216)	(8,952)	(5,021)	(27,461)
Net profit for the period	**65,031**	**60,091**	**38,883**	**26,270**	**108,170**
Items of other comprehensive income (loss) transferred to profit or loss					
Effective share of the change in fair value of cash flow hedging, net of tax	(1,081)	1,183	(134)	1,133	844
Foreign currency translation differences for foreign operations	504	(446)	492	178	(228)
Other comprehensive income (loss) transferred to profit or loss, net of tax	(577)	737	358	1,311	616
Items of other comprehensive loss, net of tax, not transferred to profit or loss					
Reclassification of defined benefit plan, net to tax	--	(344)	--	(344)	(141)
Items of other comprehensive income (loss), net of tax, not transferred to profit or loss	--	(344)	--	(344)	(141)
Total income for the period	**64,454**	**60,484**	**39,241**	**27,237**	**108,645**

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

	The six months ended		The three months ended		Year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Net profit for the period	65,031	60,091	38,883	26,270	108,170
Adjustments to cash flows from operating activities:					
Expenses not involving cash flows (Appendix A – section A)	52,187	32,055	25,524	11,606	76,074
	117,218	92,146	64,407	37,876	184,244
Changes in assets and liabilities items (Appendix A - section B)	(17,684)	77,431	1,724	14,152	50,551
Interest paid, net	(9,041)	(10,853)	(2,999)	(2,433)	(18,282)
Income tax paid	(118)	(109)	(74)	(67)	(204)
Net cash from ongoing operating activities	90,375	158,615	63,058	49,528	216,309
Cash flow for investment activities					
Change in deposits, net	594	(101)	9	(77)	17,681
Loans to employees, net	13	35	5	17	63
Parent company's receivables	(37,006)	--	(37,006)	--	--
Investments in property plant and equipment (including periodic maintenance)	(3,417)	(39,458)	(2,717)	(32,471)	(67,672)
Net cash used for investing activities	(39,816)	(39,524)	(39,709)	(32,531)	(49,928)
Cash flow from financing activities					
Long term loans received from parent company	--	--	--	--	57,335
Repayment of short-term loan, net	(831)	(77,744)	(538)	(6,601)	(79,290)
Repayment of long term borrowings from banks	(2,875)	(6,919)	(1,437)	(3,459)	(106,394)
Receipts (payments) from currency exchange transaction and interest, net	336	(1,683)	1,550	(85)	(1,683)
Repayment of long term borrowings from banks	15,000	--	--	--	--
Repayment of a loan from parent company	(38,725)	(32,879)	(1,783)	--	(34,349)
Net cash used in finance activities	(27,095)	(119,225)	(2,208)	(10,145)	(164,381)
Increase (decrease) in cash and cash equivalents	**23,464**	**(134)**	**21,141**	**6,852**	**2,000**
Effect of exchange rate fluctuations on cash and cash equivalents	521	1,083	409	517	809
Cash and cash equivalents at beginning of period	28,161	25,352	30,596	18,932	25,352
Cash and cash equivalents at the end of the period	**52,146**	**26,301**	**52,146**	**26,301**	**28,161**

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

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

		The six months ended		The three months ended		Year ended
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2017	June 30, 2016
		(Unaudited)		(Unaudited)		(Audited)
A.	**Income and expenses not that do not involve cash flow**					
	Depreciation and amortization	24,792	18,047	12,802	9,262	43,394
	Net financing expenses recognized in profit or loss	16,942	8,470	4,406	1,067	19,378
	Other income	--	--	--	--	(2,409)
	Net changes in fair value of derivative financial instruments	(4,172)	(8,942)	(716)	(3,861)	(12,343)
	Share-based payment of parent company	167	264	79	117	593
	Income tax	14,458	14,216	8,953	5,021	27,461
		52,187	32,055	25,524	11,606	76,074
B.	**Changes in assets and liabilities**					
	Decrease (increase) in trade receivables	(8,091)	26,501	(20,722)	26,007	16,911
	Decrease (increase) in other receivables	(23,037)	24,694	(8,639)	117	27,998
	Decrease (increase) in inventory	(4,690)	11,291	3,506	18,992	(2,700)
	Increase (decrease) in trade payables	14,738	17,255	23,468	(31,542)	8,326
	Increase (decrease) in other accounts payable	1,260	(3,124)	3,659	1,462	(2,238)
	Increase (decrease) in provisions	1,348	(35)	354	(810)	290
	Increase (decrease) in employee benefit liabilities, net	788	849	98	(74)	1,964
		(17,684)	77,431	1,724	14,152	50,551

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Auditors Report to the Shareholders of Bazan Limited

Introduction

We have reviewed the accompanying financial information of Bazan Limited ("the Company" and its subsidiaries (“the Group"), including the condensed consolidated statement of financial position as at June 30, 2017 and the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six and three months then ended. The board of directors and the management are responsible for preparation and presentation of the financial information for these interim periods in accordance with IAS 34 - Interim Financial Reporting, and are also responsible for preparation of the interim financial information for these periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express an opinion on the financial information for these interim periods based on our review.

Review scope

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that this financial information is not prepared, in all material respects, in accordance with IAS 34.

Additionally, based on our review, nothing has come to our attention that causes us to believe that this financial information is not prepared, in all material respects, in accordance with the disclosure provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our above conclusions, we draw attention to the contents of Note 5A to the financial statements (including by way of reference to Note 20 to the annual financial statements) regarding administrative and other proceedings, other contingencies, laws and regulations relating to the environment. 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 financial position, if any exists, and therefore, no provision regarding this matter was included in the financial statements.

Somekh Chaikin
Certified Public Accountants

Haifa, August 6, 2017

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	June 30, 2017	June 30, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	328,476	337,686	290,399
Deposits	47,698	56,397	80,370
Trade receivables	406,233	341,401	377,812
Other receivables	44,638	25,958	16,586
Financial derivatives	8,532	8,670	12,665
Inventory	526,314	486,688	531,271
Total current assets	1,361,891	1,256,800	1,309,103
Non-current assets			
Investments in associates	1,673	3,130	2,449
Loan to Haifa Early Pensions Ltd.	49,730	49,991	48,178
Long term loans and debit balances	5,341	31,994 (*)	13,146
Financial derivatives	54,580	11,922	9,590
Property, plant and equipment, net	2,260,100	2,240,492	2,255,227
Intangible assets and deferred expenses, net	29,264	30,333	30,006
Total non-current assets	2,400,688	2,367,862	2,358,596
Total assets	3,762,579	3,624,662	3,667,699

*) Reclassified, see Note 2C

Ovadia Eli **Chairman, Board of Directors**	**Avner Maimon** **CEO**	**Israel Lederberg** **CFO**

Approval date of the condensed interim financial statements: August 6, 2017

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

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	June 30, 2017	June 30, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings (including current maturities)	175,136	282,065	238,811
Trade payables	651,137	595,072	689,337
Other payables	108,879	92,663	128,429
Financial derivatives	16,500	19,955	22,589
Provisions	53,922	43,291	44,564
Total current liabilities	1,005,574	1,033,046	1,123,730
Non-current liabilities			
Liabilities to banks, net	409,606	471,790	410,726
Debentures, net	1,115,271	977,578	918,834
Other long-term liabilities	40,909	18,654	28,167
Financial derivatives	126	17,395	15,865
Employee benefits, net	54,436	50,870	50,400
Deferred tax liabilities, net	102,720	67,058	82,880
Total non-current liabilities	1,723,068	1,603,345	1,506,872
Total liabilities	2,728,642	2,636,391	2,630,602
Capital			
Share capital	805,282	805,282	805,282
Share premium	31,962	31,962	31,962
Capital reserves	31,263	36,616	41,286
Retained earnings	165,430	114,411	158,567
Total capital	1,033,937	988,271	1,037,097
Total liabilities and capital	3,762,579	3,624,662	3,667,699

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

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

	Six months ended		Three months ended		Year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
Revenue	2,583,381	2,056,917	1,378,234	1,131,866	4,320,868
Cost of sales	2,312,403	1,787,439	1,217,731	962,109	3,836,449
Gross profit	270,978	269,478	160,503	169,757	484,419
Selling and marketing expenses	39,257	41,881	21,024	20,652	82,946
General and administrative expenses	23,690	26,363	12,192	12,201	49,370
Other revenues, net	--	--	--	--	(990)
Loss from impairment of cash-generating units	--	--	--	--	13,700
Voluntary redundancy expenses	--	1,011	--	1,011	9,854
Operating profit	208,031	200,223	127,287	135,893	329,539
Financing income	(8,682)	(11,067)	(7,816)	10,237	(2,458)
Financing expenses	91,226	73,339	43,339	16,020	134,047
Financing expenses, net	82,544	62,272	35,523	26,257	131,589
Company's share in profits (losses) of associates, net of tax	(456)	(153)	87	64	(56)
Income before taxes on income	125,031	137,798	91,851	109,700	197,894
Income tax	33,168	22,998	18,919	23,028	40,050
Net income for the period	**91,863**	**114,800**	**72,932**	**86,672**	**157,844**
Items of other comprehensive income (loss) transferred to profit or loss					
Foreign currency translation differences for foreign operations	504	(446)	492	178	(228)
Effective share of the change in fair value of cash flow hedging, net of tax (see Note 3)	(10,209)	1,183	(339)	1,133	1,418
Change in fair value hedging costs, net of tax	(1,536)	2,442	(386)	978	3,544
Other comprehensive income (loss) for the period transferred to profit or loss, net of tax	(11,241)	3,179	(233)	2,289	4,734
Items of other comprehensive income (loss) not transferred to profit or loss					
Remeasurement of a defined benefit plan, net of tax	--	(1,360)	--	(1,360)	(248)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	577	(2,964)	(1,280)	(3,668)	(929)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	9	7	4	(7)	(3)
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	586	(4,317)	(1,276)	(5,035)	(1,180)
Comprehensive income for the period	**81,208**	**113,662**	**71,423**	**83,926**	**161,398**
Earnings per share (USD)					
Basic and diluted earnings per 1 ordinary share	0.029	0.036	0.023	0.027	0.049

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

Condensed Consolidated Interim Statements of Changes in Equity
USD thousands

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

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

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

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial instruments at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Six months ended June 30, 2016 (unaudited)									
Balance as at January 1, 2016 (audited)	**805,282**	**31,962**	**10,245**	**5,868**	**(6,807)**	**28,478**	**1,213**	**(3,624)**	**971**	**873,588**
Profit for the period	--	--	--	--	--	--	--	--	**114,800**	**114,800**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	--	--	--	(446)	--	--	--	--	--	(446)
Change in fair value hedging costs, net of tax	--	--	--	--	--	--	2,442	--	--	2,442
Remeasurement of a defined benefit plan, net of tax	--	--	--	--	--	--	--	--	(1,360)	(1,360)
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	1,183	--	--	1,183
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	--	--	--	--	--	--	(2,964)	--	(2,964)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	--	--	--	--	7	--	--	--	--	7
Total other comprehensive income (loss) for the period, net of tax	--	--	--	**(446)**	**7**	--	**3,625**	**(2,964)**	**(1,360)**	**(1,138)**
Total other comprehensive income (loss) for the period	--	--	--	**(446)**	**7**	--	**3,625**	**(2,964)**	**113,440**	**113,662**
Share-based payment	--	--	**1,021**	--	--	--	--	--	--	**1,021**
Balance as at June 30, 2016	**805,282**	**31,962**	**11,266**	**5,422**	**(6,800)**	**28,478**	**4,838**	**(6,588)**	**114,411**	**988,271**

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

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

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

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

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

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial instruments at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings	Total capital
	Three months ended June 30, 2016 (unaudited)									
Balance as at April 1, 2016	**805,282**	**31,962**	**10,806**	**5,244**	**(6,793)**	**28,478**	**2,727**	**(2,920)**	**29,099**	**903,885**
Profit for the period	--	--	--	--	--	--	--	--	86,672	86,672
<u>Other comprehensive income (loss):</u>										
Foreign currency translation differences for foreign operations	--	--	--	178	--	--	--	--	--	178
Change in fair value hedging costs, net of tax	--	--	--	--	--	--	978	--	--	978
Remeasurement of a defined benefit plan, net of tax	--	--	--	--	--	--	--	--	(1,360)	(1,360)
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	1,133	--	--	1,133
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	--	--	--	--	--	--	(3,668)	--	(3,668)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	--	--	--	--	(7)	--	--	--	--	(7)
Total other comprehensive income (loss) for the period, net of tax	**--**	**--**	**--**	**178**	**(7)**	**--**	**2,111**	**(3,668)**	**(1,360)**	**(2,746)**
Total other comprehensive income (loss) for the period	**--**	**--**	**--**	**178**	**(7)**	**--**	**2,111**	**(3,668)**	**85,312**	**83,926**
Share-based payment	**--**	**--**	**460**	**--**	**--**	**--**	**--**	**--**	**--**	**460**
Balance as at June 30, 2016	**805,282**	**31,962**	**11,266**	**5,422**	**(6,800)**	**28,478**	**4,838**	**(6,588)**	**114,411**	**988,271**

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

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

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial instruments 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, 2016 (audited)									
Balance as at January 1, 2016	**805,282**	**31,962**	**10,245**	**5,868**	**(6,807)**	**28,478**	**1,213**	**(3,624)**	**971**	**873,588**
Income for the year	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**157,844**	**157,844**
<u>Other comprehensive income (loss):</u>										
Foreign currency translation differences for foreign operations	--	--	--	(228)	--	--	--	--	--	(228)
Change in fair value hedging costs, net of tax	--	--	--	--	--	--	3,544	--	--	3,544
Remeasurement of a defined benefit plan, net of tax	--	--	--	--	--	--	--	--	(248)	(248)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	--	--	--	--	--	--	(929)	--	(929)
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	1,418	--	--	1,418
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	**--**	**--**	**--**	**(228)**	**(3)**	**--**	**4,962**	**(929)**	**(248)**	**3,554**
Total other comprehensive income (loss) for the year	**--**	**--**	**--**	**(228)**	**(3)**	**--**	**4,962**	**(929)**	**157,596**	**161,398**
Share-based payment	**--**	**--**	**2,111**	**--**	**--**	**--**	**--**	**--**	**--**	**2,111**
Balance as at December 31, 2016	**805,282**	**31,962**	**12,356**	**5,640**	**(6,810)**	**28,478**	**6,175**	**(4,553)**	**158,567**	**1,037,097**

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

Condensed Consolidated Interim Statements of Cash Flows
USD thousands

	Six months ended		Three months ended		Year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Profit for the period	91,863	114,800	72,932	86,672	157,844
Adjustments to cash flows from operating activities:					
Revenue and expenses not involving cash flows (Appendix A – section A)	150,171	141,477	83,095	82,520	319,700
	242,034	256,277	156,027	169,192	477,544
Changes in assets and liabilities (Appendix A – section B)	(51,912)	(12,113)	(103,686)	(60,739)	22,337
Income tax paid (see Note 8A)	(8,505)	(340)	(336)	(100)	(1,101)
Net cash from operating activities	181,617	243,824	52,005	108,353	498,780
Cash flow used for investment activities					
Interest received	1,011	667	634	556	2,060
Decrease (increase) in deposits, net	31,186	(18,301)	(4,927)	547	(31,224)
Dividend received from investees	320	1,689	21	378	2,421
Repayment of long-term loans from others, net	37	111	17	66	214
Repayment of loan from Haifa Early Pensions	--	--	--	--	4,035
Acquisition of property, plant and equipment (including periodic maintenance) (**)	(83,750)	(78,914)	(34,754)	(57,105)	(187,838)
Purchase of intangible assets and deferred expenses	(1,047)	(479)	(702)	(228)	(1,775)
Net cash used for investment activities	(52,243)	(95,227)	(39,711)	(55,786)	(212,107)
Cash flow from financing activities					
Short-term borrowing, net	(1,455)	(81,931)	(637)	(6,068)	(82,510)
Receipt (return) of deposits from customers and others, net	21,076	1,906	8,345	(467)	8,747
Interest paid (*)	(84,916)	(59,063)	(40,715)	(40,558)	(84,055)
Derivative transactions, net	(271)	834	(110)	2,808	(12,234)
Receipt of long-term bank loans, net of raising costs	31,457	55,000	--	30,000	411,613
Repayment of long-term bank loans	(28,280)	(93,214)	(18,592)	(69,298)	(599,302)
Repayment of debentures (*)	(120,576)	(66,846)	(35,589)	(32,092)	(69,106)
Issue of debentures (less issuance expenses)	170,188	144,607	170,188	144,607	144,607
Dividend paid	(85,000)	--	--	--	--
Net cash from (used for) financing activities	(97,777)	(98,707)	82,890	28,932	(282,240)
Net increase in cash and cash equivalents	31,597	49,890	95,184	81,499	4,433
Effect of exchange rate fluctuations on cash and cash equivalents	6,480	1,447	6,077	(664)	(383)
Cash and cash equivalents at beginning of period	290,399	286,349	227,215	256,851	286,349
Cash and cash equivalents at the end of the period	328,476	337,686	328,476	337,686	290,399

(*) As at December 31, 2016, principal and interest payments on the debentures in the amount USD 48,804 thousand and USD 27,186 thousand, respectively, were deferred under the provisions of the deeds of trust as at January 1, 2017, since the contractual repayment date was not a business day.

(**) In the first quarter of 2017, periodic maintenance was performed in some of the Company's facilities, including the CCR facility, and in all Gadiv's facilities, with a direct cost amounting to USD 56 million (of which, USD 26 million at the Company and USD 30 million at Gadiv). As at June 30, 2017, a total of USD 12 million has not yet been paid. For information about the cost of periodic maintenance in 2016, see Note 11 A to the Annual Statements.

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

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

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

	Six months ended		Three months ended		Year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
A. Income and expenses not included in cash flows:					
Depreciation and amortization	78,204	65,434	42,400	33,378	141,349
Other revenue	--	--	--	--	(990)
Loss from impairment of cash-generating units	--	--	--	--	13,700
Financing expenses, net	60,275	43,499	32,516	19,638	112,838
Net changes in fair value of derivatives	(12,884)	(3,710)	(5,885)	(2,258)	(3,087)
Changes in fair value of the loan to Haifa Early Pensions Ltd.	(5,923)	(1,698)	(2,674)	748	(1,079)
Share in losses (profits) of associates, net	456	153	(87)	(64)	56
Loss (gain) and change in inventory hedge deposits, net	(3,757)	13,780	(2,380)	7,590	14,752
Share-based payments	632	1,021	286	460	2,111
Income tax	33,168	22,998	18,919	23,028	40,050
	150,171	141,477	83,095	82,520	319,700
B. Changes in assets and liabilities					
Decrease (increase) in trade receivables	(26,939)	16,625	(71,396)	(19,917)	(20,669)
Decrease (increase) in other receivables	(24,228)	16,260	(7,890)	26,915	26,596
Decrease (increase) in inventory	6,052	(50,870)	62,567	(125,432)	(96,157)
Increase (decrease) in trade payables	(26,389)	16,826	(74,950)	95,150	116,053
Increase (decrease) in other payables and provisions	16,161	(11,211)	(12,841)	(35,568)	(5,226)
Increase (decrease) in employee benefits, net	3,431	257	824	(1,887)	1,740
	(51,912)	(12,113)	(103,686)	(60,739)	22,337

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

NOTE 1 –GENERAL

1. 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 which operate in Israel and are engaged primarily in the production of oil products, feedstock for the petrochemical industry, materials for the plastics industry, oils, waxes and byproducts. The facilities of the subsidiaries are integrated with those of the Company. The Company also provides water treatment and power generation services (mainly electricity and steam) to a number of industries adjacent to the Haifa refinery. The controlling shareholders in the Company are Israel Corporation Ltd. and Israel Petrochemical Enterprises Ltd.

The interim condensed consolidated interim financial statements as at June 30, 2017 include the statements of the Company and its subsidiaries (jointly: "the Group") and the Group's interests in associates.

NOTE 2 - BASIS OF PREPARATION

1. 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, 2016 and for the year then ended ("the Annual Statements"). Additionally, these statements have been prepared in accordance with the provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed consolidated interim financial statements were approved by the Company's Board of Directors on August 6, 2017.

2. Use of estimates and judgments

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

3. Reclassification

As at June 30, 2016, employee benefits, deferred taxes and financial assets at fair value through other comprehensive income classified for reasons of immateriality under Loans and long-term receivables.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

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

Accounting policy for new transactions or events

As from January 1, 2017, certain SWAP transactions performed by Carmel Olefins to hedge the margin between the price of polymers that it manufactures and sells (propylene and/or polyethylene) and the price of naphtha were designated as hedging items for the purpose of implementing the cash flow hedge accounting principles for hedging against: (A) changes in market prices of the expected sales of polymers; and (B) changes in market prices of crude oil (the raw material in naphtha production).

In addition, marketable Brent futures acquired by the Company to hedge future cash flow exposure for the expected transaction for acquisition of inventory at the market prices prevalent on completion of the availability transaction described in Note 5B (in this section below: "the Transaction"), were designated as hedging items for the purpose of cash flow hedge accounting, as from their acquisition in the first quarter of 2017, to hedge changes in the market price of crude oil by completion of the transaction.

See section 7B below for further information.

Changes in the fair value of these derivatives that were designated for hedge accounting are recognized from the start of the hedge through other comprehensive income directly in a hedging reserve, to the extent that the hedge is effective. Changes in the fair value of the derivatives, attributable to the hedging cost (for the forward component of the derivatives), are recognized through other comprehensive income, directly in a hedging reserve.

Other fair value changes in these derivatives continue to be recognized under the relevant item in profit or loss. The amount recognized in the hedging reserves is reclassified to profit or loss in the same period that profit or loss is affected by the cash flows and is recognized under the relevant item in the statement of income together with the hedged item. When the hedged item is a non-financial asset, such as inventory or fixed assets, the amount accrued in the hedging reserve is reclassified to the carrying amount of the hedged asset when it is recognized.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued. The cumulative profit or loss previously recognized through other comprehensive income and presented in the hedging reserve remains in equity until the projected transaction is completed or is no longer expected to occur. If the forecasted transaction is no longer expected to occur, then the cumulative profit or loss previously recognized in the hedging reserve is recognized immediately in profit or loss.

NOTE 4 – SEGMENT REPORTING

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

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

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

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

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

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

(1) Adjusted EBITDA in the fuel segment for the six months ended June 30, 2017 - USD 106,285 thousand.

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers: Carmel Olefins	Polymers: Ducor	Polymers: Total	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Six months ended June 30, 2016 (unaudited)								
Revenue from external sources	1,504,049	246,572	97,979	344,551	182,724	2,031,324	25,593	--	2,056,917
Revenue from inter-segment sales	238,169	3,520	--	3,520	14,097	255,786	137	(255,923)	--
Segment revenue	1,742,218	250,092	97,979	348,071	196,821	2,287,110	25,730	(255,923)	2,056,917
Accounting EBITDA	153,855 (1)	86,683	16,395	103,078	7,754	264,686	3,872	(1,890)	266,668
Depreciation and amortization	(38,982)	(15,879)	(2,168)	(18,047)	(2,508)	(59,537)	(560)	--	(60,097)
Accounting EBITDA less depreciation and amortization									206,571
Voluntary redundancy expenses									(1,011)
Amortization of excess cost arising on acquisition of subsidiaries									(5,337)
Operating profit									200,223
Financing expenses, net									(62,272)
Group's share in losses of associates, net of tax									(153)
Income before taxes on income									137,798

(1) Adjusted EBITDA in the fuel segment for the six months ended June 30, 2016 - USD 123,193 thousand.

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

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

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

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers: Carmel Olefins	Polymers: Ducor	Polymers: Total	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Three months ended June 30, 2016 (unaudited)								
Revenue from external sources	862,089	106,136	51,708	157,844	97,761	1,117,694	14,172	--	1,131,866
Revenue from inter-segment sales	113,007	1,427	--	1,427	6,792	121,226	71	(121,297)	--
Segment revenue	975,096	107,563	51,708	159,271	104,553	1,238,920	14,243	(121,297)	1,131,866
Accounting EBITDA	115,497 (1)	36,628	9,387	46,015	2,947	164,459	1,120	4,703	170,282
Depreciation and amortization	(19,908)	(8,160)	(1,102)	(9,262)	(1,258)	(30,428)	(281)	--	(30,709)
Accounting EBITDA less depreciation and amortization									139,573
Voluntary redundancy expenses									(1,011)
Amortization of excess cost arising on acquisition of subsidiaries									(2,669)
Operating profit									135,893
Financing expenses, net									(26,257)
Group's share in profits of associates, net of tax									64
Income before taxes on income									109,700

(1) Adjusted EBITDA in the fuel segment for the nine months ended June 30, 2016: USD 58,040 thousand.

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers: Carmel Olefins	Polymers: Ducor	Polymers: Total	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Year ended December 31, 2016								
Revenue from external sources	3,185,686	533,317	194,067	727,384	365,829	4,278,899	41,969	--	4,320,868
Revenue from inter-segment sales	507,953	5,395	--	5,395	29,504	542,852	240	(543,092)	--
Segment revenue	3,693,639	538,712	194,067	732,779	395,333	4,821,751	42,209	(543,092)	4,320,868
Accounting EBITDA	280,478 (1)	174,338	27,950	202,288	16,515	499,280	(1,326)	(4,502)	493,452
Depreciation and amortization	(81,765)	(39,517)	(1,874)	(41,391)	(4,892)	(128,048)	(722)	97	(128,672)
Accounting EBITDA less depreciation and amortization									364,780
Other revenues, net									990
Impairment loss									(13,700)
Voluntary redundancy expenses									(9,854)
Amortization of excess cost arising on acquisition of subsidiaries									(12,677)
Operating profit									329,539
Financing expenses, net									(131,589)
Group's share in losses of associates, net of tax									(56)
Income before taxes on income									197,894

(1) Adjusted EBITDA in the fuel segment in 2016: USD 213,774 thousand

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

1. Contingent liabilities

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

A) Commercial claims

Further to Note 20B1 to the Annual Statements regarding commercial claims:

1) In the reporting period, the Court dismissed the Company's claim of 2009 against Haifa Port for declaratory relief and accepted the monetary claim of Haifa Port for payment of infrastructure fees for unloading crude oil at the Kiryat Haim sea terminal in 2007-2009. The Company filed an appeal against the judgment.

The Company's financial statements as at December 31, 2016 included provisions for the full amount awarded in favor of Haifa Port and for the full amount of infrastructure fees for the period since the claim was filed, including for interest and linkage differences, amounting to USD 47 million, paid in the reporting period. Accordingly, bank guarantees provided by the Company for most of the infrastructure fees, which amounted to USD 33 million, were released in the reporting period, after repayment.

Subsequent to the reporting date, a judgment was handed down dismissing the additional claim of Haifa Port, which amounted to NIS 10 million as of the date of its filing in 2015.

2) On June 5, 2017, a settlement agreement (in this section: “the Agreement”) with the plaintiff was submitted to the court for approval, amounting to NIS 140 million (as at the filing date), together with a motion for certification as a class action against the State of Israel, the Company, the directors and the CEO regarding the matter of the emergency stockpile agreement.

Under the Agreement, the representative plaintiff, the eligible members of the class (as defined in the Agreement) and their representatives will be paid a total compensation of NIS 14 million. The State’s share in the above compensation will amount to NIS 2 million and the remaining amount, over and above the State’s participation, will be paid by the insurers of the Company and the officers that were sued.

The Company's financial statements as at December 31, 2016 include a provision that is an appropriate reflection of the costs expected to be paid under the Agreement, and an indemnification asset was recognized for the insurance cover for the Company's liability under the Agreement.

The Agreement is subject to the approval of the court, which has not yet been received as of the publication date of this report.

3) Subsequent to the reporting period, the Supreme Court handed down a judgment dismissing the plaintiff’s appeal of the district court’s judgment, which dismissed a claim in the amount of NIS 135 million (at the filing date) and a motion for its certification as a class action, for claims that the Company breached its duty of disclosure, due to the way in which it presented supplier credit and the inventory availability transaction in its financial statements.

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

B) Proceedings with local authorities, including local taxation claims and indirect taxation

Further to Note 20B2 to the Annual Statements regarding demands from the municipality of Haifa and Mei Carmel for the payment of development levies and sewage services, the Company believes, based on the estimate of its legal counsel in this matter, that the Company has included provisions (including for interest and linkage differences recognized in financing expenses in the statement of income) that adequately reflect the costs for these requirements, which will more likely than not be paid.

C) Liabilities relating to environmental quality

1) In the reporting period, Carmel Olefins received a warning for claims of a deviation from the values measured in one of the plant stacks, compared to values set out in the emission permit. Carmel Olefins submitted a detailed response to the warning. At this preliminary stage, Carmel Olefins is unable to estimate the exposure for the warning.

2) Further to Note 20B3 to the Annual Statements regarding the notice of the Ministry of Environmental Protection of its intention to impose a financial sanction on Carmel Olefins for alleged offenses of the emission permit in three technical issues, the Ministry started - concurrently - to investigate the events underlying the financial sanction. The Company is unable to estimate the results of the investigation. The Company believes, based on the opinions of its legal counsel representing it in this matter, that the Company has included an appropriate provision that reflects the costs for the demand for financial sanction that will more likely than not be paid.

3) Further to Note 20B3 of the Annual Statements regarding a claim against the Company in the amount of NIS 753 million (as of the date of its filing), with a motion for its certification as a class action, for the fire that broke out in the intermediate materials storage tank on the Company's premises in December 2016, the Company believes, based on the opinion of its legal counsel representing it in this case, that at this early stage, it is difficult to assess the results of the proceedings or the Company’s exposure. However, based on the evidentiary basis of the claim and the results of similar proceedings, it is more likely than not that the claim will be dismissed. The Company submitted an appropriate notice about the claim to the insurers.

4) Further to Note 20B3 to the Annual Statements regarding an indictment filed against the Company, Carmel Olefins, Gadiv and some of the Company’s officers by the Ministry of Environmental Protection regarding the alleged results of some stack tests in 2011 and in respect of the Company, for other events as well, subsequent to the reporting period, the arrangement was approved and a judgment was handed down convicting the companies of the offenses attributed to them and imposing on them a fine of NIS 1.5 million.

B. As set out in Note 20B3 to the Annual Statements, there are administrative and other proceedings against Bazan Group regarding environmental quality. For some of these claims, the Company believes, based on the opinion of its legal counsel, that at this stage, it is not possible to assess their effect, if any, on the financial statements as at June 30, 2017. Accordingly, no provision regarding this matter was included in the financial statements.

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

2. Agreements

Further to Note 20C to the Annual Statements, there were no significant changes in the Group's agreements in and subsequent to the reporting period, other than the following:

A. New inventory availability agreement

In March 2017, the Company signed an agreement ("the Agreement") for the availability of raw material inventory, mainly crude oil ("Crude Oil"), with an international company ("the Second Party") The Agreement came into effect in the second quarter of 2017.

The main terms of the agreement are as follows:

A) The Company will have available access, over three years ("the Agreement Period") to up to 1.8 million barrels (245 thousand tons) of different types of Crude Oil, owned by the Second Party, by way of exchange with the same quantity of different types of Crude Oil owned by the Company at that date or within short periods as set out in the Agreement.

B) The Company will pay periodic payments to the Second Party ("Availability Fees") for its undertakings in the agreement. The Availability Fees will be recognized as an operating expense in the statement of income over the Agreement Period, and they are expected to amount to millions of US dollars per year (and considering the amounts that the Company would have covered if it would have held similar quantities of crude oil inventory itself, the additional cost is immaterial).

C) To fulfill its obligations under the Agreement, the Second Party will hold the Crude Oil in storage in the facilities of an infrastructure supplier, or under certain conditions, in tankers, and it will have the option of storing inventory of up to 750,000 barrels on the Company's premises, under the terms of the storage agreement with the infrastructure supplier and the availability and storage agreements with the Company.

D) Under the agreement, the Company granted the Second Party a put option, whereby the Second Party may sell to the Company, at the end of the Agreement Period, crude oil as set out in the Agreement (up to 1.8 million barrels) at the market price of crude oil at the end of the Agreement Period. At the reporting date, based on spot market price of crude oil, the value of the inventory in the Agreement is estimated at USD 85 million.

E) To secure its obligations under the Agreement, in the reporting period, the Company provided a bank guarantee of USD 10 million to the Second Party.

F) Each party may terminate the Agreement before the end of the Agreement Period, under certain circumstances. If the Company terminates the Agreement before the end of the Agreement Period, it may be required to pay cancellation fees as set out in the Agreement.

G) The Agreement allows the Company to reduce, over the period of the Agreement, quantities in its crude oil inventory that it would have held in the absence of an inventory availability transaction, resulting in optimal management of its operating inventory as well as to benefit from the financial advantages arising from smaller inventory of 1.8 million barrels, release of cash amounting to USD 85 million, and diversification of financing sources.

Since the Second Party bears the yields and material risks relating to ownership of the inventory relevant to the agreement, and controls the inventory, this inventory is not recognized in the Company's financial statements, but is treated as contract performance (an off-balance sheet agreement).

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

B. Agreements (contd.)

1. New inventory availability agreement (contd.)

It should be noted that in the reporting period, before the Agreement came into effect, the inventory availability agreement set out in sections 20C5(a) and 20C5(b) to the Annual Statements came to an end, and under the put option provided by the Second Party to the Agreement, the Company acquired inventory of 2.25 million barrels, in a financial scope of USD 120 million, based on the spot market price of crude oil at the termination date of the Agreement, instead of the acquisition of inventory in the ordinary course of its business. On the other hand, the bank guarantee provided by the Company for the inventory availability agreement, which amounted to USD 55 million, was released.

3. Guarantees and liens

Further to Note 20A to the Annual Statements, there were no significant changes in the Group's guarantees and liens in and subsequent to the reporting period, other than the following: (1) changes in the ordinary course of business in the amount of open short-term documentary letters of credit to suppliers; (2) release of bank guarantees for infrastructure fees for Haifa Port amounting to USD 33 million, as set out in section A1(a) above; (3) provision of a bank guarantee for the new inventory availability agreement amounting to USD 10 million, as set out in section B above; (4) release of the bank guarantee for the inventory availability agreement that ended, amounting to USD 55 million, as set out in section B above.

NOTE 6 - FINANCIAL COVENANTS

1. The Company

Further to Note 13C1 to the Annual Statements, the following financial covenants, as defined in the Note, apply to the banks by virtue of the syndication agreement and other financing agreements, and to the holders of private debentures as at June 30, 2017:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated adjusted equity (USD million)	>	750	1,076.3
Consolidated adjusted equity to total consolidated statement of financial position	>	20.0%	30.7%
Consolidated ratio (net financial debt + factoring receivables) to consolidated adjusted EBITDA	>	5.0	2.9
Consolidated principal and interest cover ratio	>	1.1	3.3
Separate cash statement (USD millions)	>	75	307.5

NOTE 6 - FINANCIAL COVENANTS (CONTD.)

A. The Company (contd.)

In addition, as set out in Note 13C2 and 14C to the Annual Statements and Note 8E below, as at June 30, 2017, the Company is subject to financial covenants under a long-term loan agreement with a foreign bank that provided financing for establishment of the hydrocracker and under the deeds of trust of the debentures (Series D-G). Definitions and calculation of the covenants for the loan and for debentures (Series D-G and Series I) are similar to the definitions and calculation of the covenants in the syndication agreement as set out above. Given the covenants applicable to the Company in the syndication agreement and the financial covenants set out for the loan from the foreign bank and the deeds of trust for the debentures (Series D-G and Series I), the Company believes that it is unlikely that the covenants with the foreign bank or with the debenture holders (Series D-G and Series I) will be breached without breaching the covenants in the syndication agreement.

As at June 30, 2017, the Company is in compliance with the financial covenants for the bank agreements, private debentures and debentures (Series D-G and Series I).

Further to Note 14C to the Annual Statements, for the Company's debentures (Series G) only, the following financial covenants (as defined in the Note) apply to Carmel Olefins as at June 30, 2017:

	Required	Required ratio/amount	Actual ratio/amount
Equity (USD millions)	>	200	579.7
Total separate financial debt (USD millions)	>	550	176.5
Consolidated principal and interest cover ratio	>	1.0	4.0

2. Carmel Olefins

Further to Note 13D1 to the Annual Statements, the following financial covenants, as defined in the Note, apply to the banks as at June 30, 2017:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated intangible equity (USD million)	>	220	527.0
Consolidated tangible equity of net consolidated tangible total balance sheet	>	24%	61.0%
Financial debt to consolidated EBITDA	>	4.5	0.8
Consolidated principal and interest cover ratio	>	1.1	4.0

As at June 30, 2017, Carmel Olefins is in compliance with the financial covenants that were set, including for the Company's debentures (Series G), as set out in section A above.

3. Gadiv

Further to Note 13E to the Annual Statements, the following financial covenants, as defined in the Note, apply to Gadiv as at June 30, 2017:

	Required	Required ratio/amount	Actual ratio/amount
Net financial debt to EBITDA	≥	4.5	2.1
Tangible equity to tangible balance sheet	>	25%	55.1%
Tangible equity (USD millions)	>	75	122.8

As at June 30, 2017, Gadiv is in compliance with the financial covenants that were established.

USD thousands

NOTE 6 - FINANCIAL COVENANTS (CONTD.)

4. Ducor

Further to Note 13A1(b) to the Annual Statements, in the reporting period, the preconditions in the financing agreement between Ducor and a bank were fulfilled and the agreement came into force. As at June 30, 2017, Ducor is in compliance with the financial covenants that were established.

NOTE 7 - FINANCIAL INSTRUMENTS - FAIR VALUE

1. Fair value of financial instruments for disclosure purposes only

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

Fair value of financial liabilities, together with the carrying amounts shown in the statement of financial position:

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

(1) The fair value is based on the TASE price as at June 30, 2017.

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

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

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

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

(*) In accordance with the deed of trust, an amount of USD 34 million for payments of the principle of Debentures (Series A) will be repaid on July 1, 2018 instead of June 30, 2018, which is not a business day, and accordingly, was recognized under long-term liabilities.

USD thousands

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

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

	June 30, 2016			
	Adjusted par value	**Carrying amount**	**Fair value level 1**	**Fair value level 2**
Financial liabilities				
Private debentures [3]	12,941	12,941	--	13,762
Marketable debentures (Series F) [1] [3]	310,706	315,713	330,915	--
Marketable debentures (Series D-E) [1] [4]	363,289	374,903	398,344	--
Bank loans [2]	629,706	617,181	--	639,922
	1,316,642	1,320,738	729,259	653,684

(1) The fair value is based on the TASE price on June 30, 2016

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

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

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

	June 30, 2016	
	Adjusted par value	**Carrying amount**
Debentures at fair value:		
Marketable debentures (Series A)	247,828	263,524
Marketable debentures (Series G)	132,359	144,673
	380,187	408,197

USD thousands

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

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

		December 31, 2016		
	Adjusted par value	**Carrying amount**	**Fair value level 1**	**Fair value level 2**
Financial liabilities				
Private debentures [3]	10,727	10,727	--	11,273
Marketable debentures (Series F) [1] [3]	310,706	315,522	333,351	--
Marketable debentures (Series D-E) [1] [4] [5]	345,598	370,422	377,752	--
Bank loans [2]	482,057	467,119	--	475,946
	1,149,088	1,163,790	711,103	487,219

(1) The fair value of the marketable debentures and the adjusted nominal value are based on the TASE price as at December 31, 2016.

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

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

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

(5) The carrying amount includes principal payment of USD 18 million, which was postponed until January 1, 2017, as set out in Note 14B to the Annual Statements.

	December 31, 2016		
	Adjusted par value	**Carrying amount**	**Fair value**
Debentures at fair value:			
Marketable debentures (Series A) [1]	217,125	260,265	229,247
Marketable debentures (Series G)	132,527	142,886	142,886
	349,652	403,151	372,133

(1) As at December 31, 2016, the fair value of the marketable debentures (and the balance of the adjusted nominal value, respectively), which is determined by the quoted TASE price, does not correspond with the carrying amount of the principal of USD 31 million, the payment date of which was postponed to January 1, 2017 as set out in Note 14B to the Annual Statements.

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

USD thousands

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

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

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

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

(*) Further to Note 3 above, in the six and three months ended June 30, 2017, a pre-tax loss of USD 10 million and USD 0.1 million, respectively, was recognized as a hedging reserve for the effective share of the fair value change of futures on Brent. Accordingly, as at June 30, 2017, the balance of the hedge fund (before tax) amounts to USD 10 million.

USD thousands

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

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

	June 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivatives used for accounting hedging				
CCIRS	--	5,776	--	5,776
Derivatives for inventory	394	--	--	394
Derivatives that are not used for accounting hedging				
CCIRS	--	8,394	--	8,394
Forward contracts	--	1,214	--	1,214
Derivatives for margins	--	--	4,772	4,772
	394	15,384	4,772	20,550
Financial liabilities				
Non-derivative				
Marketable debentures (Series A, G)	408,197	--	--	408,197
Derivatives used for accounting hedging				
CCIRS	--	5,232	--	5,232
Derivatives for inventory	68	--	--	68
Derivatives that are not used for accounting hedging				
CCIRS	--	23,310	--	23,310
Derivatives for inventory	1,108	7,170	--	8,278
Forward contracts	--	14	--	14
Interest rate swaps	--	448	--	448
	409,373	36,174	--	445,547

USD thousands

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

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

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivatives used for accounting hedging				
CCIRS	--	4,212	--	4,212
Derivatives for inventory	2,371	--	--	2,371
Derivatives that are not used for accounting hedging	--	--	--	
CCIRS		8,187	--	8,187
Interest rate swaps	--	201	--	201
Forward contracts	--	1,689	--	1,689
Derivatives for margins	--	--	5,595	5,595
	2,371	14,289	5,595	22,255
Financial liabilities				
Non-derivative				
Marketable debentures (Series A, G) (*)	403,151	--	--	403,151
Derivatives used for accounting hedging				
CCIRS	--	8,719	--	8,719
Derivatives that are not used for accounting hedging				
CCIRS	--	20,901	--	20,901
Derivatives for inventory and margins	2,639	6,150	--	8,789
Interest rate swaps	--	45	--	45
	405,790	35,815	--	441,605

(*) As at December 31, 2016, the carrying amount of the Debentures (Series A) includes a principal of USD 31 million, the payment date of which was postponed to January 1, 2017

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

1. On January 5, 2017, the general meeting approved, after the approval of the Company's Board of Directors, the distribution of a dividend amounting to USD 85 million on the basis of the Company's financial statements as at September 30, 2016, and on January 22, 2017, the dividend was paid. Further to Note 16F1 to the Annual Statements, on February 15, 2017, the Company paid a tax liability of NIS 30 million (approximately USD 8 million) for the distribution of a gross dividend of NIS 120 million (approximately USD 32 million) arising from exempt earnings. Accordingly, the Group recognized tax expenses of USD 8 million in the financial statements. The balance of the distributed dividend (beyond the net amount of NIS 90 million) is from profits that are not entitled to benefits by virtue of the Encouragement of Capital Investments Law, 1959.

2. As set out in Notes 27B3 and 27B5 to the Annual Statements, in the reporting period, the Company's compensation committee and Board of Directors approved bonuses for the chairman of the Board of Directors, Ovadia Eli and the CEO of the Company, Avner Maimon for 2016, amounting to NIS 993 thousand and NIS 1,489 thousand, respectively. The Company recognized these expenses in the annual financial statements as at December 31, 2016.

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

4. On April 9, 2017, S&P Maalot upgraded the Company's rating and the rating of its public debentures, from ilBBB+ to ilA- with stable outlook.

5. On April 26, 2017, the Company issued NIS 625,207,000 par value debentures (Series I) linked to the USD. The proceeds from the offering, net of costs of raising the capital, amounted to USD 170 million. Debentures (Series I) were rated ilA- by S&P Maalot with stable outlook.

   The debentures (Series I) are repayable in 16 unequal semi-annual payments, payable on March 31 and September 30 of each of the years 2018-2025. For each of the first to the sixth payments (inclusive), 2.5% of the principal will be repaid, for the seventh and the eighth payments, 7.5% of the principal will be repaid, for each of the ninth to the twelfth payments (inclusive), 2.5% of the principal will be repaid, and in each of the thirteenth to the last payments, 15% of the principal will be repaid.

   The Debentures (Series I) bear fixed annual interest at a rate of 4.7% and are linked to the US dollar.

   The interest on the unpaid balance of the debenture principal will be paid twice a year on March 31 and September 30 of each of the years 2017 to 2025 (inclusive), with the first interest payment due on September 30, 2017 and the last payment due together with the final principal repayment on September 30, 2025.

   The financial covenants, grounds for calling for immediate repayment, early redemption rules and the restrictions on distribution of a dividend, as well as other terms in the deed of trust of Debentures (Series I), are fundamentally the same as the terms of debentures (Series E-F) set out in Note 14C to the Annual Statements.

6. Further to Note 6 to the Annual Statements regarding the factoring agreements of the Company and its subsidiaries, in the reporting period, Carmel Olefins signed an agreement with a bank for the non-recourse sale of certain trade receivables, which are secured by credit insurance, in a maximum amount of USD 15 million, such that as at the reporting date, Carmel Olefins has agreements for the sale of trade receivables under factoring agreements in a maximum cumulative amount of USD 90 million. As at June 30, 2017, the Company derecognized an amount of USD 148 million and Carmel Olefins and Gadiv derecognized an amount of USD 54 million from their trade receivables, in accordance with IFRS 9.

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

7. In the reporting period, binding agreements were reached with the insurers according to which:

A. The Company will receive insurance indemnity for the loss of profits amounting to USD 5.5 million that it incurred due to the malfunction in the hydrocracker in prior years. As at the publication date of the report, the indemnity has been received.

B. The Company, Carmel Olefins and Gadiv will receive insurance indemnity for the loss of profits amounting to USD 12 million (the share of the Company is USD 1.5 million, Carmel Olefins USD 10 million and Gadiv USD 0.5 million) that they incurred due to the breakdown in Carmel Olefins' ethylene turbine in 2016.

Accordingly, the companies recognized revenue for insurance indemnity in the second quarter of 2017.

8. On April 20, 2017, the Company received notice of the declaration of a labor dispute in the Company and its subsidiaries, in accordance with section 5A and 5B of the Settlement of Labor Disputes Law. The Company and the employees' representatives held negotiations on the issues underlying the notice of the labor dispute, and on June 13, 2017, an agreement was signed with the employees union and the Histadrut New General Federation of Labor, which brought the labor dispute to an end.

Bazan Ltd.

Condensed Separate Interim Financial Information

As at June 30, 2017

(Unaudited)

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

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

To
the Shareholders of Bazan Ltd.

Dear Sirs,

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

Introduction

We have reviewed the separate interim financial information presented pursuant to section 38(D) of the Securities Regulations (Periodic and Immediate Reports)1970, of Bazan Ltd. ("the Company") as at June 30, 2017 and for the six and three month periods then ended. The separate interim financial information is the responsibility of the Company's management and board of directors. Our responsibility is to express an opinion on the separate interim financial information based on our review.

Review scope

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

Conclusion

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

Without qualifying our above opinion, we draw attention to Note 3 to the separate financial information (including by way of reference to Note 5 to the separate financial information for 2016 and to Note 20 to the consolidated financial statements of the Company for 2016) with regard to legal, administrative and other proceedings, other contingencies and laws and regulations relating to environmental protection. Based on the opinions of their legal counsels, the Company's management believes that it is not possible at this stage to assess the foregoing impact on the results of operations and on the financial situation, if any, and therefore no provision regarding this matter was included in the financial statements.

Somekh Chaikin
Certified Public Accountants

Haifa, August 6, 2017

Bazan Ltd.

Condensed Separate Interim Information on Financial Position
USD thousands

	As at		
	June 30, 2017	June 30, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	267,476	291,687	249,899
Deposits	47,698	51,667	80,370
Customers	317,513	303,080	305,347
Other receivables	56,053	21,256	15,424
Current maturities of bank loans	47,577	33,090	44,014
Financial derivatives	4,079	3,074	3,932
Inventories	434,745	417,320	446,270
Total current assets	1,175,141	1,121,174	1,145,256
Non-current assets			
Investments in investees	864,560	785,042	805,484
Loan to Haifa Early Pensions Ltd.	49,730	49,991	48,178
Long term loans and debit balances	286	10,489	6,777
Loans to subsidiaries	129,003	105,740	149,428
Financial derivatives	46,481	11,518	9,137
Deferred tax assets, net	18,833	27,825	22,066
Property, plant and equipment, net	1,281,176	1,250,826	1,278,725
Intangible assets and deferred expenses, net	10,952	9,994	10,638
Total non-current assets	2,401,021	2,251,425	2,330,433
Total assets	3,576,162	3,372,599	3,475,689

Ovadia Eli **Chairman, Board of Directors**	**Avner Maimon** **CEO**	**Yisrael Lederberg** **CFO**

Date of approval of the separate interim financial information:August 6, 2017

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

Bazan Ltd.

Condensed Separate Interim Information on Financial Position
USD thousands

	As at		
	June 30, 2017	**June 30, 2016**	**December 31, 2016**
	(Unaudited)		**(Audited)**
Current liabilities			
Loan to subsidiary (including current maturities)	215,361	241,064	237,765
Trade payables	621,827	569,989	657,359
Other payables	83,941	69,577	105,487
Financial derivatives	11,873	17,367	20,013
Provisions	37,870	31,286	31,379
Total current liabilities	970,872	929,283	1,052,003
Non-current liabilities			
Liabilities to banks, net	394,231	411,769	403,944
Debentures, net	1,115,271	977,578	918,834
Other long-term liabilities	29,022	18,654	18,315
Financial derivatives, net	10	16,044	15,109
Employee benefits, net	32,819	31,000	30,387
Total non-current liabilities	1,571,353	1,455,045	1,386,589
Total liabilities	2,542,225	2,384,328	2,438,592
Capital			
Share capital	805,282	805,282	805,282
Share premium	31,962	31,962	31,962
Capital reserves	31,263	36,616	41,286
Retained earnings	165,430	114,411	158,567
Total capital	1,033,937	988,271	1,037,097
Total liabilities and capital	3,576,162	3,372,599	3,475,689

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

Condensed Separate Interim Information on Comprehensive Income
USD thousands

	The six months ended		The three months ended		Year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
Revenue	2,226,869	1,742,218	1,189,629	975,096	3,693,639
Cost of sales	2,082,091	1,594,767	1,102,175	864,442	3,437,583
Gross income	144,778	147,451	87,454	110,654	256,056
Selling and marketing expenses	14,380	15,364	7,953	7,598	27,693
General and Administrative Expenses:	12,748	17,133	6,500	7,436	29,650
Other expenses, net	--	--	--	--	1,419
Voluntary redundancy (revenue) expenses	--	(1,384)	--	117	4,422
Operating profit	117,650	116,338	73,001	95,503	192,872
Financing revenues	(15,535)	(10,941)	(11,247)	10,277	(13,199)
Finance expenses	87,616	63,111	41,604	12,081	122,412
Financing expenses, net	72,081	52,170	30,357	22,358	109,213
Company's share in profits (losses) of investees, net of tax	59,725	62,448	36,818	30,339	88,626
Income before taxes on income	105,294	126,616	79,462	103,484	172,285
Income tax	13,431	11,816	6,530	16,812	14,441
Profit for the period	**91,863**	**114,800**	**72,932**	**86,672**	**157,844**
Items of other comprehensive income (loss) after initial recognition in comprehensive income is transferred to profit or loss					
Other comprehensive income (loss) for investees, net of tax	(577)	737	358	1,311	616
Effective share of the change in fair value of cash flow hedging, net of tax	(9,128)	--	(205)	--	574
Changes in fair value hedging costs, net of tax	(1,536)	2,442	(386)	978	3,544
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	(11,241)	3,179	(233)	2,289	4,734
Items of other comprehensive income (loss) not transferred to profit or loss					
Reclassification of defined benefit plan, net to tax	--	(928)	--	(928)	(34)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax (*)	577	(2,964)	(1,280)	(3,668)	(929)
Other comprehensive income (loss) for investees, net of tax	--	(432)	--	(432)	(214)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	9	7	4	(7)	(3)
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	586	(4,317)	(1,276)	(5,035)	(1,180)
Total income for the period	**81,208**	**113,662**	**71,423**	**83,926**	**161,398**

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

Bazan Ltd.

Condensed Separate Interim Information on Cash Flows
USD thousands

	The six months ended		The three months ended		Year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Profit for the period	91,863	114,800	72,932	86,672	157,844
Adjustments required to present cash flows for operating activities:					
Revenue and expenses not involving cash flows (Appendix A – section A)	20,160	40,790	10,347	36,074	126,979
	112,023	155,590	83,279	122,746	284,823
Changes in assets and liabilities (Appendix A – section B)	(12,250)	(107,780)	(98,424)	(69,575)	(53,351)
Net income tax paid	(8,301)	(178)	(229)	--	(794)
Net cash deriving from (used for) ongoing operations	91,464	47,632	(15,374)	53,171	230,678
Cash flow for investment activities					
Interest received	8,428	8,711	3,489	2,317	16,618
Decrease (increase) in deposits, net	30,592	(18,200)	(4,936)	624	(48,857)
Dividend received from investees	320	43,557	21	378	52,589
Repayment of long-term loans from others, net	21	65	10	43	132
Repayment of loan from Carmel Olefins	38,725	32,880	1,783	--	34,350
Loans provided to investees	(37,653)	--	(14,156)	--	(57,335)
Repayment of loan from Haifa Early Pensions	--	--	--	--	4,035
Investments in property plant and equipment (including periodic maintenance) (**)	(49,818)	(35,046)	(20,238)	(21,550)	(104,988)
Purchase of intangible assets and deferred expenses	(965)	(479)	(693)	(228)	(1,725)
Net cash deriving from (used for) investment activities	(10,350)	31,488	(34,720)	(18,416)	(105,181)
Cash flow from financing activities					
Short-term borrowing, net	(624)	(3,844)	(99)	--	(3,220)
Receipt (return) of deposits, net	19,526	1,906	6,795	(467)	8,747
Interest paid (*)	(83,050)	(55,679)	(40,449)	(39,891)	(79,679)
Dividend paid	(85,000)	--	--	--	--
Derivative transactions, net	943	2,517	(110)	2,893	(10,551)
Increase (decrease) in cash from funding activities with investees, net	38,031	(67,822)	39,791	(42,437)	(72,511)
Receipt of long-term bank loans	16,457	55,000	--	30,000	411,613
Repayment of long-term bank loans	(25,405)	(52,009)	(17,155)	(33,696)	(458,622)
Repayment of debentures (*)	(120,576)	(66,846)	(35,589)	(32,092)	(69,106)
Issue of debentures (less issuance expenses)	170,188	144,607	170,188	144,607	144,607
Net cash deriving from (used for) financing activities	(69,510)	(42,170)	123,372	28,917	(128,722)
Net increase (decrease) in cash and cash equivalents	11,604	36,950	73,278	63,672	(3,225)
Effect of exchange rate fluctuations on cash and cash equivalents	5,973	322	5,618	(1,151)	(1,291)
Cash and cash equivalents at beginning of period	249,899	254,415	188,580	229,166	254,415
Cash and cash equivalents at the end of the period	267,476	291,687	267,476	291,687	249,899

(*) As of December 31, 2016, principal and interest payments for debentures in the amount of USD 48,804 and USD 27,186 thousand, respectively, were deferred pursuant to the provisions of the deeds of trust to January 1, 2017, as their contractual maturity date was not a business day.

(**) In the first quarter of 2017 periodic maintenance work was carried out on part of the Company's plants, including the CCR plant, the direct cost of which amounted to USD 26 million. As of June 30, 2017 the amount of USD 7 million is yet to be paid. For further information regarding the cost of the periodic maintenance services carried out in 2016, see Note 11A to the annual consolidated financial statements.

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

Condensed Separatre Interim Information of Cash Flows (contd.)
USD thousands

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

		The six months ended		The three months ended		Year ended
		June 30, 2017	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**	**December 31, 2016**
		(Unaudited)		**(Unaudited)**		**(Audited)**
A.	**Income and expenses not that do not involve cash flows**					
	Depreciation and amortization	43,529	39,031	23,727	19,932	81,765
	Financing expenses, net	45,198	43,310	27,708	23,009	106,126
	Net changes in fair value of derivatives	(12,977)	(3,656)	(5,915)	(1,968)	(3,108)
	Changes in fair value of a loan to Haifa Early Pensions Ltd.	(5,923)	(1,698)	(2,674)	748	(1,079)
	Share in earnings of investees, net	(59,725)	(62,448)	(36,818)	(30,339)	(88,626)
	Other expenses	--	--	--	--	1,419
	Loss (gain) and change in inventory hedge deposits, net	(3,757)	13,780	(2,380)	7,590	14,752
	Share-based payments	384	655	169	290	1,289
	Income tax	13,431	11,816	6,530	16,812	14,441
		20,160	40,790	10,347	36,074	126,979
B.	**Changes in assets and liabilities**					
	Increase in trade receivables	(12,166)	(71,684)	(73,284)	(32,961)	(76,694)
	Decrease (increase) in other receivables	(7,734)	21,392	(567)	26,212	23,681
	Decrease (increase) in inventory	11,525	(64,481)	64,864	(142,831)	(93,361)
	Increase (decrease) in trade payables	(24,578)	45,384	(74,108)	120,900	124,261
	Increase (decrease) in other payables, credit balances and provisions	(18,326)	(37,825)	(15,937)	(39,200)	(31,095)
	Increase (decrease) in employee benefits, net	2,369	(566)	608	(1,695)	(143)
		(12,258)	(107,780)	(98,424)	(69,575)	(53,351)

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

ADDITIONAL INFORMATION

1. **General**

   A. The condensed separate interim financial information of the Company as at March 31, 2015 are presented in accordance with the provisions of Regulation 9C and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970 relating to the condensed separate interim financial information of a company. This information should be read in conjunction with the separate financial information as at December 31, 2016 (the "Annual Reports") and the condensed interim consolidated financial statements as at June 30, 2017 ("the Consolidated Financial Statements").

   B. **Definitions:**

   The Company - Bazan Ltd.

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

2. **Significant Accounting Standards applied in the Separate Interim Financial Information**

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

3. **Contingent Liabilities, Agreements, Guarantees, and Liens**

   For details see Note 5 to the Consolidated Financial Statements.

4. **Financial covenants**

   For details see Note 6 to the Consolidated Financial Statements.

5. **Significant events during and subsequent to the reporting period**

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