OIL REFINERIES LTD

Condensed Consolidated Interim Financial Statements as at September 30, 2016

(Unaudited)

This translation of the financial statement 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 September 30, 2016

The Board of Directors is pleased to present the Directors' Report on the State of the Company's Affairs for the period ended September 30, 2016 ("the Reporting Period"). The report is presented under the assumption that the Company's Report for 2015 ("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), polymers (through Carmel Olefins), aromatics (through Gadiv) and polymers through Ducor. 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

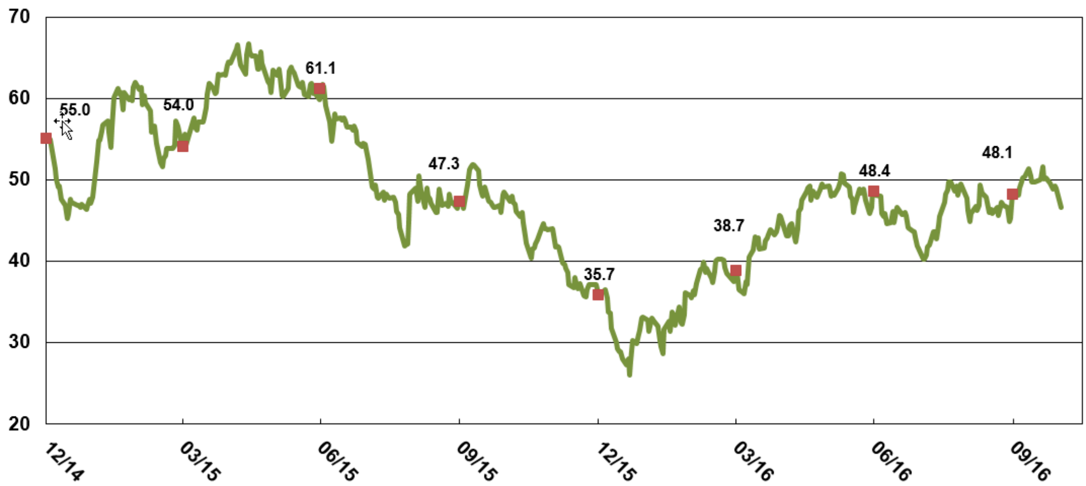
Analysis by operating segments

Since the end of 2015 changes have been made regarding the Bazan Group's reporting operating segments, and the reporting segments are: fuels, polymers (Carmel Olefins), aromatics and polymers (Ducor). For further information see Note 4 to the Consolidated Financial Statements regarding the segments of operation.

<u>Fuels</u>

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

Brent Price for 2015-2016 (USD per barrel)



Source: Reuters

Average price of Brent crude (USD/barrel)

1-9.2016	1-9.2015	Change	7-9.2016	7-9.2015	Change
41.9	55.3	- 24%	45.9	50.5	- 9%

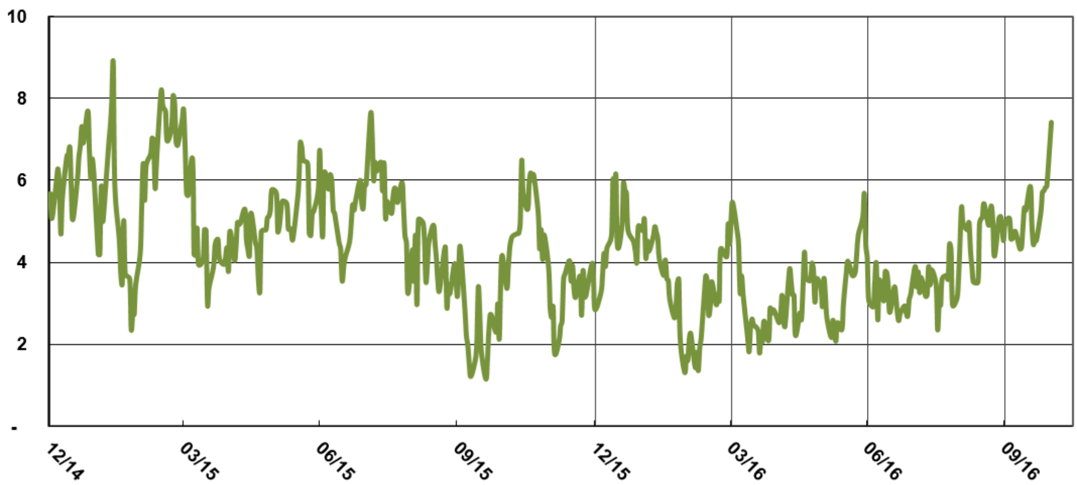
The Brent price declined in January 2016 to USD 26 per barrel, the lowest price in 12 years. Later in the period this trend shifted and the Brent price began to rise. This rise is mainly explained by the gradual decrease in stockpiles and expected supply and demand equilibrium in the oil market for the first time since 2013. At the end of September 2016, OPEC countries decided to try limit production to between 32.5 - 33.0 millions of barrels per day, following unlimited oil production by each country in the past two years. The final decision is expected to be made during November 2016. This decision supports a price of close to USD 50 per barrel and at the end of the Reporting Period, the Brent price was fixed at USD 48.1 per barrel. Close to Reporting Date, the Brent price was fixed at USD 48 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 1.7 per barrel, compared with USD 0.7 per barrel in the corresponding period last year. The volatility of the disparity between heavy crude and light crude was great, ranging between USD 2.5 - 1.0 per barrel due to the increase in supply of Ural crude oil substitutes from outside the Mediterranean region.

In the Reporting Period, the crude oil futures market continued to be contango at average rate of USD 0.43 per barrel per month.

Refining margin

Benchmark Margin[1] in 2015-2016 (USD per barrel)



Source: Reuters

Average benchmark margin (USD/barrel)

1-9.2016	1-9.2015	Change	7-9.2016	7-9.2015	Change
3.6	5.3	- 32%	3.8	4.9	- 22%

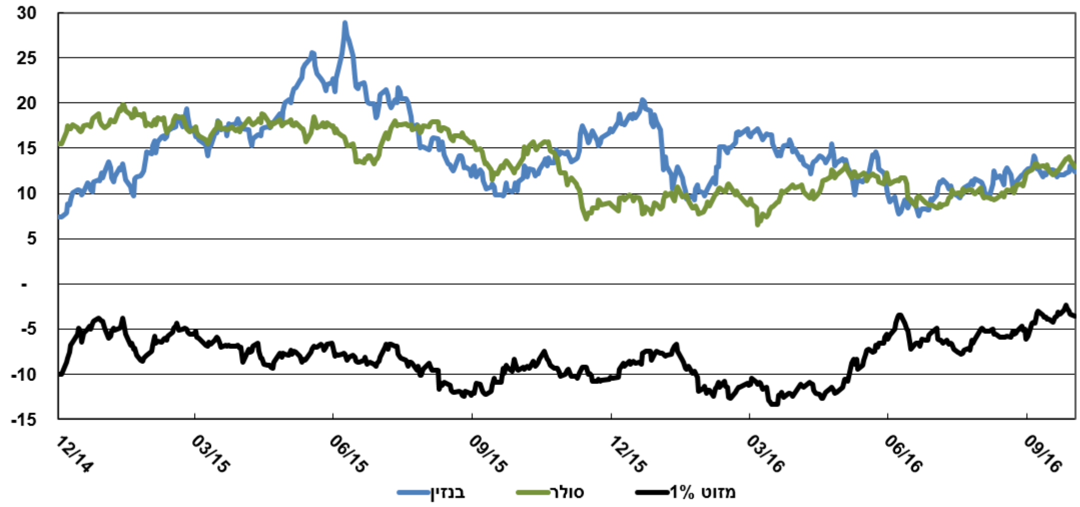
[1] The benchmark margin is the margin published by Reuters for a typical refinery in the Mediterranean with the capability of cracking Ural-type crude oil. For further information, see section 1.6.2.4 in the Description of the Company's Affairs in the 2015 Periodic Report.

The benchmark margin declined in the Reporting Period compared with the corresponding period last year. The factors weakening the refining margin are, among other things, a decrease in demand for interim distillates as a result of the relatively good winter in Europe, high utilization of the refinery facilities and import of distillates from the Persian Gulf region. The benchmark margin in the third quarter of 2016 was marked by much volatility and tended to increase towards the end of the quarter, among other things, due to planned and unplanned shutdowns of the refining facilities and preparations for the winter. At the end of the Reporting Period, the margin reached USD 4.9 per barrel.

Subsequent to the reporting date and until close to publications of the report, the average benchmark margin was USD 5.7 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

In the first nine months of 2016 and particularly in the second and third quarters, the gasoline margin dropped to an average of USD 10 per barrel after reaching a record in mid-2015. At the same time, the transportation diesel margin strengthened proportionally.

Refining volume

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

	1-9.2016	1-9.2015	7-9.2016	7-9.2015
Utilization of refining plants	80%	92%	53%	92%
Refining volume	5,909	6,746	1,306	2,278
Import of HVGO, net	306	164	265	95
Total	**6,215**	**6,910**	**1,571**	**2,373**

The refining volume decreased by 837 thousand tons in the Reporting Period and by 972 thousand tons in the third quarter, compared to the corresponding periods last year. Input volume including HVGO decreased by 695 thousand tons in the Reporting Period and by 802 thousand tons in the third quarter, compared to the corresponding periods last year.

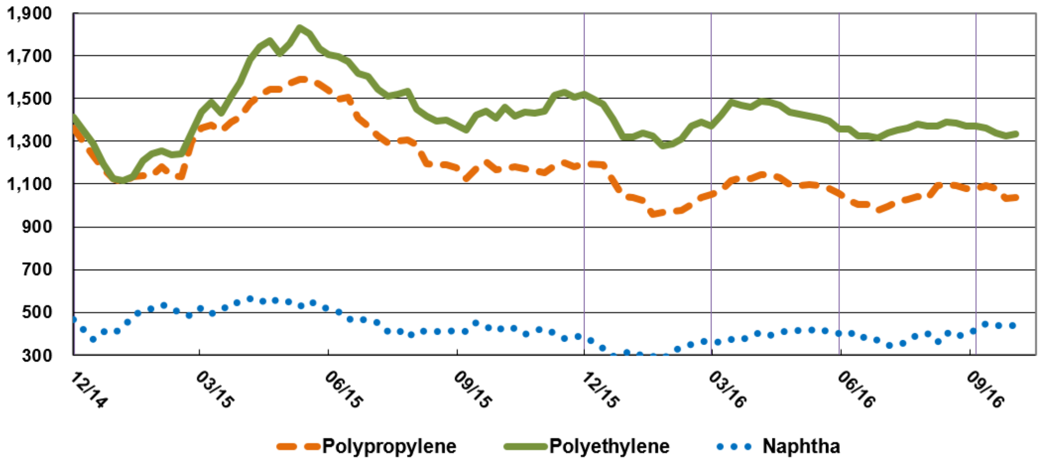
The substantial decrease in refining volume and input volume including HVGO is mainly due to the shutdown of part of the Company's facilities, particularly its main crude oil refining plant (Plant 4), for planned periodic maintenance work. For the effect of the periodic maintenance on the EBITDA, also see section 2.1.2

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

	1-9.2016	1-9.2015	7-9.2016	7-9.2015
Diesel fuel	2,095	2,779	476	857
Gasoline	1,343	1,283	443	443
Kerosene	526	451	196	201
Fuel oil	1,343	1,381	283	525
Other	750	874	125	286
Total	**6,057**	**6,768**	**1,523**	**2,312**

Polymers Segment - Carmel Olefins

Polymer and naphtha prices in 2015-2016 (USD /ton)



Source: ICIS

Average polymer and naphtha prices (USD / ton)

	1-9.2016	1-9.2015	Change	7-9.2016	7-9.2015	Change
Naphtha	369	481	- 23%	383	433	- 12%
Polypropylene	1,060	1,333	- 21%	1,041	1,311	- 21%
Polyethylene	1,383	1,482	- 7%	1,359	1,519	- 11%

Raw material prices

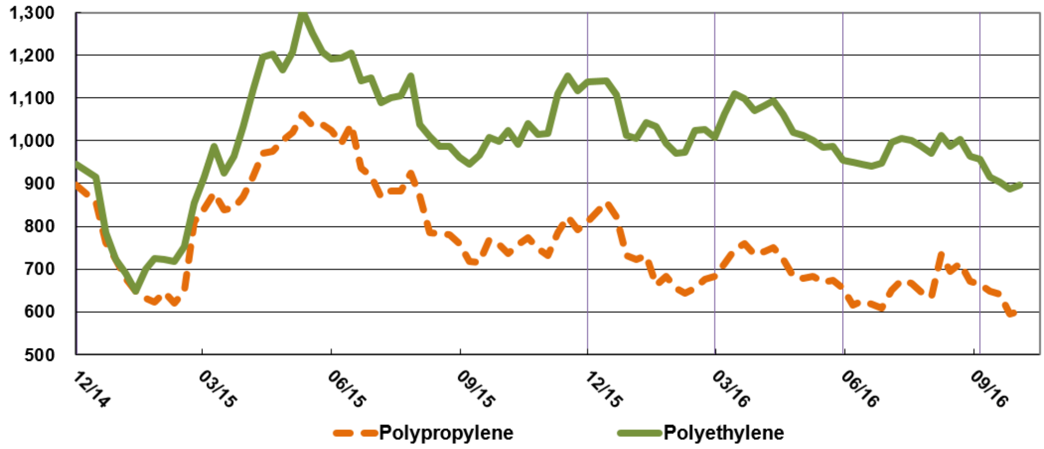
Raw material prices, particularly naphtha, declined in the Reporting Period compared to the corresponding period last year, parallel with the drop in crude oil prices.

Polymer prices

In the reporting period the prices of polyethylene and polypropylene declined compared with the corresponding period last year, parallel with the decrease in raw material prices. The decrease in the prices of polyethylene compared with polypropylene was more moderate due to, inter alia, the different behavior of the prices of propylene and ethylene, the raw materials used for manufacturing polymers in Europe.

Margins

Difference between polymer and naphtha prices in 2015-2016 (USD /ton)



Source: ICIS

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

	1-9.2016	1-9.2015	Change	7-9.2016	7-9.2015	Change
Polypropylene	691	852	- 19%	658	878	- 25%
Polyethylene	1,014	1,001	1%	976	1,086	- 10%

In the reporting period the difference between the polyethylene prices and the naphtha prices was higher compared with the corresponding period last year, and lower in the third quarter of 2016 compared with the corresponding quarter last year. The difference between polypropylene price and the naphtha price decreased as a result of the erosion of the polypropylene price in the Reporting Period compared with the naphtha price. As aforesaid, these differences were affected, inter alia, by the different behavior of the prices of propylene and ethylene, the raw materials used for manufacturing polymers in Europe.

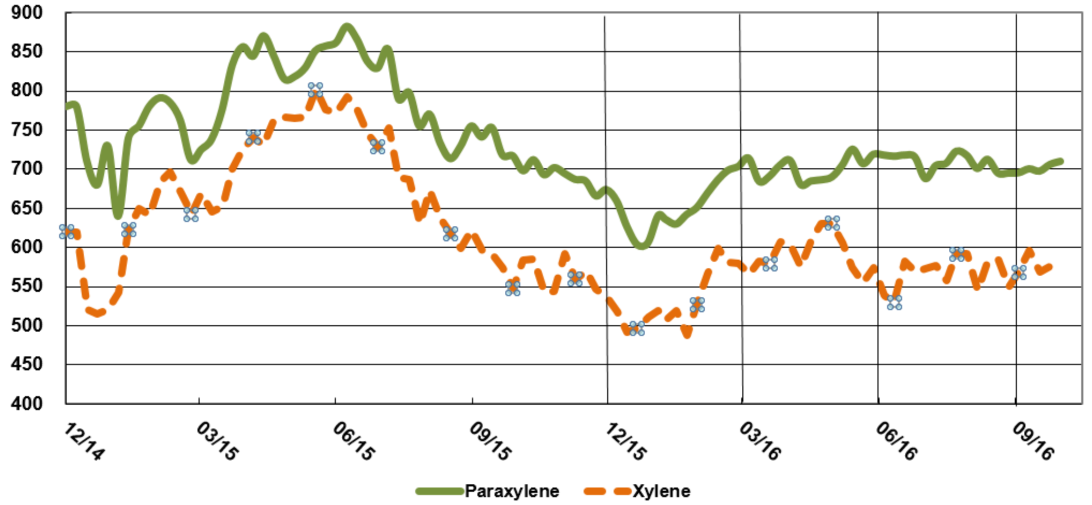
Polymer output volume (thousand tons)

	1-9.2016	1-9.2015	7-9.2016	7-9.2015
Polymers	315	356	128	129

The decline in polymer output at Carmel Olefins in the Reporting Period is the result of a total shutdown of its plants during the second quarter of 2016 for periodic maintenance work, compared with the partial decline in output at Carmel Olefin due to periodic maintenance of its plants in the corresponding quarter last year. For the effect of the periodic maintenance on the EBITDA, also see section 2.1.2

Aromatics Segment - Gadiv

Xylene and paraxylene prices in 2015-2016 (USD /ton)



Source: Reuters

Average xylene and paraxylene prices (USD / ton)

	1-9.2016	1-9.2015	Change	7-9.2016	7-9.2015	Change
Xylene	563	681	- 17%	567	689	- 18%
Paraxylene	687	787	- 13%	708	793	- 11%

Raw material prices

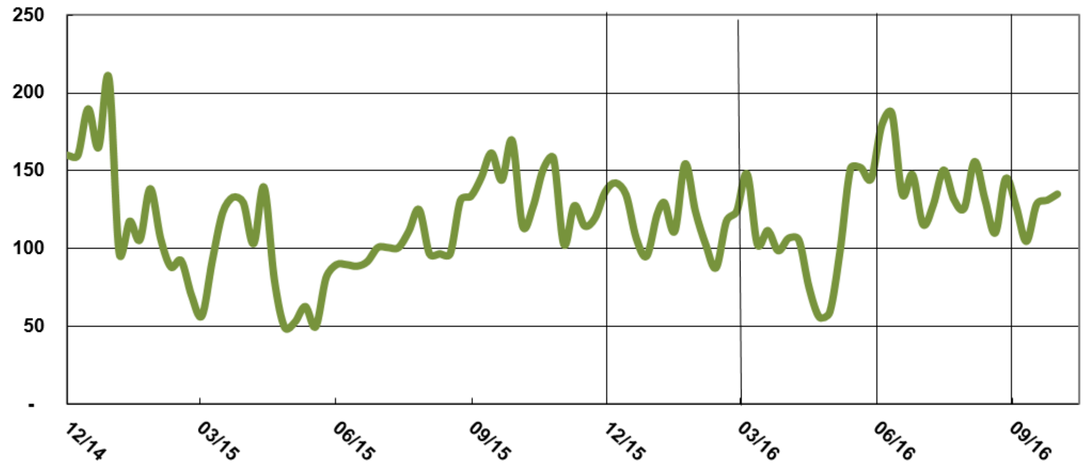
Raw material prices, particularly xylene, declined in the Reporting Period compared to the corresponding period last year, parallel with the drop in crude oil prices.

Aromatics prices

The prices of the aromatics products, particularly paraxylene, declined in the Reporting Period compared to the corresponding period last year, parallel with the decrease in raw material and energy prices.

Margins

Difference between paraxylene and xylene prices in 2015-2016 (USD /ton)



Source: Reuters

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

	1-9.2016	1-9.2015	Change	7-9.2016	7-9.2015	Change
Difference in price	124	106	17%	141	104	35%

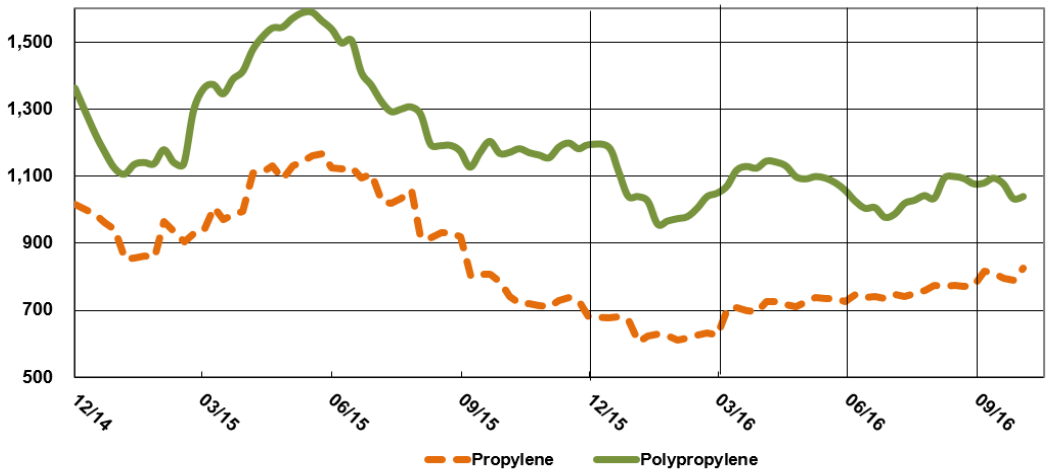
In the Reporting Period, the difference between the paraxylene price and the xylene price was higher compared with the corresponding period last year, mainly due to high demand for downstream paraxylene products in Europe.

Aromatics output volume (thousand tons)

	1-9.2016	1-9.2015	7-9.2016	7-9.2015
Aromatics	424	379	143	105

Polymers Segment - Ducor

Polypropylene and propylene prices in 2015-2016 (USD /ton)



Source: ICIS

Average polypropylene and propylene prices (USD / ton)

	1-9.2016	1-9.2015	Change	7-9.2016	7-9.2015	Change
Polypropylene	1,059	1,333	- 21%	1,040	1,311	- 21%
Propylene	708	1,008	- 30%	760	1,015	- 25%

<u>Raw material prices</u>

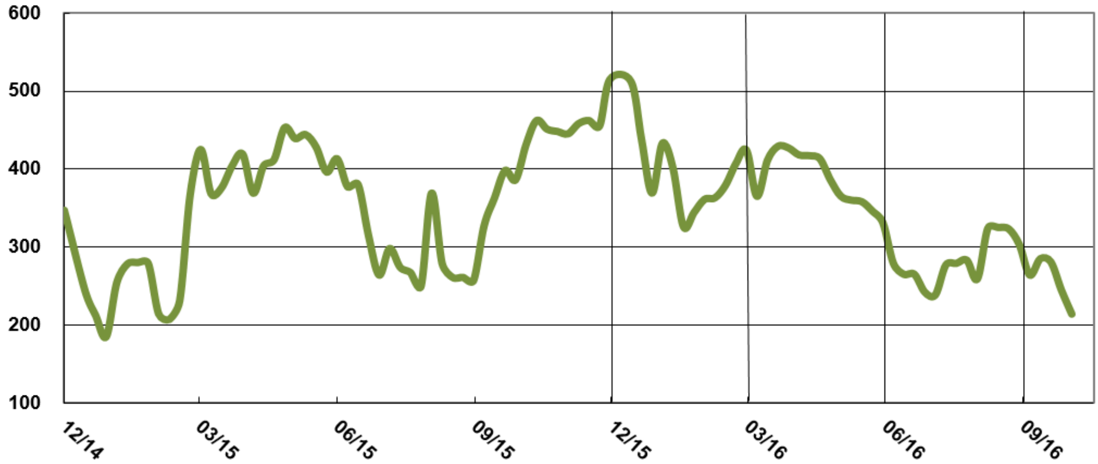
Raw material prices, particularly propylene, declined in the Reporting Period compared to the corresponding period last year, parallel with the drop in crude oil prices.

<u>Polypropylene prices</u>

Polypropylene prices declined in the Reporting Period compared to the corresponding period last year, parallel with the decrease in raw material and energy prices. This decline was not as sharp as the decline in raw material prices, among other things, as the result of great demand and decrease in supply in Europe due to planned and unplanned shutdowns of production plants

<u>Margins</u>

Difference between polypropylene and propylene prices in 2015-2016 (USD /ton)



Source: ICIS

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

	1-9.2016	1-9.2015	Change	7-9.2016	7-9.2015	Change
Difference in price	351	325	8%	280	296	- 5%

Further to the trend that started in 2015, the difference in the reporting period between the polypropylene price and the propylene price was higher than in the corresponding period last year. In the second quarter of 2016, the difference between the polypropylene and the propylene prices began to decrease, mainly as a result of the weakening of the polypropylene price in Europe.

Polypropylene output volume (thousand tons)

	1-9.2016	1-9.2015	7-9.2016	7-9.2015
Polypropylene	123	125	39	40

2. Results of Bazan Group operations

2.1 Selected figures from the reported consolidated statements of income after adjustment for accounting effects for the nine month period (USD millions)

To present the results of the Group's operations on an economic basis and for comparison with the benchmark margin, the accounting effects in the fuel segment are adjusted and presented in a way that the Company believes will allow better understanding of the Company's performance and closer comparison with the benchmark margin.

In the reporting period, particularly in the third quarter of 2016, the Group companies carried out periodic maintenance of their plants, which affected the results of the Group's operations as set out in section 2.1.2 below, and the volume of investment in property, plant and equipment, as set out in section 4 below.

	1-9.2016		1-9.2015	
	Accounting	**Adjusted**	**Accounting**	**Adjusted**
Revenue	3,069	3,069	4,306	4,306
EBITDA	**354**	**306**	**471**	**568**
Depreciation	(94)	(94)	(91)	(91)
Other expenses - net	(19)	(19)	(22)	(22)
Operating profit	**241**	**193**	**358**	**455**
Financing expenses, net	(98)	(98)	(105)	(105)
Share of profits of	-	-	1	1
Income tax	(28)	(28)	(46)	(46)
Net income	**128**	**80**	**208**	**305**

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

EBITDA by operating segments for the Reporting Period (USD million)

	1-9.2016		1-9.2015	
	Accounting	**Adjusted**	**Accounting**	**Adjusted**
Fuels	185	137	290	387
Polymers - Carmel Olefins	132	132	143	143
Aromatics - Gadiv	14	14	11	11
Polymers - Ducor	22	22	14	14
Other segments and adjustments	1	1	13	13
Total consolidated	**354**	**306**	**471**	**568**

2.1.1 Sales

Sales in the fuels segment amounted to USD 2,604 million in the Reporting Period, compared to USD -3,741 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 370 in the Reporting Period, compared to USD 502 in the corresponding period last year. The decrease in the average price of the product index is mainly due to a decrease in energy prices, together with the drop in raw material prices. In the third quarter of 2016 a large part of the decrease in sales turnover was due to the shutdown of some of the Company's plants, particularly Plant 4, for periodic maintenance.

Domestic consumption of distillates (transportation, industrial and heating fuels) rose by 4% 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.

Polymer segment - Carmel Olefins sales amounted to USD 388 million in the Reporting Period, compared to USD 494 million in the corresponding period last year, a decrease of USD 106 million. Most of this decrease is a result of a decrease of USD 67 million in sales quantities due to the periodic maintenance work in all of Carmel Olefins plants in the second quarter of 2016 and a decrease in selling prices of USD 39 million. The average price of the product mix was USD 1,218 per ton compared to US 1,340 per ton in the corresponding period last year.

Aromatics - Gadiv sales amounted to USD 299 million in the Reporting Period, compared to USD 326 million in the corresponding period last year. The decrease of USD 27 million is mainly due to price decrease of USD 41 million and volume decrease of USD 6 million, offset by an increase in sales volume in the amount of USD 20 million. The average price of the product mix was USD 637 per ton compared to US 739 per ton in the corresponding period last year.

Aromatics - Gadiv sales turnover amounted to USD 145 million in the Reporting Period, compared to USD 176 million in the corresponding period last year. The decrease of USD 31 million is mainly due to a price decrease of USD 30 million and a decrease of USD 1 million in sales volume. The average price of the product mix was USD 1,093 per ton compared to US 1,325 per ton in the corresponding period last year.

2.1.2 Consolidated adjusted EBITDA in the operating segments

Adjusted EBITDA operating profit amounted to USD 306 million in the Reporting Period, compared to USD 568 million in the corresponding period last year.

Below is a description of the main reasons for the decrease of USD 262 million in the adjusted consolidated EBITDA by segment in the period (in USD million):

	Fuels	**Polymers Carmel Olefins (*)**	**Aromatics**	**Polymers Ducor**	**Others**	**Consolidated**
Increase (decrease) in the margin / contribution (**)	(200)	11	8	10	(12)	(183)
Increase (decrease) in sales quantities	(52)	(29)	1	-	-	(80)
Increase (decrease) in other revenue	-	-	(6)	-	-	(6)
Decrease (increase) in operating expenses	2	7	-	(2)	-	7
Total	**(250)**	**(11)**	**3**	**8**	**(12)**	**(262)**

(*) During the second and third quarters of 2016, all of Carmel Olefins plants and the Company's primary crude refining facilities (Plant 4), as well as part of the Company's downstream plants, were shut down for periodic maintenance work. According to the Group's assessment, the estimated total loss of profits caused to the Group due to this shutdown, as expressed in the results of the period, amounts to USD 80 million (USD 35 million in the fuels segment and USD 45 million in the polymer segment - Carmel Olefins, mainly in the second quarter).

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

Adjustment components in the fuels segment

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

	1-9.2016	1-9.2015
Accounting EBITDA	185	290
Expenses (income) from timing differences (1)	(17)	70
Expenses (income) from adjusting value of inventory to market value, net (2)	15	(8)
Effect of changes in fair value of derivatives and disposals (3)	(46)	35
Total adjustments	**(48)**	**97**
Adjusted EBITDA	**137**	**387**

(1) Expenses (income) arising from changes in the value of unhedged inventory and expenses (income) from changes in accounting provision for impairment of unhedged inventory, at the end of the Reporting Period. In accordance with Company policy, the Company does not hedge the inventory of up to 430 thousand tons.

(2) Expenses (income) from changes in the adjustment of the balance of hedged inventory to market value.

(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 reporting period, most of this amount derived from non-cash disposal of the loss in positions that do not relate to hedged inventory.

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

	1-9.2016	1-9.2015
Accounting margin (USD/ton)	**51.1**	**61.2**
Adjustments in the fuels segment (USD/ton)	(7.6)	13.7
Adjusted margin (USD/ton)	**43.5**	**74.9**
Adjusted margin (USD/barrel)	**6.0**	**10.3**
Benchmark margin (USD/barrel)	**3.6**	**5.3**

In the Reporting Period, adjusted refining margins decreased to USD 6.0 per barrel compared to USD 10.3 per barrel in the corresponding period last year. The main factors for the refining margin decrease compared with the corresponding period last year are: A decline in the benchmark margin of USD 1.7 per barrel, significant erosion of the contribution of natural gas due to the sharp decrease in the price of fuel oil that constitutes an alternative energy index to natural gas and due to the fact that there is a minimum natural gas price, erosion of the contribution of the Hydrocracker due to the reduced margin for diesel over HVGO (the main raw material for the Hydrocracker)

It is noted that there are differences in a number of parameters between the Company’s refining margin and the benchmark 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 benchmark 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 results (including fixed production expenses and general and administrative expenses)

In the Reporting Period operating expenses decreased by USD 7 million compared with the corresponding period last year, mainly due to discounting of the direct costs of the periodic maintenance work at Bazan and at Carmel Olefins.

2.1.3 Adjusted consolidated operating profit

Adjusted consolidated operating profit amounted to USD 193 million in the Reporting Period, compared to USD 455 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 94 million compared with USD 91 million in the corresponding period of the previous year. The increase is mainly due to depreciation for periodic maintenance at Carmel Olefins.

<u>Other expenses, net (including amortization of excess costs)</u>

Other expenses in the Reporting Period amounted to USD 19 million and were mainly made up of impairment of assets of USD 14 million as set out in Note 8K to the Consolidated Statements and amortization of excess costs. In the corresponding period last year these expenses amounted to USD 22 million and were mainly made up of amortization of excess costs in the amount of USD 8 million, voluntary redundancy expenses of USD 15 million offsetting a capital gain of USD 1 million resulting from insurance receipts for fully depreciated property.

2.1.4 Net income

Adjusted consolidated net profit amounted to USD 68 million in the Reporting Period, compared to USD 305 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.

2.1.5 Financing expenses

In the Reporting Period the consolidated financing expenses amounted to USD 98 million, compared to USD 105 million in the corresponding period last year. Principal changes in financing expenses, based on financial analysis (USD millions):

	1-9.2016 compared to 1-9.2015
Decrease in interest on short term credit and for working capital items	(15)
Increase in interest on long term loans and debentures (*)	7
Changes in fair value of hedge transactions	3
Others	(2)
Total	**(7)**

(*) Mainly due to the issue of debentures with a longer average life.

2.1.6 Income tax

Net tax expenses in the Reporting Period amounted to USD 27 million compared to USD 46 million in the corresponding period last year. The decrease in tax expenses in the reporting period compared to the corresponding period last year is primarily due to the decrease in pre-accounting tax profit for the period compared with the corresponding period of the previous year.

2.2 Reported condensed consolidated statements of income after adjustment for accounting effects for the three month period (USD millions)

To present the results of the Group's operations on an economic basis and for comparison with the benchmark margin, the accounting effects in the fuel segment are adjusted and presented in a way that the Company believes will allow better understanding of the Company's performance and closer comparison with the benchmark margin.

	7-9.2016		7-9.2015	
	Accounting	**Adjusted**	**Accounting**	**Adjusted**
Revenue	1,012	1,012	1,349	1,349
EBITDA	**87**	**70**	**88**	**167**
Depreciation	(33)	(33)	(31)	(31)
Other income (expenses), net	(13)	(13)	(3)	(3)
Operating profit	**41**	**3724**	**54**	**133**
Financing expenses, net	(36)	(36)	(27)	(27)
Income tax	(4)	(4)	(4)	(4)
Net income (loss)	**1**	**(16)**	**23**	**102**

(1) Amortization of surplus cost was reclassified from Cost of Sales to the Other income (expenses) item

(2) For further information about the adjustment components, see section 2.2.2 below.

EBITDA by operating segments for the Reporting Period (USD million)

	7-9.2016		7-9.2015	
	Accounting	**Adjusted**	**Accounting**	**Adjusted**
Fuels	31	14	29	108
Polymers - Carmel Olefins	45	45	51	51
Aromatics - Gadiv	6	6	-	-
Polymers - Ducor	6	6	3	3
Other segments and adjustments	(1)	(1)	5	5
Total consolidated	**87**	**70**	**88**	**167**

2.2.1 Sales

Fuels segment sales amounted to USD 862 billion in the third quarter of 2016, compared to USD 1,171 billion in the corresponding period last year. The average price per ton of the Mediterranean region product index, similar to the Company's product index, amounted to USD 422 in the third quarter of 2016, compared to USD 464 in the corresponding period last year. The decrease in the average price of the product index is mainly due to a decrease in energy prices, together with the drop in raw material prices. In the third quarter of 2016 the main decline in sales turnover, as aforesaid, was due to the shutdown of part of the Company's plants, particularly Plant 4, for periodic maintenance.

Domestic consumption of distillates (transportation, industrial and heating fuels) increased in the third quarter of 2016 by 7%, compared to the corresponding period last year. There was an increase of 6% in consumption of transportation fuels (gasoline, diesel and kerosene) compared to the corresponding period last year.

Polymer segment - Carmel Olefins sales amounted to USD 138 million in the third quarter of 2016, compared to USD 161 million in the corresponding period last year, a decrease of USD 23 million. This decrease is mainly due to a decline in selling prices in the amount of USD 15 million and a decrease in sales volume of USD 8 million, among other things, due to the effect of periodic maintenance work carried out on Carmel Olefins facilities in the second quarter of 2016. The average price of the product mix was USD 1,201 per ton compared to US 1,334 per ton in the corresponding period last year.

Aromatics - Gadiv sales amounted to USD 102 million in the third quarter of 2016, compared to USD 94 million in the corresponding period last year. The increase of USD 8 million is due to an increase in volume of USD 21 million offset by a drop in prices in the amount of USD 10 million and a decrease in other income in the amount of USD 3 million. The average price of the product mix was USD 663 per ton compared to US 719 per ton in the corresponding period last year.

Polymers - Ducor sales amounted to USD 47 million in the third quarter of 2016, compared to USD 53 million in the corresponding period last year. The decrease of USD 6 million is mainly due to a price decrease of USD 10 million, offsetting the increase in sales volume of USD 4 million. The average price of the product mix was USD 1,108 per ton compared to US 1,383 per ton in the corresponding period last year.

2.2.2 Consolidated adjusted EBITDA in the operating segments

Adjusted consolidated EBITDA for the operating segments amounted to USD 70 million in the third quarter of 2016, compared with USD 167 million in the corresponding period last year.

Breakdown of the main reasons for the decrease in adjusted consolidated EBITDA, by segment, in the quarter in the amount of USD 97 million (in USD million):

	Fuels (*)	**Polymers Carmel Olefins (*)**	**Aromatics**	**Polymers Ducor**	**Others (***)**	**Consolidated**
Increase (decrease) in the margin / contribution (**)	(57)	(3)	7	3	(6)	(56)
Increase (decrease) in sales quantities	(50)	(4)	1	1	-	(52)
Increase (decrease) in other revenue	-	-	(2)	-	-	(2)
Decrease (increase) in operating expenses	13	1	-	(1)	-	13
Total	(94)	(6)	6	3	(6)	(97)

(*) For information regarding the estimated loss of total profits caused to the Group as the result of the periodic maintenance on part of the Company's plants, primarily Refining Plant 4, and all of Carmel Olefins plants, see section 2.1.2 above.

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

(***)In the third quarter of 2016, as a result of the periodic maintenance work on the Company's plants, basic oils and waxes operations (carried out through Haifa Basic Oils) were shutdown.

Adjustment components in the fuels segment

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

	7-9.2016	7-9.2015
Accounting EBITDA	31	29
Expenses from timing differences (1)	-	48
Expenses (income) from adjusting value of inventory to market value, net (2)	(4)	3
Effect of changes in fair value of derivatives and disposals (3)	(13)	28
Total adjustments	(17)	79
Adjusted EBITDA	14	108

(1) Expenses (income) arising from changes in the value of unhedged inventory and expenses (income) from changes in accounting provision for impairment of unhedged inventory, at the end of the Reporting Period. In accordance with Company policy, the Company does not hedge the inventory of up to 430 thousand tons.

(2) Expenses (income) from changes in the adjustment of the balance of hedged inventory to market value.

(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 reporting period, most of this amount derived from non-cash disposal of the loss in positions that do not relate to hedged inventory.

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

	7-9.2016	7-9.2015
Accounting margin (USD/ton)	**42.6**	**33.3**
Adjustments in the fuels segment (USD/ton)	(10.7)	32.9
Adjusted margin (USD/ton)	**31.9**	**66.2**
Adjusted margin (USD/barrel)	**4.4**	**9.1**
Benchmark margin (USD/barrel)	**3.8**	**4.9**

In the third quarter of 2016 the Company carried out periodic maintenance of its plants, particularly Plant 4. The shutdown of the plants reduced refining utilization to 53% and adversely affected the refining margin. In this quarter, the comparative analysis of refining margins compared to the previous periods and/or the corresponding periods is not representative.

The adjusted refining margin in this quarter amounted to USD 4.4 per barrel compared with USD 9.1 per barrel in the corresponding of the previous year. The main factors for the refining margin decrease compared with the corresponding period last year are: A decline in the benchmark margin of USD 1.1 per barrel, the foregoing periodic maintenance caused significant erosion of the contribution of natural gas due to the sharp decrease in the price of fuel oil that constitutes an alternative energy index to natural gas and due to the fact that there is a minimum natural gas price, and erosion of the contribution of the Hydrocracker due to the reduced margin for diesel over HVGO (the main raw material for the Hydrocracker).

For an explanation regarding the differences between the Company's refining margin and the benchmark margin, see section 2.2.2 above.

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

In the third quarter of 2016, operating expenses decreased by USD 13 million compared with the corresponding period last year, mainly due to discounting of direct periodic maintenance costs and a decrease in permit fees at Bazan.

2.2.3 Adjusted consolidated operating profit

Adjusted consolidated operating profit amounted to USD 24 million in the third quarter of 2016, compared with USD 133 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 Reporting Period amounted to USD 33 million compared with USD 31 million in the corresponding period of the previous year. The increase is mainly due to depreciation for periodic maintenance at Carmel Olefins.

Other income (expenses), net (including amortization of excess costs)

Other expenses in the third quarter of 2016 amounted to USD 13 million, compared with the corresponding period last year, mainly due to discounting of direct periodic maintenance costs and a decrease in permit fees at Bazan.

2.2.4 Net income (loss)

Adjusted consolidated operating loss in the third quarter of 2016 amounted to USD 16 million, compared with net profit of USD 102 million in the corresponding period last year. The main factors that affected the adjusted net loss, other than the adjusted operating profit as set out in section 2.2.3 above, are financing expenses and income tax.

2.2.5 Finance expenses

Net consolidated financing expenses in the third quarter of 2016 amounted to USD 36 million compared to USD 27 million in the corresponding period last year. Principal changes in financing expenses, based on financial analysis (USD millions):

	7-9.2016 compared to 7-9.2015
Decrease in interest on short term credit and for working capital items	(3)
Increase in interest on loans and debentures (*)	2
Effect of exchange differences on financial items, net	1
Changes in fair value of hedge transactions	11
Others	(2)
Total	**9**

(*) Mainly due to the issue of debentures with a longer average life.

2.2.6 Income tax

In the third quarter of 2016 tax expenses amounted to USD 4 million compared to USD similar to the corresponding period last year.

3. Financial position

3.1 Current assets

As at September 30, 2016 current assets amounted to USD 1,190 million, representing 33% of total assets, compared to USD 1,143 million, representing 33% of total assets as at December 31, 2015. The increase of USD 47 million is the result of an increase in inventories of USD 97 million, mainly due to a rise in the price of inventory and increase in inventor volume, mainly due to it being contango, an increase in derivatives of USD 6 million offset by a decrease of USD 15 million in trade payables which is mainly the result of releasing surplus cash remaining in the central severance compensation funds following signing of a special collective agreement as set out in Note 18A1a to the Annual Financial Statements and a decrease in trade receivables of USD 41 million mainly due to an increase in discounting.

3.2 Non-current assets

At September 30, 2016, non-current assets amounted to USD 2,404 million, compared to USD 2,356 million at December 31, 2015. The increase of USD 48 million is mainly due to an increase of USD 85 million in property, plant and equipment, including additional investment of USD 192 million (for information regarding the investment in period maintenance see section 4 below), less depreciation of USD 107 (including loss from the impairment of assets as set out in Note 8K to the Consolidated Statements), for the period, increase in financial derivatives in the amount of USD 14 million offsetting a decrease in long term trade receivables in an amount of USD 43 million, mainly due to a decrease in a deposit relating to a transaction for inventory availability, as set out in Note 10 to the Annual Financial Statements, a decrease in a loan received by the Company for early pension in the amount of USD 2 million, a decrease in deferred taxes in the amount of USD 2 million and a decrease in investment in equity-accounted investees. of USD 2 million due mainly to dividends received.

3.3 Current liabilities

At September 30, 2016 current liabilities amounted to USD 998 million, representing 38% of total liabilities, compared to USD 1,032 million, representing 39% of total liabilities at December 31, 2015. The decrease of USD 34 million is mainly due to a decrease of USD 35 million in short term credit, mainly from the repayment of short term loans offset by an increase in current maturities as set out in Note 14A(3) to the Annual Financial Statements, a decrease in trade payables of USD 7 million, mainly due to a decrease in deposits and advance payments received from customers in the amount of USD 7 million, an increase institutions of USD 10 million offset by a decrease in payroll and other liabilities mainly due to payment of voluntary redundancy liabilities in the amount of USD 10 million, and a decrease in financial derivatives of USD 6 million, offset by an increase in provisions in the amount of USD 11 million as at reporting date (mainly against fixed assets) and an increase in trade payables in the amount of USD 4 million.

3.4 Non-current liabilities

As at September 30, 2016, non-current liabilities amounted to USD 1,603 million, compared to USD 1,594 million as at December 31, 2015. The increase of USD 9 million derives mainly from a net increase in debentures in the amount of USD 56 million as the result of a debenture issue in the net amount of USD 145 million as set out in Note 8F to the Consolidated Statements, offset by the period repayments in the amount of USD 68 million, an increase in current maturities of USD 55 million as set out in Note 14A(3) to the Annual Financial Statements less the effect of changes in fair value, plus the effect of the appreciation in the amount of USD 35 million, an increase in other long term liabilities of USD 6 million , an increase in deferred tax liabilities of USD 26 million, a decrease in long term bank liabilities in the amount of USD 53 million due to period repayments of USD 118 million offsetting loans received in the amount of USD 55 million and a decrease in current maturities of USD 7 million with the addition of depreciation of capital raising costs in the amount of USD 3 million and a decrease in derivatives of USD 27 million.

3.5 Capital

As at September 30, 2016, capital amounted to USD 993 million, representing 28% of the statement of financial position, compared to USD 874 million, representing 25% of the statement of financial position at December 31, 2015. The increase of USD 119 million in equity is mainly due to profit of USD 116 million in the Reporting Period, changes in fair value of cash flow hedging in the amount of USD 1 million and a share based payment of USD 1 million, offsetting the effect of net changes in the fair value of debentures relating to changes in the Group's credit risk in the amount of USD 1 million, and offsetting the effect of remeasurement of a hedged benefits plan in the amount of USD 1 million.

4. Liquidity

Total current assets less current liabilities as at September 30, 2016 amounted to a balance of USD 192 million compared to a balance of USD 111 million as at December 31, 2015.

The current ratio as at September 30, 2016 is 1.2 and at December 31, 2015 is 1.1.

Consolidated cash flows from Bazan Group’s operating activities amounted to USD 256 million in the Reporting Period, mainly due to profit in the period amounting to of USD 116 million, non-cash income and expense adjustments in an amount of USD 215 million, offset by changes in income and liability items of USD 75 million.

Cash flows from Bazan Group's operating activities, which take into account net interest payments of USD 72 million, classified under financing and investment activities, amounted to USD 184 million in the Reporting Period.

Cash used for investment activities in the Reporting Period amounted to USD 155 million, and were used mainly to finance an investment of USD 141 million in property, plant and equipment (for details of investments in periodic maintenance see below), an investment in deposits of USD 20 million offset by interest proceeds of USD 2 million and dividends received from investees USD 2 million and return on a loan from the Company for voluntary redundancy in the amount of USD 4 million.

In the second and third quarters of 2016, periodic maintenance work was carried out on a major and substantial part of the Group's facilities. In the second quarter periodic maintenance work was mainly carried out on all of Carmel Olefins plants and one of the Company's gasoline production plants and its supplementary facilities, and in the third quarter on the Company's primary crude oil refining plant (plant 4) and its supplementary facilities. The direct costs of this periodic maintenance work amounted to USD 100 million (USD 54 at the Company and USD 46 million at Carmel Olefins), of which USD 32 million has not yet been paid as at September 30, 2016.

In the third quarter of 2016 the Company decided to carry out periodic maintenance on part of its downstream facilities (particularly the continuous catalytic reformer) and all of Gadiv's plants, which was planned for the fourth quarter of 2016, in the first half of 2017.

The Company estimates that the cost of all the periodic maintenance work planned for 2017 is USD 90-100 million (of which USD 60-70 million is at the Company).

It is clarified that the forgoing with regard to the total costs for the planned maintenance work in 2017 is forward looking information the realization of which is uncertain and is not solely in the control of the Company. The maintenance cost estimate is dependent on various factors regarding which there is uncertainty, including the condition of the serviced plants, which may require additional repairs and servicing, in addition to those predicted, and could also adversely affect the Company's operating results. Therefore, there is no certainty that the assessments will materialize, in full or in part, and this could result in an addition to operating profit that differs from the forecast.

Net cash flows used for financing activity amounted to USD 136 million in the reporting period. The cash was used mainly to repay short-term credit of USD 85 million and long-term credit and debentures of USD 186 million, for payment of interest of USD 74 million and payments for derivatives in the amount of USD 5 million, offset by net proceeds of USD 145 million from the issue of debentures, receipt of long term loans in the amount of USD 55 million, and deposits received from for derivatives in the amount of USD 15 million.

Sources of Finance

Composition of Bazan Group financing sources and uses:

	1-9.2015	1-9.2016
	USD millions	
Sources		
Decrease in cash	57	35
Income tax rebate, net	1	--
Repayment of the loan from Haifa Early Pensions	--	4
Dividend from investees	1	2
Cash from operating activities (prior to changes in working capital)	451	332
Issue of debentures, net	260	145
Long-term credit	--	55
Receipt of short-term credit and deposits from customers and others, net	9	--
Total sources	**779**	**573**
Uses		
Increase in working capital	368	75
Investments in property, plant and equipment and intangible assets	60	142
Interest paid, net	84	72
Repayment of long-term loans and debentures, net	231	186
Derivative transactions, net	9	5
Increase in deposits, net	27	20
Income tax payment	--	1
Receipt of short-term credit and deposits from customers and others, net	--	72
Total uses	**779**	**573**

5. Total credit from financial institutions

Breakdown of Bazan Group’s net debt to financial institutions and debenture holders as at September 30, 2016 (USD million):

	Bazan	Subsidiaries	Total
Short-term loan (1)	--	1	1
Bank loans (2)	504	101	605
Debentures (2)(3)	1,085	--	1,085
Liquid financial assets (4)	(265)	(59)	(324)
Total net financial debt	**1,324**	**43**	**1,367**

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

(2) Including current maturities

(3) As of September 30, 2016, presented at liability value (without costs of capital raising)

(4) Including cash and cash equivalents, short term deposits and deposits pledged to Carmel Olefins' banks

As at December 31, 2015, the Group's total net financial debt, calculated at the liability value of bank loans and debentures, amounted to USD 1,418 million.

As of January 1, 2016, the Group has secured short term lines of credit that are valid through to December 31, 2016 (including guarantees, letters of credit, etc.) in a total amount of USD 485.5 million (the Company's share is USD 349 million, of which USD 25 million was provided as a long term loan in the first quarter of 2016). As at September 30, 2016, the Group has unused secured bank credit facilities of USD 419.53 million (the Company's share is USD 283.5 million).

Further to financial efforts made in the previous quarters to improve the structure of the financial debt and liquidity, extending the average life of long term liabilities and reducing financing costs, the Company's Board of Directors instructed its management to review options for rescheduling its long term debt to financial institutions For details see Note 6 to the Consolidated Financial Statements.

6. Average volume of sources of finance in the Reporting Period

Long term loans and debentures (including current maturities, based on the method of presenting them according to the accounting standards in the financial statements and without the costs of capital raising) amounts to USD 1,708 million, short term financial credit amounts to USD 17 million, net operating capital amounts to USD 176 million (of which the average for trade receivables is USD 334 million and trade payables is USD 538 million).

7. Exposure to market risk and risk management methods

7.1. 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.

7.2. Breakdown of the differences in fair value in view of the sensitivity analysis of the price of crude oil and distillates

	Pre-tax income (loss) Increase				Fair value Sept 30, 2016	Pre-tax income (loss) Decrease			
Price change:	**+ 50%**	**+ 20%**	**+ 10%**	**+ 5%**		**- 5%**	**- 10%**	**- 20%**	**- 50%**
					USD thousands				
Inventory (1)	156,011	62,404	31,202	15,601	312,022	(15,601)	(31,202)	(62,404)	(156,011)
Futures	28,310	11,324	5,662	2,831	(26,556)	(2,831)	(5,662)	(11,324)	(28,310)
Hedging of margins (2)	(9,764)	(3,906)	(1,953)	(976)	7,026	976	1,953	3,906	9,764
Emergency stockpiles derivative	(7,116)	(2,846)	(1,423)	(712)	(6,651)	712	1,423	2,846	7,116
	167,441	66,976	33,488	16,744	285,841	(16,744)	(33,488)	(66,976)	(167,441)

(1) Excluding inventory with a fixed price

(2) Sensitivity is to the change in the polymers' margins.

7.3. Consolidated linkage-based report

	CPI-linked NIS	in USD (*)	NIS Unlinked	Non-Financial	Total
<u>At Sept 30, 2016</u>					
Total assets	182,698	32,878	512,895	2,865,319	3,593,790
Total liabilities	(154,173)	(1,626,756)	(643,517)	(176,428)	(2,600,874)
Total equity balance, net	**28,525**	**(1,593,878)**	**(130,622)**	**2,688,891**	**992,916**
<u>As at December 31, 2015</u>					
Total assets	106,988	750,709	(39,476)	2,681,501	3,499,722
Total liabilities	(75,078)	(2,282,974)	(144,942)	(123,140)	(2,626,134)
Total equity balance, net	**31,910**	**(1,532,265)**	**(184,418)**	**2,558,361**	**873,588**

(*) Including immaterial balances in other currencies

8. Corporate governance

8.1 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.

8.2 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.

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

There has been no change in the Board of Directors' underlying considerations with regard to the officers' salaries, disclosures given in this regard under the Board of Directors Report on the State of the Company's Affairs for the period ended December 31, 2015 other than the approval of the general meeting for the bonus granted to the former chairman of the board of directors of Carmel Olefins and the former CEO of the Company for 2015, which was approved on May 4, 2016.

8.4 Procedure for approving the financial statements:

There were no further changes in the procedure for the Company's approval of the financial statements and in the identity of the Company's organs that oversee the audit regarding the procedure for approving the financial statements compared to the disclosure in the Periodic Report for 2015.

The audit committee, which also serves as the committee for reviewing the financial statements, discussed the financial statements on November 20, 2016 in a meeting (the "Meeting") attended by senior officers of the Company and the auditor. The committee meeting was divided into two parts: In the first part of the meeting, the Company's management reviewed the information in the financial statements and the accounting policy used when preparing the statements and all members of the Committee and of the Board of Directors were present during the review, other than Prof. Arie Ovadia[2]. The committee heard a detailed presentation made by the senior officers and others at the Company, including the CEO and CFO. The presentation includes the material issues contained in the financial reports, the significant assessments and critical estimates that were applied in the financial statements, the accounting policies and any amendments to the policies that were implemented, and implementation of the disclosure principles in the financial statements and accompanying information.

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[2] Direction with accounting and financial expertise. For information regarding his qualifications, expertise and experience see Chapter D to the Periodic Report. The director has provided a declaration as required by la.

The second part of the meeting was held in the presence of those members of the Board of Directors serving as committee members only, and they discussed and formulated the committee's recommendations to the Board of Directors. The following committee members attended both meetings: Mordechai Peled - Chairman;[3] Mordechai Zeev Lipschitz[4].

The interim financial statements as at September 30, 2016 were discussed and approved by the Company's Board of Directors on November 24, 2016 with the participation of all the Board members, other than David Federman and Yaakov Guttenstein.

8.5 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, 2015.

9. Disclosure of financial reporting

9.1 Additional information contained in the auditors' report to shareholders

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

The contents of Note 5 to the financial statements (including by way of reference to the content of Notes 20B(2) and 20B(4) to the annual financial statements), with regard to legal, administrative and other proceedings, other contingencies, 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.

9.2 Use of estimates and judgments

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

9.3 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 2015 Periodic Report.

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[3] External director with accounting and finance expertise See Part D of the Periodic Report for qualifications, education, and experience. The director submitted a statement as required by law, prior to his appointment.

[4] External director with accounting and finance expertise See Part D of the Periodic Report for qualifications, education, and experience. The director submitted a statement as required by law, prior to his appointment.

10. Details of outstanding debentures

In the Reporting Period, there were no changes in the details of the existing series of debentures issued by the Company and offered to the public under a prospectus, in the details of the debenture trustees, in the conditions for call for immediate redemption of the debentures, in the Company's compliance with these conditions, and in the collateral for the debentures as described in the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2015 and in the notes to the financial statements for that year, other than the upgrading of the rating outlook of the debentures from stable to positive on May 31, 2016, as set out in Note 8 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.

11. Significant subsequent events

11.1. On November 15, 2016, a new syndicated agreement was signed between the Company and the financing banks and new agreements were reached with the financing banks of Carmel Olefins. For further information see Note 6 to the Consolidated Financial Statements.

11.2. Further to the provisions of section 1.12.4 of Chapter A of the Periodic Report (with its revisions) concerning the approval of the outline plan for the land on which the plants of the Group companies are situated ("the Plan"), in the Reporting Period application was made to the National Planning and Building Council to review and again discuss the provisions of the Plan and a request was made of the Attorney General to examine whether he agrees to such discussion. Subsequent to the reporting period, the Attorney General's opinion was received in which rules were laid out regarding which terms may be brought up for an additional discussion of the Plan and it was decided that the National Planning and Building Council must decide whether the conditions regarding the Plan have been fulfilled. For further information see the revised description of the Company's businesses, as specified below.

11.3. For further information pertaining to the 30 day administrative shutdown order issued by the Mayor of Haifa only to the subsidiary, Carmel Olefins, and which was rescinded by the Court, see Note 5 to the Consolidated Financial Statements.

11.4. On November 24, 2016 the Company’s board of directors discussed the distribution of a dividend in the amount of USD 85 million, based on the Consolidated Statements. At the end of the discussion the board resolved to approve, subject to the approval of the general meeting, distribution of a dividend in the amount of USD 85 million. The Company will convene such general meeting. For further information see Note 8K to the Consolidated Statements

11.5. For details regarding these events and additional events, see Note 8 to the Consolidated Financial Statements and the revised description of the Company's businesses as set out below.

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

11.6.1 Changes in exchange rates: From the end of the Reporting Period and up to the approval date of the financial statements, there was an depreciation of 2.93% in the NIS-USD exchange rate. The Company uses hedging transactions to partially offset this exposure, as part of its risk management policy.

11.6.2 Changes in crude oil prices: The price of oil, which was USD 44 per barrel as at the Reporting Date, was USD 44 per barrel shortly before the publication date of the interim financial statements.

12. The Board of Directors of the Company thanks the outgoing officers and directors for their contribution to the Company.

13. 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**

November 24, 2016

Revision to the Description of the Company’s Businesses in the Periodic Report as at December 31, 2015

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 the provisions in sections 1.4.4 and 1.7.1.3 of Chapter A to the Periodic Report, for further information regarding the restrictions on the distribution of dividends applicable to the Company and Carmel Olefins due to the new financing agreements signed subsequent to the Reporting Period, see Note 6 to the Consolidated Financial Statements.
2. Further to that stated in sections 1.6.14.6 and 1.8.11 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 o9ut in the Reporting Period on part of the Company's plants and Carmel Olefins plants. The Company further resolved that the periodic maintenance of the continuous catalytic reformer that was planned for the fourth quarter of 2016 and the periodic maintenance of Gadiv's plants will be carried out in the first half of 2017.
3. Further to that stated in section 1.12.4 of Chapter A of the Periodic Report regarding the approval by the National Planning and Building Council (Haifa District) of the outline plan for the land on which the facilities of the Group companies are situated (the "Plan") and regarding the appeals filed regarding such approval to the National Planning and Building Council, the Company received on July 14, 2016 the decision of the National Planning and Building Council Sub-committee for Appeals, which approve the Plan with modifications set out in the decision and rejected most of the arguments in the appeals filed against it. In the reporting period, application was refiled to the National Planning and Building Council to review and re-discuss the provisions of the Plan and a request was sent to the Attorney General to examine wither he agrees to such re-discussion. Subsequent to the reporting period, the Attorney General's opinion was received in which rules were laid out regarding which terms may be brought up for an additional discussion of the Plan and it was decided that the Council must decide whether the conditions regarding the Plan have been fulfilled.

   Upon due publication of the Plan, building permits will be issued for the compound in accordance with the provisions and decisions of the Local Council.
4. Further to that stated in section 1.18.2.2 of Chapter A of the Periodic Report with regard to draft emissions permits for the Company and its wholly owned subsidiaries, Carmel Olefins Ltd.[5], Gadiv Petrochemical Industries Ltd. and Haifa Basic Oils Ltd. ("the Subsidiaries"), all the Group companies received emissions permits from the Ministry of Environmental Protection valid for seven years through to 2023.

   Considering the increase in the Company’s investments in recent years regarding environmental protection and bearing in mind other investments the Company and its subsidiaries will be required to invest in their operations in order to comply with the provisions of the emission permits when each of the provisions become effective, the Company estimates that the scope of investments that the Group companies, other than Haifa Basic Oils, will be required to make in order to comply with the emissions permits, will be in amounts substantially larger than their investments in environmental protection over recent years. With regard to the increase in investments that will be required by Haifa Basic Oils to comply with its emissions permit, see Note 8K to the Consolidated Statements.

[5] The emissions permit issued to Carmel Olefins also includes the Ministry of Environmental Protection requirements with regard to non-specific emissions which were included in the administrative order issued to Carmel Olefins in March 2016.

The Company's assessment regarding the amounts the Group companies are expected to invest to comply with the provisions of the emissions permits when each of them comes into effect, is forward looking information. The Company's assessment is based, among other things, on an estimate of the type of investments required to comply with the requirements of the permit and the cost of implementing them, which are impacted by external factors, including providers of know-how, equipment and services. The Company's assessments may not materialize, inter alia, if the type of investments required will change and/or if the estimated cost of implementing them will change.

5. Further to the provisions of sections 1.22.1 and 1.22.5 of Chapter A of the Periodic Report regarding credit, financing, financial covenants, and restrictions on creating liens, subsequent to the reporting period the Company engaged in a new syndicated agreement and Carmel Olefins long term financing agreements with banks were amended. For details see Note 6 to the Consolidated Financial Statements.

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

Once the arrangement to replace Carmel Olefins debentures with debentures (Series G) of the Company is completed, 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 will cease to be a reporting corporation and all its reporting obligations will 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.

Condensed Consolidated Interim Financial Statements of Carmel Olefins:

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

	As at		
	Sept 30, 2016	**Sept 30, 2015**	**Dec 31, 2015**
	(Unaudited)		**(Audited)**
Current assets			
Cash and cash equivalents	25,836	22,048	25,352
Customers	102,956	115,904	116,002
Other receivables	9,849	4,586	35,957
Financial assets at fair value through profit or loss	40	47	48
Derivative financial instruments	5,827	246	182
Inventories	56,257	50,305	48,900
Total current assets	200,765	193,136	226,441
Non-current assets			
Derivative financial instruments	3,292	381	278
Deposits	14,252	17,777	14,266
Long term loans and debit balances	5,799	7,072	6,742
Assets for employee benefits, net	4,028	3,969	4,261
Deferred tax assets, net	2,701	1,436	5,145
Property, plant and equipment, net	690,474	638,419	633,880
Intangible assets, net	7,197	8,411	8,066
Total non-current assets	727,743	677,465	672,638
Total assets	928,508	870,601	899,079

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

	As at		
	Sept 30, 2016	Sept 30, 2015	Dec 31, 2015
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings	81,565	134,497	163,243
Trade payables	77,060	45,110	29,104
Other payables	14,553	15,725	19,778
Derivative financial instruments	1,788	5,478	7,845
Provisions	5,913	2,851	4,173
Total current liabilities	180,879	203,661	224,143
Non-current liabilities			
Bank loans and borrowings, net	54,014	100,941	64,572
Loan from the parent company, net	107,908	--	138,953
Debentures	--	132,532	--
Derivative financial instruments	33	2,217	2,798
Other long term liabilities	10,409	--	--
Liabilities for employee benefits, net	17,930	16,865	15,977
Deferred tax liabilities, net	63,655	35,430	46,747
Total non-current liabilities	253,949	287,985	269,047
Total liabilities	434,828	491,646	493,190
Capital			
Share capital	116,997	116,997	116,997
Capital reserves	(11,308)	(6,602)	(12,515)
Capital surplus	387,991	268,560	301,407
Total capital	493,680	378,955	405,889
Total liabilities and capital	928,508	870,601	899,079

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

	Nine months ended		Three months ended		Year ended
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015	Dec 31, 2015
	(Unaudited)		(Unaudited)		(Audited)
Revenue	528,553	665,190	183,568	212,351	883,778
Cost of sales	376,730	501,397	134,534	155,528	667,955
Gross income	151,823	163,793	49,034	56,823	215,823
Selling and marketing expenses	17,501	20,038	6,494	6,727	27,053
General and Administrative Expenses:	10,524	13,436	3,773	5,308	18,065
Other income	(2,562)	(7)	(2,562)	--	(7)
Voluntary redundancy expenses	2,434	--	360	--	--
Operating income	123,926	130,326	40,969	44,788	170,712
Financing revenues	121	84	39	5,018	110
Finance expenses	(17,677)	(24,818)	(8,945)	(8,002)	(32,570)
Financing expenses, net	(17,556)	(24,734)	(8,906)	(2,984)	(32,460)
Income before taxes on income	106,370	105,592	32,063	41,804	138,252
Income tax	(19,442)	(23,563)	(5,226)	(7,118)	(30,642)
Net profit for the period	**86,928**	**82,029**	**26,837**	**34,686**	**107,610**
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	1,332	--	149	--	--
Foreign currency translation differences for foreign operations	(470)	2,896	(24)	(61)	3,603
Other comprehensive income (loss) transferred to profit or loss, net of tax	862	2,896	125	(61)	3,603
Items of other comprehensive income (loss), net of tax, not transferred to profit or loss					
Reclassification of defined benefit plan, net to tax	(344)	490	--	(433)	647
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	(3,167)	--	64	(2,812)
Items of other comprehensive income (loss), net of tax, not transferred to profit or loss	(344)	(2,677)	--	(369)	(2,165)
Total comprehensive income for the period	**87,446**	**82,248**	**26,962**	**34,256**	**109,048**

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

	Nine months ended		Three months ended		Year ended
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015	Dec 31, 2015
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Net profit for the period	86,928	82,029	26,837	34,686	107,610
Adjustments to cash flows from operating activities:					
Expenses not involving cash flows (Appendix A – section A)	52,441	75,570	20,386	22,803	97,059
	139,369	157,599	47,223	57,489	204,669
Changes in assets and liabilities items (Appendix A - section B)	63,165	(74,101)	(14,266)	(35,460)	(111,901)
Interest paid, net	(17,635)	(26,313)	(6,782)	(11,956)	(27,643)
Income tax paid	(157)	(166)	(48)	(78)	(174)
Net cash from operating activities	184,742	57,019	26,127	9,995	64,951
Cash flow for investment activities					
Change in deposits, net	(214)	(41)	(113)	(14)	(59)
Loans to employees, net	53	151	18	38	178
Investments in property plant and equipment (including periodic maintenance)	(56,993)	(6,425)	(17,535)	(2,452)	(11,262)
Net cash used for investing activities	(57,154)	(6,315)	(17,630)	(2,428)	(11,143)
Cash flow from financing activities					
Receipt (repayment) of short-term loan, net	(79,666)	2,157	(1,922)	(4,627)	5,593
Repayment of long term borrowings from banks	(14,129)	(14,129)	(7,210)	(7,210)	(17,588)
Payments from currency exchange transaction and interest, net	(1,683)	(1,989)	--	--	(1,989)
Repayment of a loan from parent company	(32,879)	--	--	--	--
Repayment of debentures	--	(31,575)	--	--	(31,575)
Net cash used for financing activities	(128,357)	(45,536)	(9,132)	(11,837)	(45,559)
Increase (decrease) in cash and cash equivalents	**(769)**	**5,168**	**(635)**	**(4,270)**	**8,249**
Effect of exchange rate fluctuations on cash and cash equivalents	1,253	211	170	(31)	434
Cash and cash equivalents at beginning of period	25,352	16,669	26,301	26,349	16,669
Cash and cash equivalents at the end of the period	**25,836**	**22,048**	**25,836**	**22,048**	**25,352**

(*) In the second quarter of 2016, periodic maintenance work was carried out on all of Carmel Olefins plants, the direct costs of which amounted to USD 46 million. As at September 30, 2016 the amount of USD 14 million is yet to be paid.

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

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

	Nine months ended		Three months ended		Year ended
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015	Dec 31, 2015
	(Unaudited)		(Unaudited)		(Audited)
A. Income and expenses not that do not involve cash flows:					
Depreciation and amortization	27,482	26,646	9,435	8,861	35,472
Income tax	19,442	23,563	5,226	7,118	30,642
Financing expenses, net	19,338	27,632	10,868	5,644	30,280
Net changes in fair value of derivative financial instruments	(14,166)	(2,434)	(5,224)	1,060	368
Share-based payment of parent company	345	163	81	120	297
	52,441	75,570	20,386	22,803	97,059
B. Changes in assets and liabilities					
Decrease (increase) in trade receivables	13,456	36,521	(13,045)	30,292	35,959
Decrease (increase) in other receivables	26,382	(892)	1,688	776	(28,795)
Decrease (increase) in inventory	(7,020)	13,101	(18,311)	(5,661)	14,061
Increase (decrease) in trade payables	33,898	(120,831)	16,643	(60,742)	(136,019)
Increase (decrease) in other accounts payable	(5,057)	4,091	(1,933)	312	8,162
Increase (decrease) in provisions	(12)	(5,818)	23	149	(4,496)
Increase (decrease) in employee benefit liabilities, net	1,518	(273)	669	(586)	(773)
	63,165	(74,101)	(14,266)	(35,460)	(111,901)

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Auditors Report to the Shareholders of Bazan Limited

Introduction

We have reviewed the accompanying financial information of Oil Refineries Limited ("the Company" and its subsidiaries ("the Group"), including the condensed consolidated statement of financial position as at September 30, 2016 and the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine and three months then ended. The board of directors and the management are responsible for preparation and presentation of the financial information for these interim periods in accordance with IAS 34 - Interim Financial Reporting, and are also responsible for preparation of the interim financial information for these periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express an opinion on the financial information for these interim periods based on our review.

We did not review the condensed interim financial information of subsidiaries, whose consolidated assets represent approximately 2% of the total consolidated assets as of September 30, 2016, and whose consolidated revenue represents approximately 5% and 5% of the total consolidated revenue for the nine and three months then ended. In addition, we did not review the condensed interim financial statements of equity-accounted investees, the investment in which amounts to USD 3,173 thousand as at September 30, 2016, and the share of the Group in their expenses is a loss of USD 64 thousand and a profit of USD 89 thousand for the nine and three months then ended. The condensed interim financial information of those companies were reviewed by other accountants, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reviews of the other accountants.

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 and the review of other accountants, nothing has come to our attention that causes us to believe that this financial information was not prepared, in all material respects, in accordance with IAS 34.

Additionally, based on our review and the review of other accountants, 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.

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Without qualifying our above conclusions, we draw attention to the contents of Note 5 to the financial statements (including by way of reference to Note 20B(2) and 20B(4) to the annual financial statements) regarding legal, 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, November 24, 2016

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	September 30, 2016	September 30, 2015	December 31, 2015
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	255,030	197,193	286,349
Deposits	54,764	9,754	23,902
Trade receivables	316,275	379,488	357,690
Other receivables	24,877	55,445	39,552
Financial derivatives	9,437	4,918	3,633
Inventory	529,318	445,258	432,291
Total current assets	1,189,701	1,092,056	1,143,417
Non-current assets			
Investments in equity-accounted investees	3,173	4,929	4,926
Investments in financial assets at fair value through other comprehensive income	45	52	38
Loan to Haifa Early Pensions Ltd.	50,177	52,531	52,077
Long term loans and debit balances	16,221	112,906	59,570
Financial derivatives	20,741	8,242	6,984
Employee benefit assets, net	4,028	3,969	4,261
Deferred tax assets, net	2,701	1,436	5,145
Property, plant and equipment, net	2,276,631	2,200,709	2,191,614
Intangible assets and deferred expenses, net	30,372	32,657	31,712
Total non-current assets	2,404,089	2,417,431	2,356,327
Total assets	3,593,790	3,509,487	3,499,744

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

Approval date of the condensed interim financial statements: November 24, 2016

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

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	September 30, 2016	September 30, 2015	December 31, 2015
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings	281,558	332,004	316,853
Trade payables	550,031	591,933	545,803
Other payables	101,980	123,765	110,246
Financial derivatives, net	19,513	35,236	25,618
Provisions	44,839	25,069	33,744
Total current liabilities	997,921	1,108,007	1,032,264
Non-current liabilities			
Liabilities to banks	448,956	564,416	502,391
Debentures, net	992,401	817,606	935,558
Other long-term liabilities	29,839	20,534	23,971
Financial derivatives, net	8,845	39,503	36,281
Employee benefits, net	52,052	52,190	48,606
Deferred tax liabilities, net	70,860	49,942	47,085
Total non-current liabilities	1,602,953	1,544,191	1,593,892
Total liabilities	2,600,874	2,652,198	2,626,156
Capital			
Share capital	805,282	805,282	805,282
Share premium	31,962	31,962	31,962
Capital reserves	39,835	38,259	35,373
Retained earnings (losses)	115,837	(18,214)	971
Total capital	992,916	857,289	873,588
Total liabilities and capital	3,593,790	3,509,487	3,499,744

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

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

	Nine months ended		Three months ended		Year ended
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**	**December 31, 2015**
	(Unaudited)		**(Unaudited)**		**(Audited)**
Revenue	3,069,128	4,305,509	1,012,211	1,349,287	5,490,973
Cost of sales	2,718,166	3,823,386	930,727	1,260,459	4,918,580
Gross profit	350,962	482,123	81,484	88,828	572,393
Selling and marketing expenses	(60,948)	(70,168)	(19,067)	(20,966)	(93,940)
General and administrative expenses	(37,853)	(40,002)	(11,490)	(14,590)	(52,577)
Other revenue	3,320	1,496	3,320	263	2,298
Loss from impairment of cash-generating units	(13,700)	--	(13,700)	--	(8,500)
Voluntary redundancy expenses	(1,011)	(15,538)	--	--	(15,392)
Operating profit	240,770	357,911	40,547	53,535	404,282
Financing income	24,342	5,903	13,275	(14,336)	5,515
Financing expenses	(122,174)	(110,538)	(48,835)	(12,206)	(145,905)
Financing expenses, net	(97,832)	(104,635)	(35,560)	(26,542)	(140,390)
Company's share in gains (losses) of equity accounted investees, net of tax	(64)	510	89	132	507
Income before taxes on income	142,874	253,786	5,076	27,125	264,399
Income tax	(26,648)	(45,941)	(3,650)	(4,301)	(39,755)
Net income for the period	**116,226**	**207,845**	**1,426**	**22,824**	**224,644**
Items of other comprehensive income (loss) transferred to profit or loss					
Foreign currency translation differences for foreign operations	(470)	2,896	(24)	(61)	3,603
Effective share of the change in fair value of cash flow hedging, net of tax	1,332	--	149	--	--
Change in fair value hedging costs, net of tax	3,331	2,420	889	91	3,353
Other comprehensive income for the period, transferred to profit or loss, net of tax	4,193	5,316	1,014	30	6,956
Items of other comprehensive income (loss) not transferred to profit or loss					
Remeasurement of a defined benefit plan, net of tax	(1,360)	918	--	(1,562)	3,304
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	(1,083)	(11,479)	1,881	3,663	(16,509)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	6	(227)	(1)	43	(239)
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	(2,437)	(10,788)	1,880	2,144	(13,444)
Comprehensive income for the period	**117,982**	**202,373**	**4,320**	**24,998**	**218,156**
Earnings per share (USD)					
Basic and diluted earnings per 1 ordinary share	0.036	0.065	0.0004	0.007	0.070

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
	Nine months ended September 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	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**116,226**	**116,226**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	--	--	--	(470)	--	--	--	--	--	(470)
Change in fair value hedging costs, net of tax	--	--	--	--	--	--	3,331	--	--	3,331
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	--	--	--	--	--	--	1,332	--	--	1,332
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	--	--	--	--	--	--	(1,083)	--	(1,083)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	--	--	--	--	6	--	--	--	--	6
Total other comprehensive income (loss) for the period, net of tax	**--**	**--**	**--**	**(470)**	**6**	**--**	**4,663**	**(1,083)**	**(1,360)**	**1,756**
Total other comprehensive income (loss) for the period	**--**	**--**	**--**	**(470)**	**6**	**--**	**4,663**	**(1,083)**	**114,866**	**117,982**
Share-based payment	**--**	**--**	**1,346**	**--**	**--**	**--**	**--**	**--**	**--**	**1,346**
Balance as at September 30, 2016	**805,282**	**31,962**	**11,591**	**5,398**	**(6,801)**	**28,478**	**5,876**	**(4,707)**	**115,837**	**992,916**

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

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

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

	Share capital	Share premium	Capital reserve for share-based payment	Capital reserve from translation differences	Capital reserve for financial instruments at fair value through other comprehensive income	Capital reserve	Hedge fund	Capital reserve for financial liabilities at fair value	Retained earnings (losses)	Total capital
	Nine months ended September 30, 2015 (unaudited)									
Balance as at January 1, 2015 (audited)	**805,282**	**31,962**	**9,016**	**2,265**	**(6,568)**	**28,478**	**(2,140)**	**12,885**	**(226,977)**	**654,203**
Profit for the period	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**207,845**	**207,845**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	--	--	--	2,896	--	--	--	--	--	2,896
Change in fair value hedging costs, net of tax	--	--	--	--	--	--	2,420	--	--	2,420
Remeasurement of a defined benefit plan, net of tax	--	--	--	--	--	--	--	--	918	918
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	--	--	--	--	--	--	(11,479)	--	(11,479)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	--	--	--	--	(227)	--	--	--	--	(227)
Total other comprehensive income (loss) for the period, net of tax	**--**	**--**	**--**	**2,896**	**(227)**	**--**	**2,420**	**(11,479)**	**918**	**(5,472)**
Total other comprehensive income (loss) for the period	**--**	**--**	**--**	**2,896**	**(227)**	**--**	**2,420**	**(11,479)**	**208,763**	**202,373**
Share-based payment	**--**	**--**	**713**	**--**	**--**	**--**	**--**	**--**	**--**	**713**
Balance as at September 30, 2015	**805,282**	**31,962**	**9,729**	**5,161**	**(6,795)**	**28,478**	**280**	**1,406**	**(18,214)**	**857,289**

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 September 30, 2016 (unaudited)									
Balance as at July 1, 2016	**805,282**	**31,962**	**11,266**	**5,422**	**(6,800)**	**28,478**	**4,838**	**(6,588)**	**114,411**	**988,271**
Profit for the period	--	--	--	--	--	--	--	--	**1,426**	**1,426**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	--	--	--	(24)	--	--	--	--	--	(24)
Change in fair value hedging costs, net of tax	--	--	--	--	--	--	889	--	--	889
Remeasurement of a defined benefit plan, net of tax	--	--	--	--	--	--	--	--	--	--
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	149	--	--	149
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	--	--	--	--	--	--	1,881	--	1,881
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	--	--	--	--	(1)	--	--	--	--	(1)
Total other comprehensive income (loss) for the period, net of tax	--	--	--	**(24)**	**(1)**	--	**1,038**	**1,881**	--	**2,894**
Total other comprehensive income (loss) for the period	--	--	--	**(24)**	**(1)**	--	**1,038**	**1,881**	**1,426**	**4,320**
Share-based payment	--	--	**325**	--	--	--	--	--	--	**325**
Balance as at September 30, 2016	**805,282**	**31,962**	**11,591**	**5,398**	**(6,801)**	**28,478**	**5,876**	**(4,707)**	**115,837**	**992,916**

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 (losses)	Total capital
	Three months ended September 30, 2015 (unaudited)									
Balance as at July 1, 2015	**805,282**	**31,962**	**9,242**	**5,222**	**(6,838)**	**28,478**	**189**	**(2,257)**	**(39,476)**	**831,804**
Profit for the period	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**22,824**	**22,824**
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	--	--	--	(61)	--	--	--	--	--	(61)
Change in fair value hedging costs, net of tax	--	--	--	--	--	--	91	--	--	91
Remeasurement of a defined benefit plan, net of tax	--	--	--	--	--	--	--	--	(1,562)	(1,562)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	--	--	--	--	--	--	3,663	--	3,663
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	--	--	--	--	43	--	--	--	--	43
Total other comprehensive income (loss) for the period, net of tax	**--**	**--**	**--**	**(61)**	**43**	**--**	**91**	**3,663**	**(1,562)**	**2,174**
Total other comprehensive income (loss) for the period	**--**	**--**	**--**	**(61)**	**43**	**--**	**91**	**3,663**	**21,262**	**24,998**
Share-based payment	**--**	**--**	**487**	**--**	**--**	**--**	**--**	**--**	**--**	**487**
Balance as at September 30, 2015	**805,282**	**31,962**	**9,729**	**5,161**	**(6,795)**	**28,478**	**280**	**1,406**	**(18,214)**	**857,289**

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 (losses)	Total capital
	Year ended December 31, 2015 (audited)									
Balance as at January 1, 2015	**805,282**	**31,962**	**9,016**	**2,265**	**(6,568)**	**28,478**	**(2,140)**	**12,885**	**(226,977)**	**654,203**
Profit for the year	--	--	--	--	--	--	--	--	224,644	224,644
Other comprehensive income (loss):										
Foreign currency translation differences for foreign operations	--	--	--	3,603	--	--	--	--	--	3,603
Change in fair value hedging costs, net of tax	--	--	--	--	--	--	3,353	--	--	3,353
Remeasurement of a defined benefit plan, net of tax	--	--	--	--	--	--	--	--	3,304	3,304
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	--	--	--	--	--	--	(16,509)	--	(16,509)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	--	--	--	--	(239)	--	--	--	--	(239)
Total other comprehensive income (loss) for the year, net of tax	**--**	**--**	**--**	**3,603**	**(239)**	**--**	**3,353**	**(16,509)**	**3,304**	**(6,488)**
Total other comprehensive income (loss) for the year	**--**	**--**	**--**	**3,603**	**(239)**	**--**	**3,353**	**(16,509)**	**227,948**	**218,156**
Share-based payment	**--**	**--**	**1,229**	**--**	**--**	**--**	**--**	**--**	**--**	**1,229**
Balance as at December 31, 2015	**805,282**	**31,962**	**10,245**	**5,868**	**(6,807)**	**28,478**	**1,213**	**(3,624)**	**971**	**873,588**

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

Condensed Consolidated Interim Statements of Cash Flows
USD thousands

	Nine months ended		Three months ended		Year ended
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	December 31, 2015
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Profit for the period	116,226	207,845	1,426	22,824	224,644
Adjustments to cash flows from operating activities:					
Revenue and expenses not involving cash flows (Appendix A – section A)	215,365	243,478	73,888	50,261	314,826
	331,591	451,323	75,314	73,085	539,470
Changes in assets and liabilities (Appendix A – section B)	(74,771)	(368,267)	(62,658)	(119,271)	(363,490)
Income tax received (paid), net	(853)	715	(513)	(310)	524
Net cash flows from (used in) operating activities	255,967	83,771	12,143	(46,496)	176,504
Cash flow used for investing activities					
Interest received	1,722	612	1,055	145	1,370
Decrease (increase) in deposits, net	(20,283)	(27,689)	(1,982)	(14,325)	16,738
Dividend received from investees	1,689	883	--	27	883
Repayment of long-term loans from others, net	160	219	49	115	306
Repayment of loan from Haifa Early Pensions	4,035	--	4,035	--	1,119
Proceeds from disposal of property, plant and equipment	--	--	--	--	844
Insurance proceeds on account of property, plant and equipment	--	--	--	--	2,012
Acquisition of property, plant and equipment (including periodic maintenance) (*)	(141,226)	(58,287)	(62,312)	(24,748)	(94,369)
Purchase of intangible assets and deferred expenses	(1,154)	(1,883)	(675)	(223)	(1,881)
Net cash used for investment activities	(155,057)	(86,145)	(59,830)	(39,009)	(72,978)
Cash flow from financing activities					
Short-term borrowing, net	(84,765)	2,123	(2,834)	(5,661)	5,580
Receipt (return) of deposits from customers and others, net	15,042	7,056	13,136	(12,079)	4,204
Interest paid	(74,220)	(83,609)	(15,157)	(22,663)	(127,728)
Derivative transactions, net	(5,436)	(9,729)	(6,270)	(677)	(17,399)
Receipt of bank loans	55,000	--	--	--	--
Repayment of long-term bank loans	(118,192)	(120,337)	(24,978)	(30,581)	(165,239)
Repayment of debentures	(67,991)	(110,536)	(1,145)	(1,104)	(142,296)
Issue of debentures, net	144,607	259,993	--	123,005	370,645
Net cash from (used for) financing activities	(135,955)	(55,039)	(37,248)	50,240	(72,233)
Net increase (decrease) in cash and cash equivalents	(35,045)	(57,413)	(84,935)	(35,265)	31,293
Effect of exchange rate fluctuations on cash and cash equivalents	3,726	(387)	2,279	(356)	63
Cash and cash equivalents at the beginning of the period	286,349	254,993	337,686	232,814	254,993
Cash and cash equivalents at the end of the period	255,030	197,193	255,030	197,193	286,349

(*) In the second and third quarter of 2016, periodic maintenance was performed in some the Company's facilities, including its main crude oil refining facility (CDU 4) and the benzene production facility, and in all Carmel Olefins facilities, with a direct cost amounting to USD 100 million (in the Company, USD 54 million and in Carmel Olefins, USD 46 million). As at September 30, 2016, a total of USD 32 million has not yet been paid.

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

	Nine months ended		Three months ended		Year ended
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	December 31, 2015
	(Unaudited)		(Unaudited)		(Audited)
A. Income and expenses not included in cash flows:					
Depreciation and amortization	99,105	98,918	33,671	34,198	136,055
Loss from impairment of cash-generating units	13,700	--	13,700	--	8,500
Financing expenses, net	68,992	98,518	25,493	13,446	139,239
Net changes in fair value of derivatives	(4,807)	3,133	(1,097)	(2,208)	3,064
Changes in fair value of the loan to Haifa Early Pensions Ltd.	(2,709)	274	(1,011)	2,540	229
Share in losses (profits) of equity accounted investees, and profit from loss of significant influence	64	(773)	(89)	(395)	(770)
Capital gain from realization of property, plant and equipment	--	--	--	--	(1,752)
Loss (gain) from inventory sectors and change in inventory hedge deposits, net	13,026	(3,246)	(754)	(2,108)	(10,723)
Share-based payments	1,346	713	325	487	1,229
Income tax	26,648	45,941	3,650	4,301	39,755
	215,365	243,478	73,888	50,261	314,826
B. Changes in assets and liabilities					
Decrease in trade receivables	41,825	72,594	25,200	103,115	93,928
Decrease (increase) in other receivables	16,483	(22,257)	223	3,510	(9,122)
Decrease (increase) in inventory	(93,428)	48,451	(42,558)	190,084	60,973
Decrease in trade payables	(39,581)	(494,611)	(56,407)	(434,962)	(523,487)
Increase (decrease) in other payables and provisions	(1,733)	16,067	9,478	20,713	3,275
Increase (decrease) in employee benefits, net	1,663	11,489	1,406	(1,731)	10,943
	(74,771)	(368,267)	(62,658)	(119,271)	(363,490)

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

NOTE 1 – GENERAL

A. Reporting entity

Bazan Ltd. (“the Company” or “Bazan”) is a company domiciled and incorporated in Israel. The Company is located in Haifa Bay and its official address is POB 4, Haifa 3100001. The Company’s shares are traded on the Tel Aviv Stock Exchange (“the TASE”). The Company and its subsidiaries are industrial companies 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.

B. The interim condensed consolidated interim financial statements as at September 30, 2016 include the statements of the Company and its subsidiaries (jointly: “the Group”) and the Group’s interests in associates.

NOTE 2 - BASIS OF PREPARATION

A. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required in the full annual financial statements. These statements should be read together with the financial statements as at December 31, 2015 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 November 24, 2016.

B. Use of estimates and judgments

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

In the first quarter of 2016, there was a decrease in the interest curve of high quality corporate debentures used to measure the Group's net liabilities for defined benefit plans for employees in Israel. The effects of remeasurement of net actuarial liabilities to employees for this change, which were calculated by the Group's actuary, were reflected in an actuarial loss of USD 1.4 million, net of tax, which was recognized in the second quarter in other comprehensive income directly under retained earnings.

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, 2016, the Group's forward contracts for the purchase of naphtha are designated as hedging items for the purpose of cash flow hedge accounting for exposure to changes in market prices of projected acquisitions of crude oil. Accordingly, changes in the fair value of these derivatives are recognized from the start of the hedge through other comprehensive income, directly in a hedge fund, to the extent that the hedge is effective. Other fair value changes in these derivatives continue to be recognized in profit or loss under cost of sales. The amount recognized in the hedge fund is reclassified to profit or loss in the period that profit or loss is affected by the cash flows and is presented under cost of sales together with the hedged item.

If, in the subsequent period, the hedging instrument no longer meets the criteria for hedge accounting, the cumulative profit or loss presented in the hedge fund remains in the fund until the completion of the projected transaction underlying the hedging transaction. If the projected transaction is no longer expected to occur, the cumulative profit or loss in the hedge fund will be reclassified to profit or loss at that time.

NOTE 4 – SEGMENT REPORTING

Further to Note 28 to the Annual Statements, as from the end of 2015, the Group has four reportable segments, which constitute its strategic business units.

The comparative figures for the nine and three months ended September 30, 2015 have been restated to reflect the change in the operating segments.

The other operating operations of the Group, which do not meet any of the quantitative thresholds, are presented together as from the end of 2015 under the "Other" segment.

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	Aromatics	Polymers - Ducor	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Nine months ended September 30, 2016 (unaudited)							
Revenue from external sources	2,228,745	383,840	277,998	144,628	3,035,211	33,917	--	3,069,128
Revenue from inter-segment sales	375,397	3,855	21,298	--	400,550	200	(400,750)	--
Segment revenue	2,604,142	387,695	299,296	144,628	3,435,761	34,117	(400,750)	3,069,128
Accounting EBITDA	185,219	131,743	13,524	22,100	352,586	1,242	--	353,828
Depreciation and amortization	(59,169)	(27,664)	(3,733)	(2,379)	(92,945)	(789)	72	(93,662)
Accounting EBITDA less amortization and depreciation								260,166
Voluntary redundancy expenses								(1,011)
Other revenue								3,320
Amortization of excess cost arising on acquisition of subsidiaries								(8,005)
Impairment loss								(13,700)
Operating profit								240,770
Financing expenses, net								(97,832)
Group’s share in earnings of equity accounted investees, net of tax								(64)
Income before taxes on income								142,874

(1) Adjusted EBITDA in the fuel segment for the nine months ended September 30, 2016 - USD 136,748 thousand.

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins(*)	Aromatics	Oils and waxes	Trade	Polymers - Ducor (*)	Adjustments to consolidated	Consolidated
	Nine months ended September 30, 2015 (unaudited)							
Revenue from external sources	3,300,293	488,620	301,196	39,499	--	175,901	--	4,305,509
Revenue from inter-segment sales	441,106	5,568	25,244	234	--	--	(472,152)	--
Segment revenue	3,741,399	494,188	326,440	39,733	--	175,901	(472,152)	4,305,509
Accounting EBITDA	289,979 (1)	143,328	10,902	2,929	11,004	13,637	(908)	470,871
Depreciation and amortization	(58,145)	(23,406)	(5,138)	(748)	--	(3,240)	--	(90,677)
Accounting EBITDA less depreciation and amortization								380,194
Voluntary redundancy expenses								(15,538)
Other revenue								1,496
Amortization of excess cost arising on acquisition of subsidiaries								(8,241)
Operating profit								357,911
Financing expenses, net								(104,635)
Group’s share in earnings of equity accounted investees, net of tax								510
Income before taxes on income								253,786

(1) Adjusted EBITDA in the fuel segment for the nine months ended September 30, 2015: USD 387,070 thousand.

(*) Restated

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Aromatics	Polymers - Ducor	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Three months ended September 30, 2016 (unaudited)							
Revenue from external sources	724,696	137,268	95,274	46,649	1,003,887	8,324	--	1,012,211
Revenue from inter-segment sales	137,228	335	7,201	--	144,764	63	(144,827)	--
Segment revenue	861,924	137,603	102,475	46,649	1,148,651	8,387	(144,827)	1,012,211
Accounting EBITDA	31,364	45,060	5,770	5,705	87,899	(2,630)	1,891	87,160
Depreciation and amortization	(20,187)	(11,785)	(1,225)	(211)	(33,408)	(229)	72	(33,565)
Accounting EBITDA less depreciation and amortization								53,595
Other revenue								3,320
Amortization of excess cost arising on acquisition of subsidiaries								(2,668)
Impairment loss								(13,700)
Operating profit								40,547
Financing expenses, net								(35,560)
Group's share in earnings of equity accounted investees, net of tax								89
Income before taxes on income								5,076

(1) Adjusted EBITDA in the fuel segment for the nine months ended September 30, 2016: USD 13,704 thousand.

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins(*)	Aromatics	Oils and waxes	Trade	Polymers - Ducor(*)	Adjustments to consolidated	Consolidated
	Three months ended September 30, 2015 (unaudited)							
Revenue from external sources	1,038,737	158,872	83,962	14,482	--	53,234	--	1,349,287
Revenue from inter-segment sales	132,521	2,009	9,783	88	--	--	(144,401)	--
Segment revenue	1,171,258	160,881	93,745	14,570	--	53,234	(144,401)	1,349,287
Accounting EBITDA	28,739 (1)	50,377	(348)	893	3,321	3,272	1,216	87,470
Depreciation and amortization	(20,646)	(7,767)	(1,703)	(241)	--	(1,094)	--	(31,451)
Accounting EBITDA less depreciation and amortization								56,019
Other revenue								263
Amortization of excess cost arising on acquisition of subsidiaries								(2,747)
Operating profit								53,535
Financing expenses, net								(26,542)
Group’s share in earnings of equity accounted investees, net of tax								132
Income before taxes on income								27,125

(1) Adjusted EBITDA in the fuel segment for the three months ended September 30, 2015: USD 108,039 thousand.

(*) Restated

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers - Carmel Olefins	Aromatics	Polymers - Ducor	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Year ended December 31, 2015 (audited)							
Revenue from external sources	4,157,321	649,877	397,977	232,974	5,438,149	52,824	--	5,490,973
Revenue from inter-segment sales	579,948	8,771	34,526	--	623,245	314	(623,559)	--
Segment revenue	4,737,269	658,648	432,503	232,974	6,061,394	53,138	(623,559)	5,490,973
Accounting EBITDA	326,358 (1)	187,262	14,635	18,915	547,170	14,664	97	561,931
Depreciation and amortization	(81,509)	(31,190)	(6,957)	(4,282)	(123,938)	(1,127)	--	(125,065)
Accounting EBITDA less depreciation and amortization								436,866
Voluntary redundancy expenses								(15,392)
Other revenue								2,298
Amortization of excess cost arising on acquisition of subsidiaries								(10,990)
Impairment loss								(8,500)
Operating profit								404,282
Financing expenses, net								(140,390)
Group's share in earnings of equity accounted investees, net of tax								507
Income before taxes on income								264,399

(1) Adjusted EBITDA in the fuel segment 2015: USD 441,452 thousand

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

A. Contingent liabilities

1. 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) In the reporting period, the Company received a warning from the Ministry of Environmental Protection ("the Ministry") for alleged violation of the Company's personal orders for the prevention of air pollution, regarding the adaptation of a number of stacks at the Company and its subsidiaries, Carmel Olefins and Gadiv, to the Ministry's regulation for checking air pollutants in the stack. The Company submitted a detailed response to the warning, and Carmel Olefins also responded in a hearing that was held subsequent to the reporting date.

At this preliminary stage, the Company is unable to estimate the exposure for the warning.

B) In the reporting period, Carmel Olefins received a warning from the Ministry for alleged violation of the terms of its emissions permit, regarding CO emissions exceeding the amount set out in the emissions permit, in two spot checks in Carmel Olefins' stacks. Carmel Olefins submitted a detailed response to the warning.

At this preliminary stage, the Company and Carmel Olefins are unable to estimate the exposure for the warning.

C) In the reporting period, Carmel Olefins received a notice from the Ministry regarding claims of violation of the personal order applicable to Carmel Olefins at that date, regarding nitrogen oxide emissions exceeding the amount set out in the personal order and a suspicion of strong or unreasonable air pollution. Carmel Olefins submitted a detailed response to the notice.

At this preliminary stage, the Company and Carmel Olefins are unable to estimate the exposure for the notice.

D) Subsequent to the reporting period, the Ministry held a hearing for Carmel Olefins due to alleged violation of the emissions permit, for malfunctions at the Carmel Olefins plant in and subsequent to the reporting period, during which gas emissions exceeded the normal amount of emissions, for reports of the closure of the plant for secondary maintenance, and for adaptation of the stack sampling facilities to the regulation of the Ministry of Environmental Protection. On November 14, 2016, the Ministry of Environmental Protection sent Carmel Olefins the conclusion of the hearing, stating that there is a suspicion that Carmel Olefins violated the emission permit in respect of operation of the torches in the three events relevant to the hearing, and possibly even more. At the conclusion of the hearing, the Ministry announced that it will act to implement measures against Carmel Olefins for the violations that were found. According to Carmel Olefins, as presented to the Ministry, it is not in violation of the provisions of the emission permit that was granted.

At this preliminary stage, the Company and Carmel Olefins are unable to estimate the exposure for the notice.

E) Subsequent to the reporting period, the director of the Office of Business Licensing in Haifa issued an administrative cease and desist order for 30 days to Carmel Olefins, ordering the immediate suspension of all business activities. Carmel Olefins petitioned the competent court to cancel the order and to postpone its entry into force until a hearing on the motion to dismiss. The court postponed the effective date of the order and on November 10, 2016, it ordered its dismissal.

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

A. Contingent liabilities (contd.)

1. Significant changes in lawsuits, other contingent liabilities, and administrative and other procedures relating to environmental quality in and subsequent to the reporting period (contd.)

   F) Further to Note 31A to the Annual Statements, on March 28, 2016, Carmel Olefins received an administrative order following the hearing at the Ministry regarding fugitive emissions in 2015. The provisions of the administrative order are also reflected in the emissions permit issued for Carmel Olefins in the reporting period. Carmel Olefins has implemented the plan to control emissions in accordance with the administrative order and has reached the goals that were set for the stages it was required to complete in the reporting period.

   G) Further to Notes 20B(2) and 31B to the Annual Statements, in the reporting period, an appeal was filed against the judgment dismissing the motion for certification as a class action. The Company believes, based on the opinion of its legal counsel, that it is more likely than not that the appeal will be dismissed. On June 19, 2016, the Company and the other defendants in the case filed a counter-appeal against the judgment that was handed down by the district court.

   The Company has insurance cover for its liability under this claim.

   H) Further to Note 20B(3) to the Annual Statements, in the reporting period and after the mediation between the parties failed to produce results, the procedures in the appeal filed against Haifa Municipality at the Supreme Court continued. In accordance with the assessment of the Company's legal counsel, which is representing the Company in the lawsuit, the Group included a provision for the claim of Haifa Municipality (most of which is recognized in property, plant and equipment), which reflects the costs for these claims, which will more likely than not be paid.

   I) In the reporting period, the Company received a demand from Mei Carmel for retroactive payment of NIS 16.3 million for sewerage services up to December 31, 2016. The Company rejected the demand. Due to the early stage of the treatment of the demand, we are unable to assess its chances.

2. As described in Note 20B(4) to the Annual Statements, there are legal, administrative, and other proceedings against Bazan Group regarding environmental quality. Based on the opinion of the legal counsel of the Company and its subsidiaries, the Company estimates that, at this stage, it is not possible to assess the effect of the aforesaid on the financial statements as at September 30, 2016, if any, therefore, no provision regarding this matter was included in the financial statements.

B. 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 Company's new syndication agreement and new agreements with the banks providing financing to Carmel Olefins subsequent to the reporting period, as set out in Note 6A and 6B below.

C. Guarantees and liens

Further to Note 20A to the Annual Statements, there were no significant changes in the Group's guarantees and liens in and subsequent to the reporting period, other than the following: (A) changes in the ordinary course of business in the amount of open short-term documentary letters of credit to suppliers; and (B) lifting of all liens provided to the banks providing financing to Carmel Olefins, as set out in Note 6B below.

NOTE 6 – LOANS AND BORROWINGS FROM BANKS AND OTHER CREDIT PROVIDERS

A. The Company

1. New syndication agreement

On November 15, 2016, a new syndication agreement was signed between the Company and financing entities ("the Financiers"), led by Bank Hapoalim as the main organizer and Bank Discount as co-organizer ("the Syndication Agreement"), under which the Company was provided with a loan ("the Loan") of USD 355 million.

The Loan, together with USD 71 million provided by the Company from its resources, was used (a) for early repayment of the credit balance in the previous syndication agreement of 2010 (which financed part of the Hydrocracker project) in an amount of USD 344 million; (b) early repayment of one of the Company's long-term loans in an amount of USD 28 million; and (c) early repayment of some of Carmel Olefins' long-term loans, which have a balance of USD 54 million.

The Loan bears variable interest (LIBOR) plus a margin of 5%.

The Loan principal will be repaid in quarterly payments, starting from the first quarter of 2017 until the fourth quarter of 2025, as follows: in 2017-2020, USD 6.8 million per quarter; in 2021-2023, USD 9.8 million per quarter; in 2024, USD 11.8 million per quarter; and in 2025, USD 11.8 million in each of the first three quarters and a final payment of USD 46 million in the fourth quarter.

The Company may repay the Loan prematurely, in whole or in part, in consideration for payment of discounting differences and an early repayment fee, at a decreasing rate as set out in the syndication agreement.

The syndication agreement supersedes all previous agreements between the Company and the financing entities by virtue of the previous syndication agreement, as set out in Note 13C to the Annual Statements.

The costs covered by the Company for the syndication agreement are insignificant amounts and they will be recognized in profit or loss over the life of the Loan.

A) Financial covenants

Below are the financial covenants applicable to the Company by virtue of the new syndication agreement as from September 30, 2016, and referring to some of its financing agreements with the banks (including a secured short-term credit line). These criteria will also apply to the holders of private debentures, as set out in Note 14C to the Annual Statements.

	Required	
Consolidated adjusted equity (USD million) (1)	>	750
Consolidated adjusted equity (1) to total consolidated statement of financial position (2)	>	20%
Consolidated ratio (net financial debt (3) + factoring of receivables) to consolidated adjusted EBITDA (4)(5)(6)	>	5
Consolidated principal and interest cover ratio (7)	>	1.1
Separate cash statement (USD millions) (8)	>	75

NOTE 6 - LOANS AND BORROWINGS FROM BANKS AND OTHER CREDIT PROVIDERS (CONTD.)

A. The Company (contd.)

1. New syndication agreement (contd.)

A) Financial covenants (contd.)

1) Adjusted equity means the equity at the measurement date less A, B, and if the Company so elects, C, as follows:

   A - Basic adjustment calculated for the first time when signing the syndication agreement, in accordance with the financial statements as at June 30, 2016, to be updated subsequently in accordance with the financial statements as at December 31, 2017, and subsequently, every 18 months, in accordance with the formula A=Qx(P1-P2).

   Q -730 thousand tons, less the amount of the inventory availability transaction at the date of the update (as at September 30, 2016, 300 thousand tons)

   P1 - Accounting average of the price of a Brent barrel in the last 24 months preceding the date of the update

   P2 - The price of crude oil inventory in the financial statements as at the date of the update (the value of the inventory divided by the number of barrels in the inventory)

   B - Current adjustment calculated from the signing date onwards, by the adjustment row attributable to the non-hedged inventory in the Company's Directors' Report.

   C - The Company may elect not to include a provision for impairment of assets in the equity calculation in accordance with IAS 36, which was recognized up to an amount of USD 100 million for two consecutive quarters from the quarter of initial recognition.

   At each update, adjustment B will be reset and adjustment A will be recalculated in accordance with the formula set out above.

2) Total net balance means the total balance plus/less the full difference between the adjusted equity as defined in subsection (1) above and the accounting equity in the financial statements, net of cash as defined in subsection(8) below in an amount exceeding USD 75 million.

3) Net financial debt means the debt to financial institutions, less cash as defined in subsection (8) below and net of cash and cash equivalents, securities, short-term and long-term deposits that are pledged/restricted in use or that secure in any other manner the liabilities included in the debt to financial institutions.

   The amount of the debt relating to the Company's debentures for the purpose of calculating the net debt will be based on the fair value of the debentures, or, as the case may be, on the carrying amount after hedge accounting, and calculation of the debt will take into account the value of the Company's hedging transactions together with the issue of the Company's debentures and with regard to their issue, provided that in any case, the amount of the debt for the debentures does not fall below the liability value of the Company's debentures, and revaluation of the hedge transactions will not fall below their liability value.

NOTE 6 - LOANS AND BORROWINGS FROM BANKS AND OTHER CREDIT PROVIDERS (CONTD.)

A. The Company (contd.)

1. New syndication agreement (contd.)

A) Financial covenants (contd.)

4) Adjusted EBITDA means gross profit less sales and marketing expenses and general and administrative expenses, net of financing expenses for supplier credit not included in gross profit, plus depreciation and amortization included in gross profit, or sales and marketing expenses or general and administrative expenses, and net of following effects:
   - Presentation method for derivatives according to IFRS
   - Buying and selling timing differences of the value of unhedged inventory
   - Reconciliation of the hedged inventory value with the market value

   All as described in the Company's directors' reports.

   Calculation of adjusted EBITDA will also include payments for one-time indemnity received by the Company from third parties.

5) Adjusted EBITDA will be calculated according to the higher of: (a) adjusted EBITDA in the four quarters prior to the measurement date; or (b) adjusted EBITDA in the two quarters prior to the measurement date, multiplied by two. It is clarified that if EBITDA includes payments for one-time indemnification, as described in subsection (4) above, these payments will not by multiplied by two, but will be included once only in the adjusted EBITDA calculation.

6) The Company may elect not to include maintenance quarters, as defined below, in the adjusted EBITDA. If the adjusted EBITDA does not include a maintenance quarter, then instead of that quarter, the EBITDA will include the prior quarter that is closest to the maintenance quarter, so that in any event, four quarters will always be taken into account. If the Company elects not to include maintenance quarters in the adjusted EBITDA, then the contents of section 5(B) above will not apply regarding multiplication of years.

   In a period of five consecutive years, no more than four quarters of maintenance will be adjusted, no more than two maintenance quarters will be adjusted consecutively, and no more than two maintenance quarters in the same year will be adjusted.

   Maintenance quarters means the quarters in which the Group companies perform periodic maintenance at their plants, which continues for at least 30 days, and its effect on adjusted EBITDA exceeds USD 20 million per quarter.

NOTE 6 - LOANS AND BORROWINGS FROM BANKS AND OTHER CREDIT PROVIDERS (CONTD.)

A. The Company (contd.)

1. New syndication agreement (contd.)

A) Financial covenants (contd.)

7) The principal and interest coverage ratio means (a) the total amount of: (i) cash as defined in subsection (8) below, (ii) cash and cash equivalents, securities and short-term deposits pledged/restricted in use or securing in any other way the liabilities included in the financial debt as defined in subsection (3) above; and (iii) adjusted consolidated EBITDA for the four quarters preceding the measurement, calculated in accordance with the provisions of subsections (4), (5) and (6) above, less investments in fixed assets amounting to USD 60 million per year (at each annual measurement date as from December 31, 2016, if depreciation expenses for consolidated fixed assets exceed USD 150 million, the rate of increase in depreciation expenses will be added to the amount of the investments) and net of current tax payments in the 12 months preceding the measurement date. It is clarified that the current tax payments will not include tax payments arising from the closing of tax assessments for prior years, for which there is disclosure in the Company's financial statements; divided into (b) principal repayments for long-term credit and the amount of interest payments expected to be payable in the 12 months following the measurement.

8) Cash means cash and cash equivalents, securities and short-term deposits, unless these are pledged/restricted in use or secure in any other way debts that are not included in the syndication agreement.
The covenants will be calculated by rounding the ratio to the first digit after the decimal point.

If, on the date on which the financial covenants are measured, the Company does not comply with any of the covenants listed above, other than the separate cash balance in the separate statements, and such non-compliance is within a range that does not exceed 10% (ten percent) of the values fixed for the relevant covenant, such non-compliance for up to two consecutive quarters will not be considered an event of default, provided that additional interest is paid at an agreed rate. However, if there is a provision for impairment of assets, which was not included in the adjusted equity calculation, the remedy will not apply to the covenant for the total adjusted equity, for each quarter in which no provision was included in calculation of the equity.

B) Conditions for distribution of a dividend

The Company may announce the distribution of a dividend in a cumulative amount of up to 75% of the net profit in the last four quarters ending on the date of the most recent financial statements that were approved prior to the date of the announcement, if all of the following conditions are fulfilled on the date of the announcement:

1) The ratio between (i) net debt (1) plus the amount to be distributed and (ii) adjusted EBITDA (2) for each of the two quarters preceding the announcement date (for which the Company's financial statements were approved) does not exceed 3.5.
   - Net financial debt as defined in subsection 3 above in the financial covenants
   - Adjusted EBITDA as defined in subsection 4 above in the financial covenants, calculated for the eight quarters preceding the measurement date, divided in two. Calculation of adjusted EBITDA does not apply to the provisions referring to the quarters of treatments set out in subsection 6 above in the financial covenants, therefore the calculation mechanism in subsection 5 above in the financial covenants will not apply.

NOTE 6 - LOANS AND BORROWINGS FROM BANKS AND OTHER CREDIT PROVIDERS (CONTD.)

A. The Company (contd.)

1. New syndication agreement (contd.)

B) Conditions for distribution of a dividend (contd.)

2) The ratio between (i) equity in the financial statements (without any adjustments) less the amount to be distributed and (ii) net balance sheet (3) for the quarter preceding the declaration date (for which the Company's financial statements were approved), will not fall below 25%.
   - The total balance in the financial statements, net of cash as defined in subsection (8) above in the financial covenants, in an amount exceeding USD 75 million.
3) There was no event of default as defined in the syndication agreement, which is still ongoing (other than suspension of the work or a significant part thereof at the Company, which does not exceed 15 days) and there will be no event of default due to the distribution of a dividend.
4) The Company complied with all the financial covenants without any deviation in the last quarter preceding the announcement date (for which the Company's financial statements were approved).

The Company may distribute the dividend (after its announcement) provided that at the distribution date, there was no event of default that is still ongoing and there was no event of default due to distribution of the dividend.

C) Loans and/or guarantees provided to Group companies

1) When signing the syndication agreement, after receiving the consent of the banks to provide guarantees and/or loans to the Group companies, Gadiv and Carmel Olefins (together: "the Significant Subsidiaries") and Haifa Basic Oils (together with the Significant Subsidiaries: "the Guarantors") provided guarantees to the financiers in the syndication and to other banks that provided the Company with long-term credit.

2) The Company undertook not to provide, and not to take steps to prevent the Guarantors from providing loans, guarantees or other financing to a third party, other than customer and/or supplier credit in the ordinary course of business and in market conditions, with the exception of:

3) loans, guarantees or other financing in favor of the Company and/or in favor of any of the Guarantors, provided that the debt ratio, as defined below, is no less than 90%. Notwithstanding the aforesaid, if the debt ratio falls below 90% but is higher than 85%, for a period of up to two consecutive quarters, this will not constitute an event of default, provided that within two quarters the ratio returns to at least 90% for two consecutive quarters.
   (a) In this subsection, "debt ratio" means the ratio of the Company's total debt to financial institutions in the separate statements (without discounting of receivables) and the total consolidated debt to financial institutions in the consolidated statements.
   (b) The guarantee of Carmel Olefins to holders of debentures (Series G) as described in Note 14(A)2 to the Annual Statements.
   (c) Guarantees to be provided by the Company in favor of the banks and/or foreign financial institutions, including the factoring companies providing financing to Ducor in a total amount of up to EUR 20 million. In addition, loans and/or guarantees to secure Ducor's debts, to be provided by Company in a total amount of up to EUR 15 million
   (d) Guarantees in favor of the activities of the trading and shipping companies, which will sign guarantees for the financiers in the syndicate, including their undertaking not to create any lien on their assets and/or rights, and not to take out any credit, other than credit from the Company to be used in their operations, and other than supplier credit in the ordinary course of business and in market conditions.

NOTE 6 - LOANS AND BORROWINGS FROM BANKS AND OTHER CREDIT PROVIDERS (CONTD.)

A. The Company (contd.)

1. New syndication agreement (contd.)

D) The Company’s undertakings

The syndication agreement includes the Company's undertakings to the financiers, including:

1) The Company will not create and will not cause the Guarantors to create liens on their property and assets (negative lien clause), with the exception of: (a) the transfer, assignment or endorsement of documents for export or import of goods, to a bank that will provide credit to finance the export or import; and (b) a lien on inventory exceeding 1.2 million tons, by the Company, for its financing through a non-recourse loan, which can be called for repayment from the pledged inventory only.

2) The Company's holdings in the Guarantors' shares will not fall below 51%.

3) The Company will not sell and will not cause the Guarantors to sell a material asset (unless it is no longer in use) or a material right, which is not in the ordinary course of business and in market conditions, without the prior written consent of the financiers. "Substantive asset" and "material right" - an asset and/or right with an economic value of at least USD 30 million.

4) The Company will only take out shareholder loans under conditions that are not less favorable than market conditions and after obtaining all approvals required by law and subject to the provisions in subsection 5 below.

5) The Company will not carry out: (A) a distribution, as defined in the Companies Law, unless in accordance with section B above regarding the conditions for distribution of a dividend; (B) any other payment (cash or cash equivalents), transfer of assets or providing a benefit to a related party or the acquisition of assets from a related party, with the exception of (i) directors' fees and remuneration, reimbursement of expenses and bonuses to directors; (ii) the transaction was made in the ordinary course of business and in market conditions; and (iii) payment of management fees in a cumulative amount of up to USD 5 million per year; (C) acquisition, redemption or return of its shares or the financing of any of these activities; and (D) an undertaking to carry out any of these activities.

   In addition, the Company will ensure that its subsidiaries do not enter into any transaction with a related party, unless the transaction is in the ordinary course of business and in market conditions.

   In this subsection, "related party" means an interested party and/or controlling shareholder and/or a relative of any of them and/or an entity related to any of them.

E) Events of default

The syndication agreement includes events, which, if they occur, grant the financiers the right to call for immediate repayment of the loan, including:

1) An amount (or cumulative amounts) exceeding USD 25 million payable by the Company and/or any of the Guarantors to a financial institution and/or debenture holders was called for immediate payment; or an amount (or cumulative amounts) exceeding USD 50 million payable by the Company and/or any of the Guarantors to third parties was called for immediate repayment due to grounds to call for immediate repayment or due to a claim of default (cross acceleration).

NOTE 6 - LOANS AND BORROWINGS FROM BANKS AND OTHER CREDIT PROVIDERS (CONTD.)

A. The Company (contd.)

1. New syndication agreement (contd.)

E) Events of default (contd.)

2) Work in the Company or a significant part thereof is suspended for 60 consecutive days or more, except due to renovations planned in advance and except in cases where the damage resulting from suspension of the work and the damage caused by it does not exceed a cumulative amount of USD 50 million.

3) The financiers informed the Company that based on their reasonable judgment, a significant adverse effect occurred as defined in the syndication agreement.

4) There was a change in control, without obtaining the prior written consent from the financiers.

2. Financial covenants

Further to Note 1 above, the following financial covenants apply to the banks and holders of private debentures as at September 30, 2016:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated adjusted equity (USD million)	>	750	1,034.9
Consolidated adjusted equity to total consolidated statement of financial position	>	20%	30.3%
Consolidated ratio (net financial debt + factoring receivables) to consolidated adjusted EBITDA	>	5.0	3.2
Consolidated principal and interest cover ratio	>	1.1	2.0
Separate cash statement (USD millions)	>	75	255.4

As at September 30, 2016, the Company is also in compliance with the financial covenants that apply to it under the previous syndication agreement, as described in Note 13(C)1 to the Annual Statements.

In addition, as described in Note 14C to the Annual Statements, the Company is subject to financial covenants under the trust deeds of debentures (Series D-G) and it is subject to financial covenants by virtue of the other long-term loans from banks. Definitions and calculation of the covenants for debentures (Series D-G) are similar to the definitions and calculation of the covenants of the banks as set out above. Given the covenants applicable to the Company with the banks and the financial covenants set out in the deeds of trusts for the debentures (Series D-G), the Company believes that it is unlikely that the covenants with the debenture holders will be breached without breaching the covenants with the banks.

As at September 30, 2016, the Company is in compliance with the financial covenants for the loans and debentures.

NOTE 6 - LOANS AND BORROWINGS FROM BANKS AND OTHER CREDIT PROVIDERS (CONTD.)

A. The Company (contd.)

2. Financial covenants (contd.)

Further to Note 14C to the Annual Statements, for the Company's debentures (Series G) only, the following financial covenants apply to Carmel Olefins as at September 30, 2016:

	Required	Required ratio/amount	Actual ratio/amount
Equity (USD millions)	>	200	493.7
Total separate financial debt (USD millions)	>	550	236.3
Consolidated principal and interest cover ratio	>	1	2.33

B. Carmel Olefins

1. Financial covenants

Further to Note 13D(1) to the Annual Statements, the following financial covenants, as defined in the Note, apply to the banks as at September 30, 2016:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated intangible equity (USD million)	>	220	486.5
Consolidated tangible equity of net total balance sheet	>	24%	53.3%
Consolidated current assets to current liabilities	>	0.8	1.2
Total financial debt (separate statement) (USD million)	>	500	279.3
Consolidated principal and interest cover ratio	>	1.05	2.33
Consolidated cash (USD million)	>	10	25.8

As at September 30, 2016, 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(2) above.

2. New agreements with banks

Further to Note 13D to the Annual Statements, subsequent to the reporting date, alongside the Company's signing of the syndication agreement as set out in section A(1) above, Carmel Olefins and the banks reached new agreements.

Main points:

A) Early repayment of the long-term loans

When signing the syndication agreement, Carmel Olefins prematurely repaid some of the long-term loans provided by the banks, with a balance of USD 54 million (see also Section 1A above). Instead of these long-term loans, the Company provided Carmel Olefins with inter-company loans, with the same repayment schedules and interest terms as the terms of the repaid loans.

In addition, on December 31, 2016, the balance of the long-term loans of Carmel Olefins, which are expected to amount to USD 12 million (subsequent to repayments of the principal on December 31, 2016) will be endorsed to the Company, against which the Company will provide Carmel Olefins with additional long-term inter-company loans under the same conditions (amortization schedules and interest rates) as those of the long-term loans.

NOTE 6 - LOANS AND BORROWINGS FROM BANKS AND OTHER CREDIT PROVIDERS (CONTD.)

A. Carmel Olefins (contd.)

2. New agreements with banks

B) Conditions for distribution of a dividend

As from January 1, 2017, no conditions will apply to Carmel Olefins, by virtue of its financing agreements with the banks, for distribution of a dividend, other than Carmel Olefin's compliance with the financial covenants applicable to it prior to the distribution and immediately afterwards.

C) Investments and pledges

- No restrictions will apply to Carmel Olefins, by virtue of the financing agreements with the banks, for acquisitions or investments in assets (and the restrictions set out in the new syndication agreement with apply).
- When signing the new syndication agreement, all the pledges created by Carmel Olefins in favor of the banks (fixed rate first liens on all the assets, equipment and machinery in its possession, and on the title to the land on which the plant operates in Haifa Bay, and monetary deposits in any bank and that were pledged with a balance of USD 18 million) were lifted.
- Carmel Olefins has undertaken not to place any additional liens on its property and assets (negative charge), with the exception of the transfer, assignment or endorsement of documents for export or import of goods, to a bank that will provide credit to finance the export or import.

D) Loans and/or guarantees provided to Group companies

- Carmel Olefins undertook not to provide any guarantees whatsoever in favor of a third party, other than: (i) guarantees in the ordinary course of business; (ii) a guarantee provided by Carmel Olefins to fulfill the Company's undertakings to the holders of debentures (Series G) as described in Note 14(A)2 to the Annual Statements; and (iii) guarantees to the Company, Gadiv and Haifa Basic Oils; without the advance written consent of the banks.
- Carmel Olefins and the banks agreed to restrictions that will be applicable to Carmel Olefins in respect of loans and/or transactions with Bazan Group companies and the related entities, other than: (1) transactions in the ordinary course of business; (ii) loans to the Company, Gadiv and Haifa Basic Oils.

NOTE 6 - LOANS AND BORROWINGS FROM BANKS AND OTHER CREDIT PROVIDERS (CONTD.)

C. Gadiv

In the second quarter of 2016, Gadiv and Company reached agreements with the banks, which mainly refer to the replacement of the long-term bank loan for Gadiv amounting to USD 30 million, with a long-term loan to the Company under the same terms (repayment schedule, interest rate); providing a guarantee by Gadiv to the bank for all of the Company's liabilities under this loan; and amendment of the financial covenants of Gadiv referring to the short-term loan.

Below are the covenants for the banks in respect of the secured short-term credit facilities of Gadiv, as from June 30, 2016.

	Required	Required ratio/amount
Net financial debt (1) to EBITDA (2)	≥	4.5 (*)
Tangible equity (3) to tangible balance sheet (4)	>	25%
Tangible equity (3) (USD millions)	>	75

(1) Net financial debt: the liabilities to financial institutions plus liabilities to third parties that factored trade receivables, less cash and cash equivalents and deposits in banks, provided they are not pledged to any third party, and short-term investments and marketable securities.

(2) EBITDA: gross profit less selling, general administrative, and marketing expenses, plus depreciation and amortization

A. Calculation of EBITDA will also include payments for one-time indemnity received from third parties.

B. EBITDA will be calculated according to the higher of: (a) EBITDA in the four quarters prior to the measurement date; or (b) EBITDA in the two quarters prior to the measurement date, multiplied by two. It is clarified that if the EBITDA includes payments for indemnification, as described in subsection (a) above, these payments will not by multiplied by two, but will be included once only in the EBITDA calculation.

C. Gadiv may elect not to include maintenance quarters, as defined below, in EBITDA. If the EBITDA does not include a maintenance quarter, then instead of that quarter, the EBITDA will include the prior quarter that is closest to the maintenance quarter, so that in any event, four quarters will always be taken into account. Accordingly, in this case, EBITDA will not be calculated as described in subsection (b0 above. It is clarified that, over a period of five consecutive years, no more than two maintenance quarters will be adjusted.

Maintenance quarters refer to quarters in which Gadiv and/or the Company perform periodic maintenance of plants at least once every four or five years for each plant, which continues for no less than 30 days and its effect on EBITDA exceeds USD 5 million per quarter.

(3) Tangible equity: equity less non-controlling interests, plus subordinated shareholder loans and less (1) non-subordinated loans provided by Gadiv to the owners; (2) deferred expenses; and (3) intangible assets.

The calculation of tangible equity will not include a provision for impairment of assets in accordance with IAS 36, which was recognized up to an amount of USD 10 million, for two consecutive quarters from the quarter of initial recognition.

(4) Total tangible balance sheet: the total balance sheet less (1) non-subordinated loans provided by Gadiv to the owners; (2) deferred expenses; and (3) intangible assets.

If the provision for impairment is adjusted in the tangible equity calculation, the adjustment amount will be added to the total tangible balance sheet.

(*) If, at any measurement date, the ratio between the net financial debt to EBITDA exceeds 4.5 by no more than 10%, this will not be considered a breach of the covenant, and if no later than the end of two consecutive quarters subsequent to the relevant measurement date, this ratio is amended and does not exceed 4.5.

NOTE 6 - LOANS AND BORROWINGS FROM BANKS AND OTHER CREDIT PROVIDERS (CONTD.)

C. Gadiv (contd.)

Financial covenants, as defined above, as of September 30, 2016:

	Required	Required ratio/amount	Actual ratio/amount
Net financial debt to EBITDA	≥	4.5	1.6
Tangible equity to tangible balance sheet	>	25%	62.2%
Tangible equity (USD millions)	>	75	112.7

As at September 30, 2016, Gadiv is in compliance with the financial covenants that were established.

NOTE 7 - FINANCIAL INSTRUMENTS - FAIR VALUE

A. Fair value of financial instruments for disclosure purposes only

The carrying amount of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, financial assets at fair value through other comprehensive income, short-term loans, deposits, financial derivatives, bank overdraft, short-term loans and borrowings, trade payables, other payables, liability for finance lease and marketable debentures (other than Series D-F), are the same as or close to their fair value.

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

	September 30, 2016			
	Liability value (par value)	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Private debentures (3)	12,153	12,153	--	12,781
Marketable debentures (Series F) (1), (3)	310,706	315,629	340,267	--
Marketable debentures (Series D-E) (1), (4)	371,796	385,874	409,570	--
Bank loans (2)	604,730	593,170	--	612,706
	1,299,385	1,306,826	749,837	625,487

(1) The fair value is based on the quoted price on the TASE on September 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).

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

	September 30, 2016	
	Liability value (par value)	Carrying amount
Debentures at fair value:		
Marketable debentures (Series A)	254,658	270,544
Marketable debentures (Series G)	136,007	144,984
	390,665	415,528

USD thousands

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

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

	September 30, 2015			
	Liability value (par value)	**Carrying amount**	**Fair value level 1**	**Fair value level 2**
Financial liabilities				
Private debentures (3)	16,134	16,134	--	16,926
Marketable debentures (Series F) (1), (3)	166,116	166,296	175,237	--
Marketable debentures (Series D-E) (1), (4)	260,567	260,668	276,355	--
Bank loans (2)	712,824	697,510	--	704,168
	1,155,641	1,140,608	451,592	721,094

(1) The fair value is based on the quoted price on the TASE on September 30, 2015

(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).

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

	September 30, 2015	
	Liability value (par value)	**Carrying amount**
Debentures at fair value:		
Marketable debentures (Series A)	307,085	320,150
Marketable debentures (Series G)	164,007	172,605
	471,092	492,755

USD thousands

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

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

	December 31, 2015			
	Liability value (par value)	**Carrying amount**	**Fair value level 1**	**Fair value level 2**
Financial liabilities				
Private debentures [(3)]	15,009	15,009	--	15,873
Marketable debentures (Series F) [(1), (3)]	234,913	237,060	241,725	--
Marketable debentures (Series D-E) [(1), (4)]	300,411	300,936	324,428	--
Bank loans (2)	667,921	653,655	--	672,422
	1,218,254	1,206,660	566,153	688,295

(1) The fair value is based on the quoted price on the TASE on December 31, 2015

(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).

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

	December 31, 2015	
	Liability value (par value)	**Carrying amount**
Debentures at fair value:		
Marketable debentures (Series A)	275,917	288,930
Marketable debentures (Series G)	163,735	175,400
	439,652	464,330

For further information about fair value measurement of financial liabilities, 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, based on timing, using assessment methodology according to fair value hierarchy. The levels are defined as follows:

Level 1: quoted prices (unadjusted) in an active market for identical instruments

Level 2: observable market inputs, direct or indirect, other than Level 1 inputs

Level 3: inputs not based on observable market data

For further information about fair value measurement, see Note 4 to the Annual Statements.

	September 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
<u>**Financial assets**</u>				
Derivatives used for accounting hedging				
CCIRS	--	11,140	--	11,140
Derivatives for inventory	774	--	--	774
Derivatives that are not used for accounting hedging				
CCIRS	--	10,857	--	10,857
Forward contracts	--	334	--	334
Derivatives for inventory	40	1,051	5,982	7,073
Financial assets at fair value through other comprehensive income				
Marketable shares	45	--	--	45
	859	23,382	5,982	30,223
<u>**Financial liabilities**</u>				
Non-derivative				
Marketable debentures (Series A, G)	415,528	--	--	415,528
Derivatives used for accounting hedging				
CCIRS	--	1,676	--	1,676
Derivatives for inventory	188	--	--	188
Derivatives that are not used for accounting hedging				
CCIRS	--	16,523	--	16,523
Derivatives for inventory	1,472	6,651	6	8,129
Forward contracts	--	1,516	--	1,516
Interest rate swaps:	--	326	--	326
	417,188	26,692	6	443,886

USD thousands

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

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

	September 30, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Non-derivative				
Financial assets at fair value through profit or loss	47	--	--	47
Derivatives used for accounting hedging				
CCIRS	--	373	--	373
Derivatives that are not used for accounting hedging				
CCIRS	--	10,553	--	10,553
Forward contracts	--	2,187	--	2,187
Financial assets at fair value through other comprehensive income				
Marketable shares	52	--	--	52
	99	13,113	--	13,212
Financial liabilities				
Non-derivative				
Marketable debentures (Series A)	492,755	--	--	492,755
Derivatives used for accounting hedging				
CCIRS	--	12,793	--	12,793
Derivatives that are not used for accounting hedging				
CCIRS	--	33,989	--	33,989
Derivative for special fees to banks	--	11,495	--	11,495
Derivatives for inventory	5,181	7,347	1,306	13,834
Forward contracts	--	285	--	285
Interest rate swaps:	--	2,343	--	2,343
	497,936	68,252	1,306	567,494

USD thousands

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

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

	December 31, 2015		
	Level 1	**Level 2**	**Total**
Financial assets			
Derivatives used for accounting hedging			
CCIRS	--	23	23
Derivatives that are not used for accounting hedging			
CCIRS	--	8,864	8,864
Interest rate swaps:	--	187	187
Forward contracts	--	1,495	1,495
Financial assets at fair value through other comprehensive income			
Marketable shares	86	--	86
	86	10,569	10,655
Financial liabilities			
Non-derivative			
Marketable debentures (Series A, G)	464,330	--	464,330
Derivatives used for accounting hedging			
CCIRS	--	12,111	12,111
Derivatives that are not used for accounting hedging			
CCIRS	--	32,530	32,530
Derivatives for inventory	10,195	5,892	16,087
Interest rate swaps:	--	1,171	1,171
	474,525	51,704	526,229

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

A. Change in the rate of corporate tax

On January 4, 2016, the Knesset passed Amendment 216 to the Income Tax Ordinance, 2016, which prescribes a gradual decrease of 1.5% in the rate of corporate tax, as from January 1, 2016, to a rate of 25%.

The deferred tax balances as at September 30, 2016 were based on the new tax rates set out in the Amendment to the Income Tax Ordinance, according to the expected tax rate at the reversal date. The effect of the change as at January 1, 2016, which was recognized in the reporting period, was reflected in net deferred tax assets of USD 3.5 million, against a deferred tax expense of USD 3.5 million.

B. On May 4, 2016, the special general meeting of the Company's shareholders approved an annual grant of NIS 750 thousand to David Federman, a controlling shareholder of the Company, for his position as chairman of the board of directors of Carmel Olefins in 2015, and a grant of NIS 600 thousand to Aharon (Arik) Yaari, the former CEO (following the approval of the compensation committee and Board of Directors), The Company recognized these expenses in the annual financial statements as at December 31, 2015.

C. Options granted in the reporting period:

On March 22, 2016, the Company's Board of Directors allocated 3,700,000 options to an officer of the Company (following the decision of the Company's compensation committee). For further information about the terms of the options and their fair value measurement, see Note 21B(3) to the Annual Statements. The fair value of the benefit at the grant date amounted to NIS 0.5 million.

D. Further to Note 6 to the Annual Statements regarding the factoring agreements of the Company and Carmel Olefins, as at September 30, 2016, the Company and Carmel Olefins derecognized an amount of USD 135 million and USD 43 million, respectively, from their trade receivables. In addition, further to Note 6 to the Annual Statements, in the reporting period, Gadiv signed an agreement with another bank for the non-recourse sale of certain trade receivables, which are secured by credit insurance, in a maximum amount of USD 20 million, such that as at the reporting date, Gadiv has agreements for the sale of trade receivables under factoring agreements in a maximum cumulative amount of USD 40 million. As at September 30, 2016, Gadiv derecognized trade receivables of USD 38 million (by virtue of these agreements and former agreements).

E. Further to Note 14A(4) to the Annual Statements, in the first and third quarter of 2016, the Company entered into swap transactions amounting to USD 38 million and USD 60 million, respectively, to reduce currency and interest rate exposure for expansion of Debentures (Series E) in December 2015 and April 2016, as set out in section F below, and elected to apply fair value hedge accounting for the expansions.

F. Issuance of debentures by way of expansion of Series E and F:

On April 21, 2016, an offering was carried out by way of expansion of NIS 225,005 thousand par value debentures (Series 6) and NIS 293,774 thousand par value debentures (Series F) were issued (linked to the USD). The proceeds from the offering, net of costs of raising capital, amounted to USD 145 million.

For further information about debentures (Series E and F) and the rating of the Company's debentures, see Note 14B to the Annual Statements.

G. On May 31, 2016, Maalot (S&P) affirmed the rating of BBB+ for the Company's public debentures and the rating outlook was upgraded from stable outlook to positive outlook.

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

H. Further to Note 18 A(3) to the Annual Statements regarding cash bonuses based on the price of the Company's shares, which was approved for the employees, in the second quarter of 2016, the Group companies reached an agreement with the employees' representatives to cancel the bonus. The financial effect for cancellation of the bonus in the reporting period is not material.

I. In the reporting period, the Company, Carmel Olefins, Gadiv, and Haifa Basic Oils received emissions permits from the Ministry of Environmental Quality, which are valid for seven years, until 2023.

J. On November 15, 2016, a new syndication agreement was signed between the Company and financing entities and new agreements were reached with the banks providing Carmel Olefins with financing. For further information, see section 6 above.

K. Further to Note 11E(2) to the Annual Statements and as described in section I above, in the reporting period, Haifa Basic Oils received an emissions permit. After studying and evaluating the extent and timing of the investments required in the facilities of Haifa Basic Oils in order to comply with the provisions in the permit, which are significantly higher than the earlier estimates of the management of Haifa Basic Oils prior to receiving the emissions permit (including for the purpose of calculating the recoverable amount of oil activities as at December 31, 2015) and compared to the recoverable amount of oil activities in general, on September 30, 2016, Haifa Basic Oils assessed the recoverable amount of the oil activities, in accordance with the provisions of IAS 36, based on the value in use determined in accordance with the discounted cash flow (DCF) method.

Accordingly, in the third quarter of 2016, Haifa Basic Oils recognized an impairment loss of USD 13.7 million (before tax), which was recognized against fixed assets.

L. For information about developments in contingent liabilities, including environmental issues, as well as changes in agreements and liens, see Note 5 above.

M. On November 24, 2016, the Company's Board of Directors discussed the distribution of a dividend in the amount of USD 85 million, based on the Company's financial statements as at September 30, 2016. At the end of the discussion, the Board of Directors resolved to approve the distribution of a dividend in the amount of USD 85 million, subject to the approval of the general meeting of shareholders. The Company will convene a general meeting for this purpose.

Further to Note 16(F)(1) to the Annual Statements, if the Company distributes a dividend in the future, a tax liability of NIS 30 million (approximately USD 8 million) will first be paid for a grossed up dividend of NIS 120 million (approximately USD 32 million) arising from exempt earnings.

The balance of the dividend to be distributed (beyond the aforesaid NIS 90 million), if distributed, is not from profits eligible for benefits by virtue of the Encouragement of Capital Investments Law, 1959.

Bazan Limited

Condensed Separate Interim Financial Information

As at September 30, 2016

(Unaudited)

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

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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 September 30, 2016 and for the nine 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.

We did not review the separate interim financial information of equity-accounted investees, the investment in which amounts to USD 4,602 million as at September 30, 2016, where the profits of such investees amounted to USD 16,303 and USD 1,564 million for the nine and three month periods then ended, respectively. The financial statements of those companies were reviewed by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the financial statements for those companies, is based on the reports of the other auditors.

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 and the review of other accountants, 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.

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

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 2015 and to Note 20 to the consolidated financial statements of the Company for 2015) with regard to legal 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, November 24, 2016

Condensed Separate Interim Information on Financial Position
USD thousands

	As at		
	Sept 30, 2016	Sept 30, 2015	Dec 31. 2015
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	215,444	168,635	254,415
Deposits	50,034	9,754	20,373
Customers	271,043	247,484	231,396
Other receivables	19,668	50,236	37,525
Maturities of a loan to Carmel Olefins	34,002	--	32,747
Financial derivatives	3,566	4,534	3,252
Inventories	438,449	353,705	349,605
Total current assets	1,032,206	834,348	929,313
Non-current assets			
Investments with respect to investees, net	798,640	741,619	765,480
Investments in financial assets at fair value through other comprehensive income	45	52	38
Loan to Haifa Early Pensions Ltd.	50,177	52,531	52,077
Loan to Carmel Olefins, net	107,908	--	138,957
Long term loans and debit balances	2,260	95,051	45,252
Financial derivatives	17,449	7,861	6,706
Deferred tax assets, net	30,723	33,150	39,939
Property, plant and equipment, net	1,290,759	1,242,078	1,246,927
Intangible assets and deferred expenses, net	10,366	10,304	10,062
Total non-current assets	2,308,327	2,182,646	2,305,438
Total assets	3,340,533	3,016,994	3,234,751

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

Date of approval of the separate financial information: November 24, 2016

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

Condensed Separate Interim Information on Financial Position
USD thousands

	As at		
	Sept 30, 2016	Sept 30, 2015	Dec 31, 2015
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings	248,413	240,526	256,010
Trade payables	521,405	557,571	515,574
Other payables	80,557	102,445	111,719
Financial derivatives, net	17,707	29,473	17,773
Provisions	32,238	18,088	24,563
Total current liabilities	900,320	948,103	925,639
Non-current liabilities			
Bank loans	394,942	435,617	412,104
Debentures, net	992,401	685,074	935,558
Other long-term liabilities	19,430	20,534	23,971
Financial derivatives, net	8,812	37,286	33,483
Employee benefits, net	31,712	33,091	30,408
Total non-current liabilities	1,447,297	1,211,602	1,435,524
Total liabilities	2,347,617	2,159,705	2,361,163
Capital			
Share capital	805,282	805,282	805,282
Share premium	31,962	31,962	31,962
Capital reserves	39,835	38,259	35,373
Retained earnings (losses)	115,837	(18,214)	971
Total capital	992,916	857,289	873,588
Total liabilities and capital	3,340,533	3,016,994	3,234,751

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

Condensed Separate Interim Information on Profit and Loss and Other Comprehensive Income
USD thousands

	Nine months ended		Three months ended		Year ended
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015	Dec 31. 2015
	(Unaudited)		(Unaudited)		(Audited)
Revenue	2,604,142	3,741,399	861,924	1,171,258	4,737,269
Cost of sales	2,434,944	3,460,430	840,177	1,147,170	4,429,919
Gross income	169,198	280,969	21,747	24,088	307,350
Selling and marketing expenses	(19,556)	(26,707)	(4,192)	(8,099)	(33,443)
General and Administrative Expenses:	(23,467)	(22,410)	(6,334)	(7,912)	(28,480)
Other income	--	503	--	263	1,312
Voluntary redundancy income (expenses)	2,511	(15,128)	1,127	--	(13,849)
Operating profit	128,686	217,227	12,348	8,340	232,890
Financing revenues	24,165	7,528	13,224	(12,523)	6,550
Finance expenses	(101,723)	(84,488)	(38,612)	(11,440)	(111,362)
Financing expenses, net	(77,558)	(76,960)	(25,388)	(23,963)	(104,812)
Company's share in profits (losses) of investees, net of tax	73,064	90,018	10,616	35,198	112,389
Income (loss) before taxes on income	124,192	230,285	(2,424)	19,575	240,467
Tax benefits (income tax)	(7,966)	(22,440)	3,850	3,249	(15,823)
Net profit for the period	**116,226**	**207,845**	**1,426**	**22,824**	**224,644**
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	862	2,896	125	(61)	3,603
Changes in fair value hedging costs, net of tax	3,331	2,420	889	91	3,353
Other comprehensive income for the period, transferred to profit or loss, net of tax	4,193	5,316	1,014	30	6,956
Items of other comprehensive income (loss) not transferred to profit or loss					
Reclassification of defined benefit plan, net to tax	(928)	371	--	(1,095)	2,512
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax (*)	(1,083)	(8,312)	1,881	3,599	(13,697)
Other comprehensive loss for investees, net of tax	(432)	(2,620)	--	(403)	(2,020)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	6	(227)	(1)	43	(239)
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	(2,437)	(10,788)	1,880	2,144	(13,444)
Total income for the period	117,982	202,373	4,320	24,998	218,156

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

Condensed Separate Interim Information of Cash Flows
USD thousands

	Nine months ended		Three months ended		Year ended
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015	Dec 31, 2015
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Profit for the period	116,226	207,845	1,426	22,824	224,644
Adjustments required to present cash flows for operating activities:					
Revenue and expenses not involving cash flows (Appendix A – section A)	63,785	62,360	22,995	(13,760)	84,355
	180,011	270,205	24,421	9,064	308,999
Changes in assets and liabilities (Appendix A – section B)	(157,881)	(272,289)	(50,101)	(74,154)	(258,412)
Income tax received (paid), net	(612)	1,105	(434)	(180)	933
Net cash from (used in) operating activities	21,518	(979)	(26,114)	(65,270)	51,520
Cash flows from investment activities					
Interest received	14,932	9,276	6,221	4,969	10,666
Decrease (increase) in deposits, net	(20,069)	(27,648)	(1,869)	(14,311)	16,797
Dividend received from investees	43,557	883	--	27	883
Repayment of long-term loans from others, net	92	70	27	66	124
Repayment of loan from Carmel Olefins for exchange of Carmel Olefins debentures (*)	32,880	--	--	--	--
Repayment of loan from Haifa Early Pensions	4,035	--	4,035	--	1,119
Investments in property plant and equipment (including periodic maintenance) (**)	(74,478)	(49,051)	(39,432)	(21,403)	(76,934)
Proceeds from disposal of property, plant and equipment	--	--	--	--	844
Purchase of intangible assets and deferred expenses	(1,154)	(1,862)	(675)	(226)	(1,860)
Net cash used for investing activities	(205)	(68,332)	(31,693)	(30,878)	(48,361)
Cash flow from financing activities					
Short-term borrowing, net	(3,844)	(34)	--	(1,111)	(13)
Receipt (return) of deposits, net	15,042	7,056	13,136	(12,079)	4,204
Interest paid	(69,325)	(64,702)	(13,646)	(14,443)	(108,083)
Derivative transactions, net	(3,753)	(7,740)	(6,270)	(677)	(15,410)
Increase (decrease) in cash from funding activities with investees, net	(62,586)	(10,921)	5,236	(10,412)	16,534
Receipt of long-term bank loans	55,000	--	--	--	--
Repayment of long-term bank loans	(69,777)	(99,780)	(17,768)	(21,229)	(139,080)
Repayment of debentures	(67,991)	(78,961)	(1,145)	(1,104)	(110,721)
Issue of debentures, net	144,607	259,993	--	123,005	370,645
Net cash from (used in) finance activities	(62,627)	4,911	(20,457)	61,950	18,076
Net increase (decrease) in cash and cash equivalents	(41,314)	(64,400)	(78,264)	(34,198)	21,235
Effect of exchange rate fluctuations on cash and cash equivalents	2,343	(255)	2,021	(141)	(110)
Cash and cash equivalents at beginning of period	254,415	233,290	291,687	202,974	233,290
Cash and cash equivalents at the end of the period	215,444	168,635	215,444	168,635	254,415

(*) See also Note 2 to the consolidated financial statements.

(**) In the second and third quarters of 2016, periodic maintenance work was carried out on part of the Company's plants, including its main crude oil refining facility (Plant 4) and gasoline production plant, the direct costs of which amounted to USD 54 million. As at September 30, 2016 the amount of USD 18 million is yet to be paid.

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

Condensed separate interim information of Cash Flows (contd.)
USD thousands

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

		Nine months ended		Three months ended		Year ended
		Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015	Dec 31, 2015
		(Unaudited)		(Unaudited)		(Audited)
A.	**Income and expenses not that do not involve cash flows:**					
	Depreciation and amortization	59,169	58,218	20,138	20,670	81,606
	Proceeds from disposal of property, plant and equipment	--	--	--	--	(805)
	Financing expenses, net	63,393	71,109	20,083	5,595	106,821
	Net changes in fair value of derivatives	(4,862)	3,355	(1,206)	(2,073)	3,232
	Changes in fair value of a loan to Haifa Early Pensions Ltd.	(2,709)	274	(1,011)	2,540	229
	Share in earnings of equity accounted investees, and gain from decrease in significant influence	(73,064)	(90,281)	(10,616)	(35,461)	(112,652)
	Loss (income) from deposits and changes in inventory hedging deposits, net	13,026	(3,246)	(754)	(2,108)	(10,723)
	Share-based payments	866	491	211	326	824
	Taxes on income (tax benefit)	7,966	22,440	(3,850)	(3,249)	15,823
		63,785	62,360	22,995	(13,760)	84,355
B.	**Changes in assets and liabilities**					
	Decrease (increase) in trade receivables	(42,390)	180,463	29,294	149,673	196,551
	Decrease (increase) in other receivables	19,344	(28,804)	(2,048)	2,334	(15,357)
	Decrease (increase) in inventory	(85,582)	26,519	(21,101)	189,584	30,619
	Decrease in suppliers	(23,913)	(483,562)	(69,297)	(435,160)	(509,122)
	Increase (decrease) in other payables, credit balances and provisions	(25,451)	21,345	12,374	20,554	27,301
	Increase (decrease) in employee benefits, net	111	11,750	677	(1,139)	11,596
		(157,881)	(272,289)	(50,101)	(74,154)	(258,412)

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, 2015 (the "Annual Reports") and the condensed interim consolidated financial statements as at September 30, 2016 ("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 Financial Information

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

3. Note 5 – Contingent Liabilities, Agreements, Guarantees, and Liens

For details see Note 5 to the Consolidated Financial Statements.

4. Financial covenants and engagement in a new syndicated agreement

For details see Note 6 to the Consolidated Financial Statements.

5. Significant events during and subsequent to the reporting period

A. On March 22, 2016, the boards of directors of Gadiv and Haifa Basic Oils announced the distribution of a dividend to the Company in the amounts of USD 32 million and USD 10 million, respectively, which was received on March 23, 2016

B. For further information see Notes 6 and 8 to the Consolidated Financial Statements.