OIL REFINERIES LTD

Condensed Consolidated Interim Financial Statements as of September 30, 2017

(Unaudited)

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

Bazan Ltd.

Contents

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

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

1 Description of the Company and its Business Environment

1.1 General

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

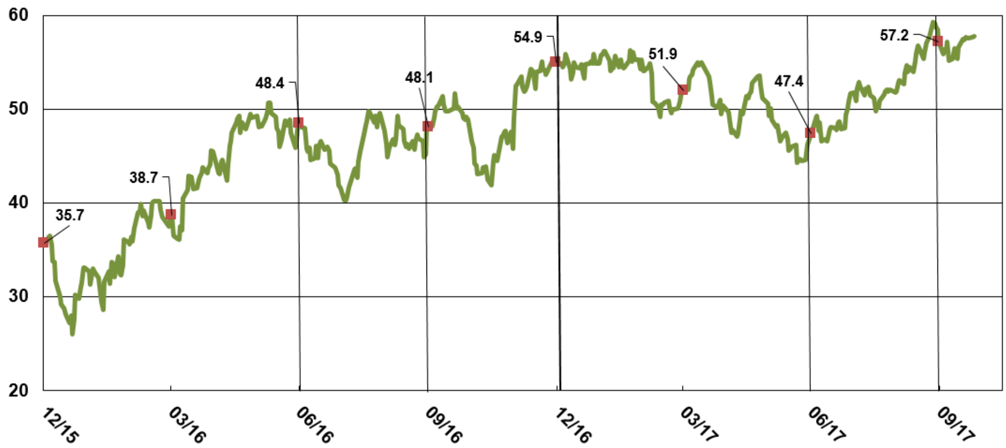
The subsidiaries' plants (with the exclusion of Ducor, which is located in the Netherlands) are downstream facilities of the Company and they receive most or all of the required feedstock from the Company on an ongoing basis through pipelines, and return all or part of the products of their facilities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

1.2 Business environment and Bazan Group profitability

Fuels

The price of crude oil

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



Source: Reuters

Average price of Brent crude (USD/barrel)

1-9.2017	1-9.2016	Change	7-9.2017	7-9.2016	Change
51.8	41.9	24%	52.1	45.9	14%

In the Reporting Period the trend, that began in December last year, of increase in the average Brent crude oil price continued and was affected by the decision of OPEC member countries to increase production. The Brent price, which was traded in the Reporting Period at USD 50-60 per barrel, is attributed to the balancing of oil production as a result of OPEC production limits on one hand and increased output of non-OPEC countries and the US, on the other.

Towards the end of September 2017, the Brent price rose so that its price as at Reporting Date was set at USD 57 per barrel for the following main reasons: forecasts of increased demand for oil coupled with refining facilities returning to normal production following Hurricane Harvey, continuing OPEC and Russian commitment to the program to reduce output and export of Kurdish oil from northern Iraq, which has been continuing, also after the Reporting Period.

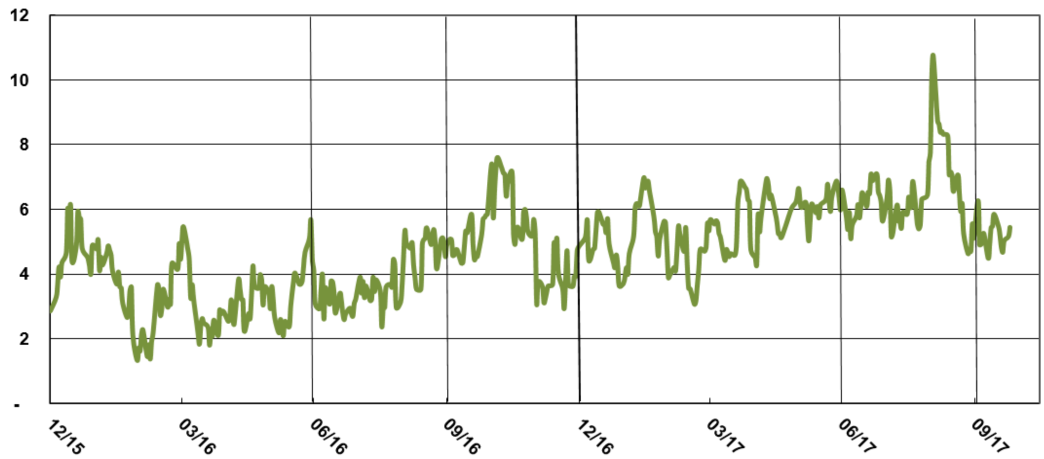
Subsequent to the Reporting Period, close to Reporting Date, the Brent price was fixed at USD 61 per barrel.

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 1.1 per barrel, compared with USD 1.7 per barrel in the corresponding period last year. The difference in the price of heavy crude compared with light crude was extremely volatile, ranging between USD 0 and USD 2 per barrel, due to the increase in the supply of Ural crude oil substitutes from outside the Mediterranean region.

In the Reporting Period, the futures market for crude oil continued to be contango at average rate of USD 0.2 per barrel per month. In the third quarter of 2017 there was a change in the futures market trend and started backwardation.

<u>Refining margin</u>

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



Source: Reuters

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

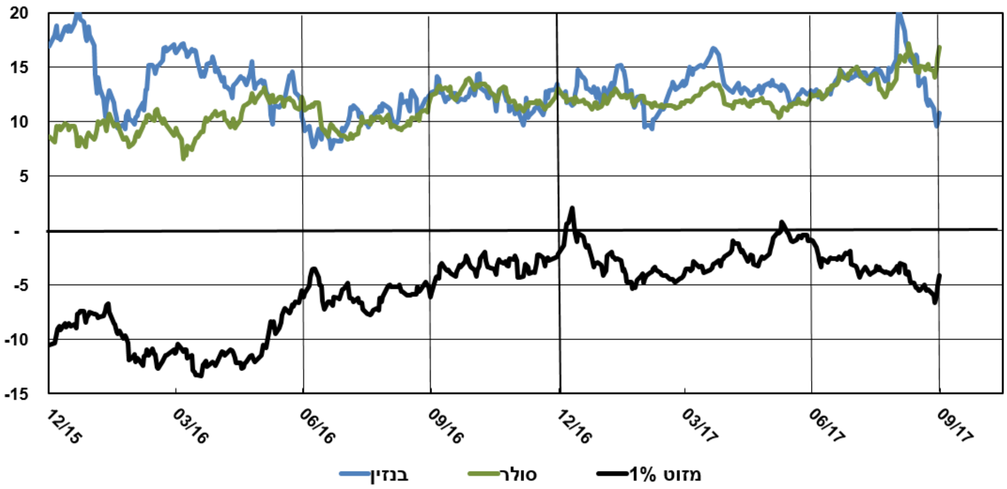
Average Ural margin (USD/barrel)

1-9.2017	1-9.2016	Change	7-9.2017	7-9.2016	Change
5.8	3.6	61%	6.4	3.8	68%

The Ural margin strengthened in the Reporting Period compared with the corresponding period last year. The main factors contributing to this strengthening are the planned and unplanned shutdowns of refining facilities together with an increase in demand for distillates. At the beginning of September 2017, Hurricane Harvey caused production at the refineries in the Gulf of Mexico and in the United States to stop. As a result, the Ural margin reached USD 10.8 per barrel, a record high since the end of 2008. By the end of September, refining capacity in the affected area had returned to normal, and Ural margins declined to between USD 5-6 per barrel. Subsequent to Reporting Date and until close to date of publication of the report, the average Ural margin was USD 5 per barrel.

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

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



Source: Reuters

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

	1-9.2017	1-9.2016	Change	7-9.2017	7-9.2016	Change
Gasoline	13.4	12.9	4%	14.1	10.3	37%
Diesel fuel	12.7	10.0	27%	14.2	10.0	42%
1% Fuel oil	- 2.9	- 8.6	66%	- 3.7	- 5.9	37%

Diesel fuel and gasoline margins rose compared with the corresponding period last year, with the diesel fuel margin increasing substantially. The fuel oil margin has increased significantly since the fourth quarter of 2016.

<u>Refining volume</u>

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

	1-9.2017	1-9.2016	7-9.2017	7-9.2016
Utilization of refining plants (*)	91%	80%	99%	53%
Refining volume	6,688	5,909	2,468	1,306
Import (export) of HVGO, net	474	306	172	265
Total	**7,162**	**6,215**	**2,640**	**1,571**

Refining volume increased by 779 thousand tons in the Reporting Period compared to the corresponding period last year. Input volume, including diesel fuel and HVGO, increased by 947 thousand tons in the Reporting Period compared with the corresponding period last year. In the third quarter of 2017, refining volume increased by 1,162 thousand ton compared with the corresponding quarter last year. Input volume, including diesel fuel and HVGO, increased by 1,069 thousand tons in the third quarter, compared with the corresponding period last year.

The increase in refining volume in the Reporting Period and in the third quarter of 2017, is mainly due to shutdown of part of the Company's facilities, particularly of its main crude oil refining facility (CDU 4) for periodic maintenance in the third quarter of 2016, and due to the improved performance of the refining facilities after completion of part of the periodic maintenance work carried out during earlier periods.

For information regarding the effect of periodic maintenance work on the margins in the Reporting Period and in the corresponding period last year, see section 2.1.2 below.

(*) Utilization of the refining facilities in the Reporting Period and the corresponding period last year had the foregoing periodical maintenance work not been carried out, on the assumption that 56 million barrels of crude oil and 52 million barrels of interim materials are processed, accordingly (the median number of barrels of crude oil and interim materials of 17.5 million barrels processed by the Company in the quarters during which the periodic maintenance work was carried out, plus the actual number of barrels processed in the quarters during which the periodic maintenance work was carried out) is estimated to be 97% and 93%. Similarly, the rate of utilization of the refining facilities in the third quarter of 2016 was 92%.

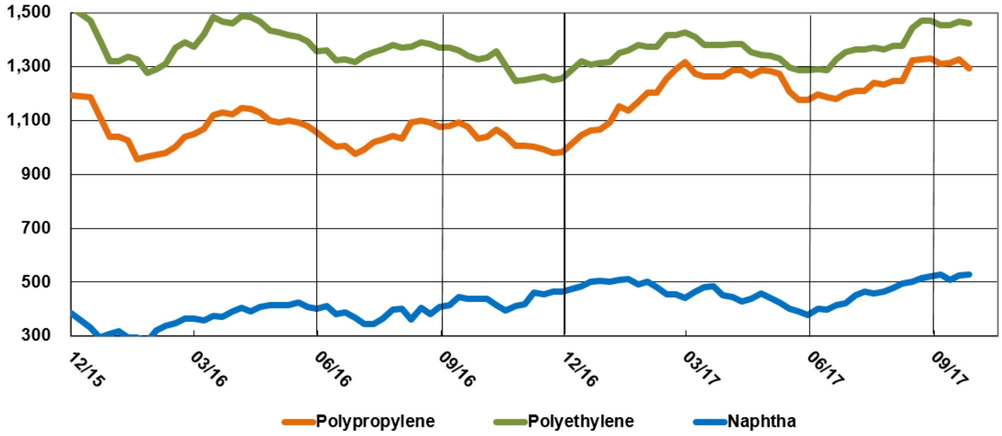
Breakdown of the Company's output by main product groups in the Fuels segment (in thousands of tons)

	1-9.2017	1-9.2016	7-9.2017	7-9.2016
Diesel fuel	2,555	2,095	962	476
Gasoline	1,251	1,343	526	443
Kerosene	522	526	205	196
Fuel oil	1,559	1,343	561	283
Others	1,121	750	326	125
Total	**7,008**	**6,057**	**2,580**	**1,523**

Polymers Segment

1. Polymers - Carmel Olefins

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



Source: ICIS

Average polymer and naphtha prices (USD / ton)

	1-9.2017	1-9.2016	Change	7-9.2017	7-9.2016	Change
Naphtha	462	369	25%	470	383	23%
Polypropylene	1,224	1,060	16%	1,250	1,041	20%
Polyethylene	1,365	1,383	- 1%	1,386	1,359	2%

Raw material prices

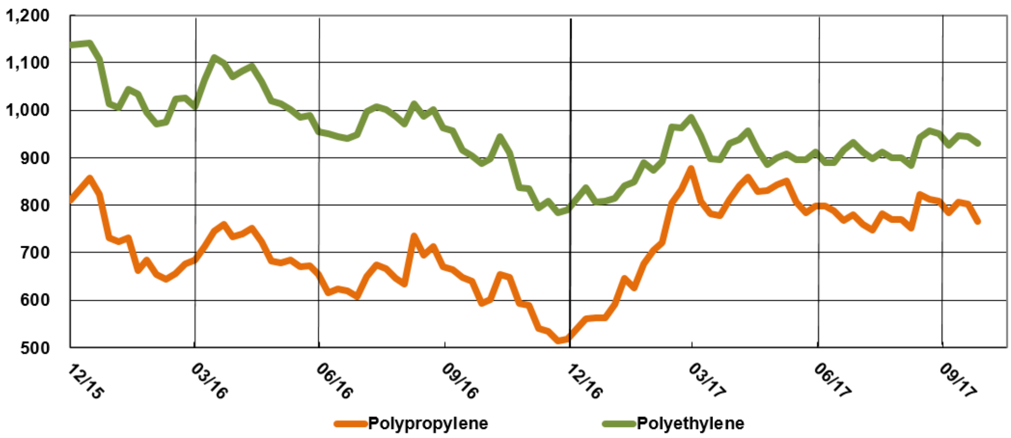
Raw material prices, particularly naphtha prices, increased in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices.

Polymer prices

Polypropylene prices increased and polyethylene prices decreased in the Reporting Period compared to the corresponding period last year. The difference in the behavior of the polymer prices can be explained by the difference in the prices of raw materials used for the production of each of these polymers in Europe (propylene and ethylene).

Margins

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



Source: ICIS

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

	1-9.2017	1-9.2016	Change	7-9.2017	7-9.2016	Change
Polypropylene	762	691	10%	780	658	19%
Polyethylene	903	1,014	- 11%	917	976	- 6%

In the Reporting Period the difference between the price of polypropylene and the price of naphtha was higher compared with the corresponding period last year and the difference between the price of polyethylene and the price of naphtha was lower compared to the corresponding period last year. This, while the foregoing volatility of the polypropylene and polyethylene prices are affected, among other things, by the prices of the raw materials for the production of polymers in Europe (propylene and ethylene), and due to the increase in the naptha price. In September 2017 Hurricane Harvey, that hit the Gulf of Mexico in the US, led to shutting down of polymer facilities in the area and to an increase in polymer margins during this period.

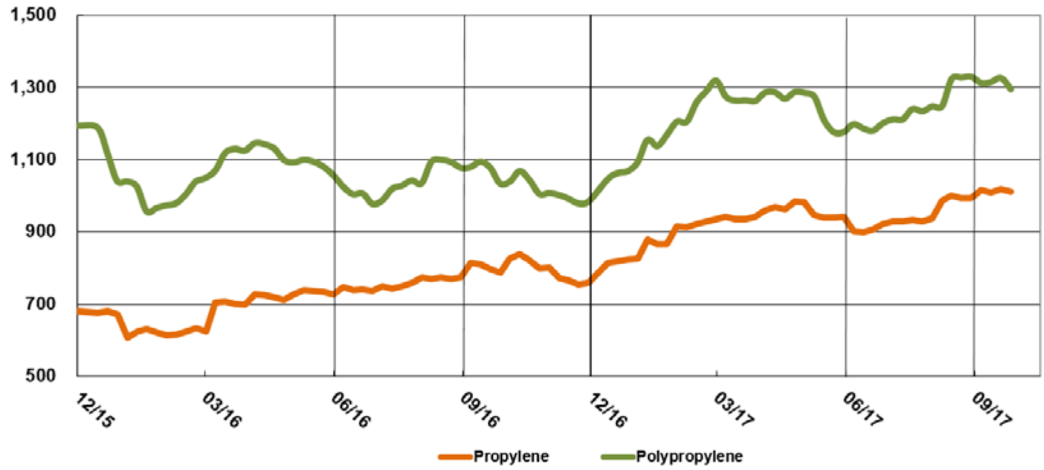
Polymer output volume (thousand tons)

	1-9.2017	1-9.2016	7-9.2017	7-9.2016
Polymers	398	315	131	128

The increase in polymer production at Carmel Olefins in the Reporting Period was due to the total shutdown of its facilities during the second quarter of 2016 for periodic maintenance. For information regarding the effect of the periodic maintenance work on the margins in the corresponding period last year, see section 2.1.2 below.

2. Polymers - Ducor

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



Source: ICIS

Average polypropylene and propylene prices (USD / ton)

	1-9.2017	1-9.2016	Change	7-9.2017	7-9.2016	Change
Polypropylene	1,224	1,060	16%	1,250	1,040	20%
Propylene	927	708	31%	951	760	25%

Raw material prices

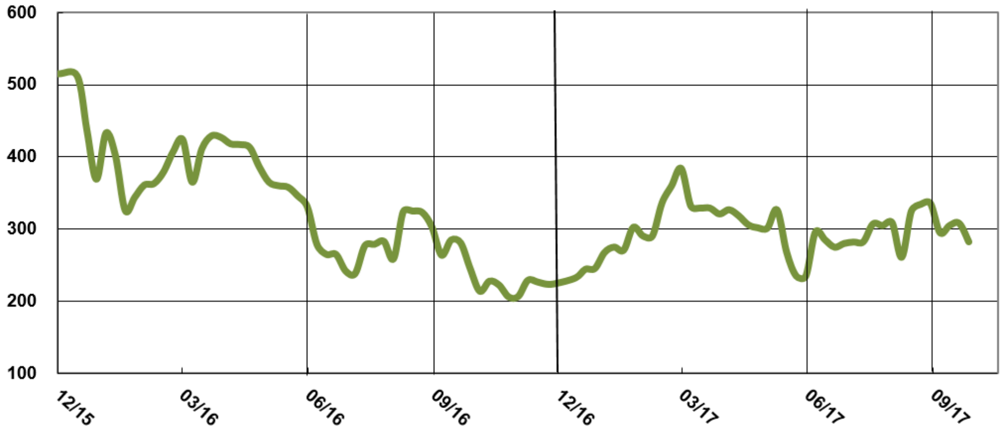
The prices of Ducor's primary raw material, propylene, increased in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices and the shutdown of production facilities in Europe and the US.

Polypropylene prices

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

Margins

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



Source: ICIS

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

	1-9.2017	1-9.2016	Change	7-9.2017	7-9.2016	Change
Difference in price	297	352	-15%	299	280	7%

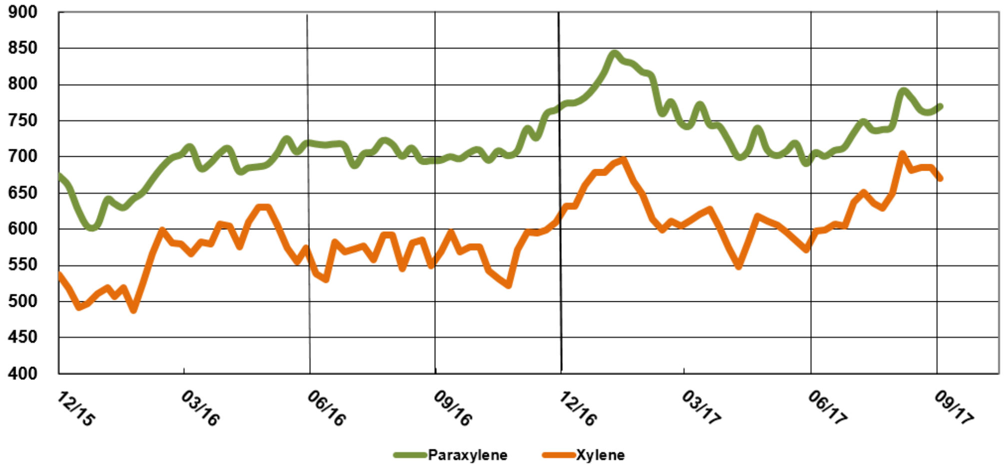
The difference between the price of polypropylene and the price of propylene in the Reporting Period was lower than in the corresponding period last year, mainly as a result of the decline in the polypropylene price compared with the propylene price due to the shutdown of propylene production facilities.

Polypropylene output volume (thousand tons)

	1-9.2017	1-9.2016	7-9.2017	7-9.2016
Polypropylene	122	123	40	39

<u>Aromatics Segment - Gadiv</u>

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



Source: Reuters

Average xylene and paraxylene prices (USD / ton)

	1-9.2017	1-9.2016	Change	7-9.2017	7-9.2016	Change
Xylene	630	563	12%	649	567	15%
Paraxylene	754	687	10%	745	708	5%

<u>Raw material prices</u>

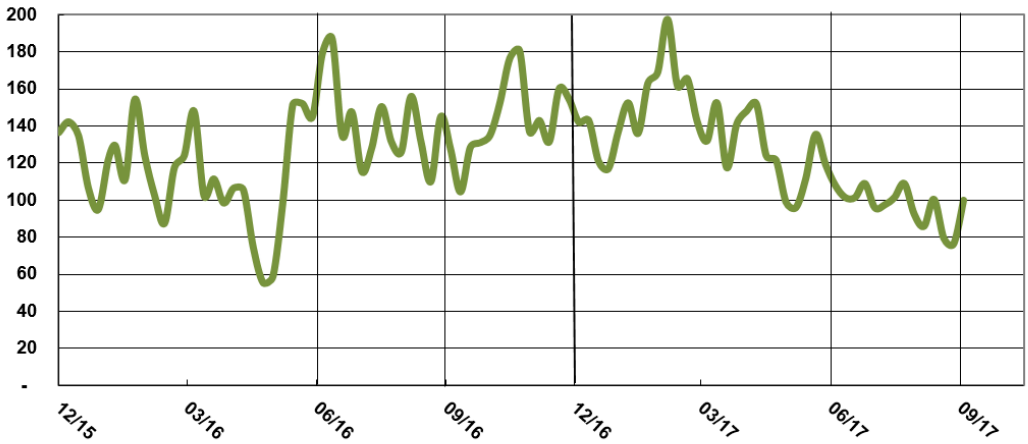
Raw material prices, particularly naphtha, increased sharply in the Reporting Period compared with the corresponding period last year, parallel to the increase in crude oil prices.

<u>Aromatics prices</u>

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

<u>Margins</u>

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



Source: Reuters

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

	1-9.2017	1-9.2016	Change	7-9.2017	7-9.2016	Change
Difference in price	124	124	0%	96	141	- 32%

In the Reporting Period, the difference between the paraxylene price and the xylene price was similar to corresponding period last year. In the third quarter the margin decreased compared with the corresponding quarter of last year, mainly as a result of the higher increase in the price of the raw material, xylene, than the increase in paraxylene price, which was weakened due to supply from the Middle East and India.

Aromatics output volume (thousand tons)

	1-9.2017	1-9.2016	7-9.2017	7-9.2016
Aromatics	290	424	136	143

The decrease in aromatic output in the Reporting Period is mainly due to the shutdown of all Gadiv facilities in the first quarter of 2017 for periodic maintenance work. For information regarding the effect of the periodic maintenance work on the margins in the Reporting Period, see section 2.1.2 below.

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

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

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

	1-9.2017	1-9.2016	7-9.2017	7-9.2016
Revenue	4,030	3,069	1,446	1,012
EBITDA	**455**	**354**	**169**	**87**
Depreciation	(108)	(94)	(36)	(33)
Other expenses, net	(9)	(19)	(3)	(13)
Operating profit	**338**	**241**	**130**	**41**
Financing expenses, net	(102)	(98)	(19)	(36)
Income tax	(52)	(27)	(19)	(4)
Net income	**183**	**116**	**92**	**1**
Fuel segment adjustments (*)	(42)	(48)	13	(17)
Adjusted EBITDA	**413**	**306**	**182**	**70**
Adjusted operating profit	**297**	**193**	**143**	**24**
Net adjusted income(loss)	**142**	**68**	**105**	**(16)**

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

	1-9.2017	1-9.2016	7-9.2017	7-9.2016
Fuels Segment:	272	185	111	31
Polymers Segment:				
Polymers - Carmel Olefins	149	132	49	45
Polymers - Ducor	18	22	6	6
Total Polymers Segment	167	154	55	51
Aromatics Segment - Gadiv	11	14	6	6
Other segments and adjustments	5	1	(3)	(1)
Total EBITDA	**455**	**354**	**169**	**87**
Fuel segment adjustments (*)	(41)	(48)	13	(17)
Fuels Segment - adjusted	**231**	**137**	**124**	**14**
Total adjusted EBITDA	**413**	**306**	**182**	**70**

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

2.1 Analysis of the results of Bazan Group's operations for the nine months

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

Fuels Segment sales amounted to USD 3,492 million in the Reporting Period, compared to USD 2,604 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 459 in the Reporting Period, compared to USD 370 in the corresponding period last year. The increase in the average price of the product index is mainly due to the increase in energy prices, together with the increase in raw material prices. Part of the increase in sales volume is due to income from insurance indemnification for loss of profits of USD 7 million (see Note 8G to the consolidated financial statements).

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

Polymers - Carmel Olefins sales amounted to USD 518 million in the Reporting Period, compared to USD 388 million in the corresponding period last year, an increase of USD 130 million. The increase is mainly due to an increase in sales volume of USD 111 million following the periodic maintenance work carried out on Carmel Olefins facilities in the corresponding period last year, a selling price increase of USD 9 million and income from insurance indemnification in respect for loss of profits of USD 10 million (see Note 8G to the consolidated financial statements). The average price of the product mix was USD 1,253 per ton compared to US 1,218 per ton in the corresponding period last year.

Polymers - Ducor sales turnover amounted to USD 172 million in the Reporting Period, compared to USD 145 million in the corresponding period last year. The decrease of USD 27 million is mainly due to the price increase of USD 24 million and the increase in sales volume of USD 3 million. The average price of the product mix was USD 1,279 per ton compared to US 1,093 per ton in the corresponding period last year.

Aromatics - Gadiv sales amounted to USD 244 million in the Reporting Period, compared to USD 299 million in the corresponding period last year. The USD 55 decrease is mainly the result of a decrease sales volume of USD 77 million due to the periodic maintenance work carried out on all of Gadiv's facilities in the first quarter of 2017, offsetting a selling price increase in the amount of USD 22 million. The average price of the product mix was USD 706 per ton compared to US 637 per ton in the corresponding period last year.

2.1.2 Breakdown of consolidated adjusted EBITDA by operating segment

Adjusted EBITDA operating profit amounted to USD 413 million in the Reporting Period, compared to USD 306 million in the corresponding period last year.

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

		Polymers					
	Fuels	**Carmel Olefins**	**Ducor**	**Total**	**Aromatics**	**Others**	**Consolidated**
Increase (decrease) in the margin/ contribution (***)	97	(28)	(3)	(31)	-	3	69
Increase in sales quantities	32	10	-	10	-	-	42
Decrease (increase) in loss of profits due to periodic maintenance work (*)	(26)	41	-	41	(4)	-	11
Increase in other revenue	7 (**)	10	-	10	-	-	17
Decrease (increase) in operating expenses	(16)	(16)	(1)	(17)	1	-	(32)
Total	94	17	(4)	13	(3)	3	107

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

During the second and third quarters of 2016, all of Carmel Olefins plants and the Company's primary crude refining facility (CDU 4), as well as part of the Company's downstream plants, were shut down for planned periodic maintenance work. According to the Group's assessment, the estimated total loss of profits caused to the Group due to this shutdown, as reflected 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).

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

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

Adjustment components in the Fuels segment

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

	1-9.2017	1-9.2016
Reported EBITDA	**272**	**185**
Expenses (income) from timing differences (1)	(3)	(17)
Expenses (income) from adjusting value of inventory to market value, net (2)	(4)	15
Effect of changes in fair value of derivatives and disposals (3)	(35)	(46)
Total adjustments	**(42)**	**(48)**
Adjusted EBITDA	**231**	**137**

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

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

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

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

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

	1-9.2017	1-9.2017 Proforma (*)	1-9.2016
Accounting margin (USD/ton)	**59.2**	**63.9**	**51.1**
Adjustments in the Fuels segment (USD/ton)	(5.8)	(5.4)	(7.6)
Adjusted margin (USD/ton)	**53.4**	**58.5**	**43.5**
Adjusted margin (USD/barrel)	**7.3**	**8.0**	**6.0**
Ural margin (USD/barrel)	**5.8**	**5.8**	**3.6**

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

(1) The estimated loss of profits of USD 61 million was added to the Company's actual adjusted refining margin in the Reporting Period, so that the adjusted margin for the period is USD 449 million (the "Adjusted Margin").

(2) The Adjusted Margin was divided by a total number of barrels for the Reporting Period of 56.1 million barrels (the median number of barrels of crude oil and interim materials of 17.5 million barrels processed by the Company per quarter plus the actual number of barrels processed in the second and third quarters of 2017).

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

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

Operating expenses in the Reporting Period increased by USD 32 million compared with the corresponding period last year, due to the discounting of payroll expenses for the periodic maintenance in an amount greater than that of the corresponding period last year, the effect of the appreciation of the NIS against the USD for NIS expenses, and an increase in maintenance and environmental expenses.

2.1.3 Adjusted consolidated operating profit

Adjusted consolidated operating profit amounted to USD 297 million in the Reporting Period, compared to USD 193 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.

Depreciation (without amortization of excess costs)

Depreciation expenses in the Reporting Period amounted to USD 108 million compared with USD 94 million in the corresponding period of the previous year. The increase is mainly due to the addition of amortization relating to periodic maintenance work.

Other expenses

Other expenses in the Reporting Period amounted to USD 9 million and were mainly made up of amortization of excess costs. Other expenses in the corresponding period last year amounted to USD 19 million and were made up mainly of impairment of assets of USD 14 million and amortization of excess costs.

2.1.4 Net income

The net consolidated accounting income amounted to USD 183 million in the Reporting Period, compared with USD 116 million in the corresponding period last year.

The adjusted consolidated net income amounted to USD 141 million in the Reporting Period, compared with net income of USD 68 million in the corresponding period last year. The main factors that affected the adjusted net profit, other than the adjusted operating profit as set out in section 2.1.3 above, are financing expenses and income tax.

Finance expenses

In the Reporting Period the consolidated financing expenses amounted to USD 102 million, compared to USD 98 million in the corresponding period last year. Principal changes in financing expenses, based on financial analysis (USD millions):

	1-9.2017 compared to 1-9.2016
Decrease in interest on short term credit and for working capital items	3
Increase in interest on long term loans and debentures (*)	(1)
Changes in fair value of hedge transactions	10
Effect of exchange differences on financial items, net	(9)
Other	1
Total	4

Income tax

Net tax expenses in the Reporting Period amounted to USD 52 million compared to USD 27 million in the corresponding period last year. The increase in tax expenses in the Reporting Period compared to the corresponding period last year is mainly due to tax an increase in pretax income in the Reporting Period compared with the corresponding period last year, and tax expenses of USD 8 million for distributed dividends (for further information see Note 8A to the consolidated financial statements).

2.2 Analysis of the results of Bazan Group's operations for the three months

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

Fuels segment sales amounted to USD 1,266 million in the third quarter of 2017, compared to USD 862 million 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 453 in the third quarter of 2017, compared to USD 422 in the corresponding period last year. The increase in the average price of the product index is mainly due to the increase in energy prices, together with the increase in raw material prices. The increase in sales is also due to the periodic maintenance work carried out on part of the Company's facilities in the third quarter of 2016.

Domestic consumption of distillates (transportation, industrial and heating fuels) rose by 3% in the third quarter of 2017 compared to the corresponding period last year. There was an increase of 1% in consumption of transportation fuels (gasoline, diesel and kerosene) compared to the corresponding period last year.

Polymers segment - Carmel Olefins sales amounted to USD 172 million in the third quarter of 2017, compared to USD 138 million in the corresponding period last year, an increase of USD 34 million. This increase is mainly due to an increase of USD 30 million in sales volume and an increase in selling prices in the amount of USD 4 million. The average price of the product mix was USD 1,245 per ton compared to US 1,201 per ton in the corresponding period last year.

Polymers - Ducor sales amounted to USD 60 million in the third quarter of 2017, compared to USD 47 million in the corresponding period last year. The increase of USD 13 million is mainly due to a price increase amounting to USD 9 million and an increase in sales volume of USD 4 million. The average price of the product mix was USD 1,326 per ton compared to US 1,108 per ton in the corresponding period last year.

Aromatics - Gadiv sales amounted to USD 104 million in the third quarter of 2017, compared to USD 102 million in the corresponding period last year. The increase of USD 2 million is mainly due to an increase of USD 5 million in selling prices and an increase in other revenues of USD 2 million, offset by a decrease in selling volume of USD 5 million. The average price of the product mix was USD 686 per ton compared to US 663 per ton in the corresponding period last year.

2.2.2 Breakdown of consolidated adjusted EBITDA by operating segment

Adjusted consolidated EBITDA for the operating segments amounted to USD 182 million in the third quarter of 2017, compared with USD 70 million in the corresponding period last year.

Below is a description of the main reasons for the increase in the adjusted consolidated EBITDA for the operating segments in the quarter, in the amount of USD 112 million (USD million):

		Polymers					
	Fuels	**Carmel Olefins**	**Ducor operation**	**Total**	**Aromatics**	**Others**	**Consolidated**
Increase (decrease) in the margin/ contribution (**)	80	(4)	(1)	(5)	(1)	(2)	72
Increase in sales quantities	21	14	1	15	-	-	36
Decrease in loss of profits due to periodic maintenance (*)	30	-	-	-	-	-	30
Increase in other revenue	-	-	-	-	2	-	2
Increase in operating expenses	(21)	(6)	-	(6)	(1)	-	(28)
Total	**110**	**4**		**4**	**-**	**(2)**	**112**

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

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

Adjustment components in the Fuels segment

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

	7-9.2017	7-9.2016
Reported EBITDA	**111**	**31**
Expenses (income) from timing differences (1)	(14)	-
Expenses (income) from adjusting value of inventory to market value, net (2)	23	(4)
Effect of changes in fair value of derivatives and disposals (3)	4	(13)
Total adjustments	**13**	**(17)**
Adjusted EBITDA	**124**	**14**

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

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

(3) Expenses (income) arising from reevaluation of the fair value of open positions that do not relate to hedged inventory, such as hedging of refining margins. The cumulative profit or loss with regard to these positions, will be attributed to the adjusted EBITDA when disposed.

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

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

	7-9.2017	7-9.2016
Accounting margin (USD/ton)	**62.8**	**42.6**
Adjustments in the Fuels segment (USD/ton)	4.9	(10.7)
Adjusted margin (USD/ton)	**67.7**	**31.9**
Adjusted margin (USD/barrel)	**9.3**	**4.4**
Ural margin (USD/barrel)	**6.4**	**3.8**

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

In the third quarter of 2016 the Company carried out significant periodic maintenance work on its plants, particularly CDU 4. The shutdown of the facilities reduced refining capacity to 53%, adversely affecting the refining margin. Consequently, comparative analysis of the quarter’s results compared with the corresponding quarter last year is not presented.

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

In the third quarter of 2017, operating expenses increased by USD 28 million compared to the same period last year, mainly due to discounting of payroll expenses for the periodic maintenance in the corresponding quarter of last year, the effect of the appreciation of the NIS against the USD with regard to NIS expenses, and an increase in licensing fees as a result of the increase in the Company’s profitability.

2.2.3 Adjusted consolidated operating profit

Adjusted consolidated operating profit amounted to USD 143 million in the third quarter of 2017, compared with USD 24 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 third quarter of 2017 amounted to USD 36 million compared with USD 31 million in the corresponding period of the previous year. The increase is mainly due to the addition of depreciation relating to periodic maintenance work.

Other expenses

Other expenses in the third quarter of 2017 amounted to USD 3 million and were mainly made up of amortization of excess costs. Other expenses in the corresponding period last year amounted to USD 13 million and were made up mainly of impairment of assets of USD 14 million and amortization of excess costs.

2.2.4 Net income

The consolidated net accounting income in the third quarter of 2017 amounted to USD 91 million, compared with USD 1 million in the corresponding period last year.

Adjusted consolidated net income amounted to USD 105 million in the third quarter of 2017, compared with a loss of USD 16 million in the corresponding period last year. The main factors that affected the adjusted net profit, other than the adjusted operating profit as set out in section 2.2.3 above, are financing expenses and income tax.

Finance expenses

Net consolidated financing expenses in the third quarter of 2017 amounted to USD 19 million compared to USD 36 million in the corresponding period last year. Principal changes in financing expenses, based on financial analysis (USD millions):

	7-9.2017 compared to 7-9.2016
Changes in fair value of hedge transactions	(14)
Other	(3)
Total	**(17)**

Income tax

Tax expenses in the third quarter of 2017 amounted to USD 19 million, compared to USD 4 million in the corresponding period last year, mainly due to the increase in pre-tax profits in the corresponding period last year

3 Financial position

3.1 Current assets

As at September 30, 2017, current assets amounted to USD 1,501 million, representing 39% of total assets, compared to USD 1,309 million, representing 36% of total assets as at December 31, 2016. The increase of USD 192 million is mainly due to an increase in trade receivables in the amount of USD 129 million primarily due to price increase, a decrease in discounting and an increase in trade receivables with respect to institutions of USD 47 million as set out in the analysis of payables in section 3.3 below, an increase in cash and deposits in the amount of USD 103 million, an increase of USD 19 million in other receivables, primarily due to insurance indemnification for loss of profits in the amount of USD 13 million, as set out in Note 8G to the consolidated financial statements, offset by a decrease in inventory of USD 53 million, which was partially offset by a price increase.

3.2 Non-current assets

At September 30, 2017 non-current assets amounted to USD 2,372 million, compared to USD 2,359 million at December 31, 2016. The increase of USD 13 million is mainly due to financial derivatives in the amount of USD 38 million offset by the impairment of property, plant and equipment in the amount of USD 20 million, further investment of USD 97 million (including for the foregoing periodic maintenance as set out in section 2.1.2 above), less depreciation for the period in the amount of USD 117 million.

3.3 Current liabilities

At September 30, 2017 current liabilities amounted to USD 1,061 million, representing 39% of total liabilities, compared to USD 1,124 million, representing 43% of total liabilities as of December 31, 2016. The decrease of USD 63 million is mainly due to a decrease in trade payables in the amount of about USD 87 million, mainly as a result of a payment to Haifa Port in the amount of USD 47 million (see Note 5A1a to the consolidated statements) and a decrease in volume together with a decrease in inventory, a decrease of USD 24 million in short term borrowings mainly due to a decrease in current maturities for debentures in the amount of USD 32 million (see Note 14A to the annual financial statements and Note 7A to the consolidated statements) offset by an increase in current maturities of long term bank loans in the amount of USD 9 million, offset by an increase in other payables in the amount of USD 44 million, primarily due to an increase in institutional investors in the amount of USD 47 million (see section 3.1 above) and offset by an increase in provisions in the amount of USD 8 million.

3.4 Non-current liabilities

As of September 30, 2017, non-current liabilities amounted to USD 1,690 million, compared to USD 1,507 million at December 31, 2016. The increase of USD 183 million is mainly from a net increase in debentures in the amount of USD 146 million resulting from the net issue of debentures in the amount of USD 170 million as set out in Note 8E to the consolidated financial statements, a decrease in current maturities in the amount of USD 32 million, the effect of appreciation and changes in fair value in the amount of USD 65 million offset by repayments for the period in the amount of USD 122 million, an increase in deferred tax liabilities of USD 36 million due to realization of losses carried forward in the Group, an increase in other long term liabilities in the amount of USD 12 million, offsetting a decline in long term bank liabilities of USD 10 million, which is mainly due to repayments in the period of USD 38 offset by loans received in the amount of USD 34 million (net of capital raising costs) and offset by an increase in in current maturities of USD 9 million.

3.5 Capital

As of September 30, 2017, equity amounted to USD 1,122 million, representing 29% of the statement of financial position, compared to USD 1,037 million, representing 28% of the statement of financial position at December 31, 2016. The increase of USD 85 million in equity is mainly due to the profit for the period in the amount of USD 183 million, net of declared and distributed dividends in the amount of USD 85 million as set out in Note 8A to the consolidated financial statements, the change in costs of fair value hedging in the amount of USD 6 million, and the change in the fair value of cash flow hedges in the amount of USD 8 million as set out in Note 3 to the consolidated financial statements.

4 Liquidity

Total current assets less current liabilities as of September 30, 2017 amounted to USD 440 million and to USD 185 million as of December 31, 2016.

The current ratio as of September 30, 2017 is 1.41 and at December 31, 2016 was 1.16.

Cash flows from Bazan Group’s ongoing operations in the Reporting Period amounted to USD 310 million and are mainly due to profits in the period of USD 183 million, adjustment of non-cash income and expenses in the amount of USD 227 million, offset by changes in asset and liability items in an amount of USD 91 million and offset by an amount of USD 9 million in income taxes paid mainly with regard to the dividends that were announced and paid in the Reporting Period, as set out in Note 8A to the consolidated financial statements.

Cash flows from Bazan Group's operating activities, which take into account net interest payments of USD 92 million, classified under financing and investment activities, amounted to USD 218 million in the Reporting Period.

Cash used for investment activities in the Reporting Period amounted to USD 96 million and were mainly used to finance an investment of USD 98 million in property, plant and equipment (including periodic maintenance) to increase deposits in the amount of USD 4 million, offset by interest proceeds of USD 3 million and repayment of a loan from Haifa Early Pensions in the amount of USD 4 million.

Cash used for financing activities amounted to USD 118 million in the Reporting Period. The cash was used mainly to repay long-term borrowings and debentures in the amount of USD 160 million, for the distribution of a dividend in the amount of USD 85 million (as set out in Note 8A to the consolidated financial statements), for interest payments in the amount of USD 95 million, offset by net proceeds of USD 170 million from the issue of debentures (as set out in Note 8A to the consolidated financial statements), receipt of long term borrowings (less capital raising costs) amounting to USD 31 million and deposits received from customers and others in the amount of USD 20 million.

Sources of Finance

Composition of Bazan Group financing sources and uses:

	1-9.2017	1-9.2016
	USD millions	
Sources		
Decrease in cash	--	35
Dividend from investees	--	2
Cash from operating activities (prior to changes in working capital)	410	332
Repayment of the loan from Haifa Early Pensions	4	4
Issue of debentures, net	170	145
Receipt of long term borrowings, net of capital raising costs	31	55
Receipt of short-term credit and deposits from customers and others, net	20	--
Total sources	**635**	**573**
Uses		
Increase in working capital	92	75
Dividend paid	85	--
Investments in property, plant and equipment and intangible assets	99	142
Interest paid, net	92	72
Repayment of long-term loans and debentures, net	160	186
Increase in cash for the period	95	--
Derivative transactions, net	--	5
Increase in deposits, net	4	20
Receipt of short-term credit and deposits from customers and others, net	--	72
Income tax payments less	9	1
Total uses	**635**	**573**

5 Total credit from financial institutions

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

	Bazan	Subsidiaries	Total
Short-term loan (1)	--	--	--
Bank loans (2)	458	20	478
Debentures (2)(3)	1,178	--	1,178
Liquid financial assets (4)	(397)	(76)	(473)
Total net financial debt	**1,239**	**(56)**	**1,183**

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

(2) Including current maturities

(3) Presented at liability value

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

The Group's net financial debt at December 31, 2016 and June 30, 2017 amounted to USD 1,178 million and USD 1,300 million, respectively.

(*) In accordance with the Group's hedging policy, principal and interest swap transactions were carried out against the issue of NIS debentures, the liability value of which as of September 30, 2017 is an asset in the amount of USD 36 million (at December 31, 2016 a liability of USD 22 million and at June 30, 2017 an asset of USD 44 million).

For further information concerning short term secured lines of credit through December 31, 2017 see Note 13A to the annual financial statements. As of September 30, 2017, the Group has unused secured bank credit facilities of USD 273 million (the Company's share of which is USD 227 million).

6 Average volume of sources of finance in the Reporting Period

Long term loans and debentures (including current maturities, net of capital raising costs) amounts to USD 1,634 million, short term financial borrowings amount to USD 37 million, net working capital amounts to USD 166 million (of which the average for trade receivables is USD 406 million and trade payables is USD 671 million).

7 Exposure to market risk and risk management methods

In the Reporting Period there were no significant changes in market risks to which the Company is exposed, in the policies for managing these risks and in those charged with managing them compared with the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2015.

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 was no change to the Board of Directors' considerations underlying the salaries of officers, in respect of the disclosure in the Directors' Report on the State of the Company's Affairs for the year ended December 31, 2014.

8.4 Disclosure regarding the internal auditor in a reporting corporation

In the Reporting Period, there was no change in the disclosure given in this matter in the Directors’ Report on the State of the Company’s Affairs for the year ended December 31, 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 draw attention to:

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

9.2 Use of estimates and judgments

For further information regarding the use of estimates and judgments, 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 2016 Periodic Report.

10 Details of outstanding debentures

In the Reporting Period, no changes were made in the details of the existing series of debentures issued by the Company and offered to the public under a prospectus, in the details of the debenture trustees, in the conditions for calling for immediate redemption of the debentures, in the Company's compliance with these conditions and in the collateral provided for the debentures, as described in the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2016 and in the notes to the financial statements for that year, other than the upgrading of the rating for the debentures and the issue of new debentures (Series I), as set out in Notes 8D and 8E to the Consolidated Financial Statements.

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

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

11 Significant subsequent events

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

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

11.2.1 **Changes in exchange rates**: from the end of the Reporting Period and up to the date of approval of the financial statements, the NIS-USD exchange rate depreciated by 0.4%. The Company uses hedging transactions to partially offset this exposure, as part of its risk management policy.

11.2.2 **Changes in crude oil prices**: the price of oil, which was USD 57 per barrel at the Reporting Date, is USD 61 per barrel shortly before the publication date of the interim financial statements.

12 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 15, 2017

Bazan Ltd.

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

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

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

1. Further to that stated in section 1.19.7 of Chapter A of the Periodic Report concerning the licenses held by Group companies, the temporary permits held by the Group companies that were issued by Haifa Municipality, were further extended until December 31, 2017.
2. Further to that stated in section 1.12.4 of Chapter A of the Periodic Report concerning the decision of the National Planning and Building Council (the "National Council") to hold an additional hearing on the outline plan for the land on which the facilities of the Group companies are located, on June 8, 2017 the Company received the decision of the National Council, approving the plan with amendments as set out in the decision, mainly reducing additional building permittable in the compound to 5% of the current existing building in the compound. In the Reporting Period, an administrative petition was filed against the decision of the National Council.
3. Further to the provisions of section 1.18.2 of Chapter A of the Periodic Report, the Minister of Environmental Protection informed the Company in the Reporting Period that at certain monitoring stations in the Haifa Bay area higher pollution levels were recorded for Bazan than in the past and that it was considering adopting measures including the issue of a temporary injunction and an order to reduce air emissions pursuant to the Clean Air Law, which will include a requirement to map and treat suspected sources of benzene emissions, reducing time schedules for implementing emission reduction measures in benzene containing facilities and other measures. The Company takes measures to monitor, find and reduce benzene emissions at the facilities of the Group companies, and has submitted its mapping plan to the Ministry as required. Subsequent to the Reporting Period the Ministry of Environmental Protection issued administrative orders under section 45 of the Clean Air Law, 2008, to the Company and its subsidiaries, Carmel Olefins and Gadiv, instructing them to submit a plan and to adopt measures in order to lower benzene emissions from their facilities. The Companies are preparing for compliance with the provisions of the order and are in contact with the Ministry in this regard. The Company estimates that the measures that the companies have adopted to reduce the benzene emissions will enable them to comply with the provisions of the order without having to make changes or reduce operations. The Company's estimates in this regard constitute forward looking information that is dependent, among other things, on the results that will actually be achieved due to the measures the companies have adopted for reducing the benzene emissions from their facilities, and materialize differently if these results differ from the current estimate.
4. Further to that stated in section 1.6.13.5 of Chapter A of the Periodic Report concerning the dates of the planned periodic maintenance work on the Company's plants, periodic maintenance work was carried out in the Reporting Period on part of the Company's plants and on Carmel Olefins plants. The Company also decided that the periodic maintenance work on the crude refining plant 3 and related facilities planned for 2017, will be carried out in 2018.
5. Further to the provisions of section 1.2.6 of Chapter A of the Periodic Report, on August 8, 2017 the Company and Energean Israel Ltd. ("Energean") the holder of the leases in the Karish and Tanin gas reservoirs (the "Gas Reservoir"), signed a non-binding memorandum of understanding ("MOU") based on which the parties are negotiation for signing a specific and binding agreement for the supply of natural gas (if it will be signed) (the "Supply Agreement"), under which the Company will purchase natural gas in volumes and for periods that will be agreed upon in the Supply Agreement. This for the purpose of operating the Haifa Bay facilities of the Company and its subsidiaries.

The main provisions of the MOU are as follows:

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

(b) The supply period will commence from the date on which Energean begins conveying gas from the Gas Reservoir and is expected to end on the date on which the entire contractual quantity has been consumed or after 15 years from the start of supply of natural gas to the Company, at the earliest of these dates; in the event that the entire volume has not been consumed, the parties may extend the term of the supply agreement (if it is signed) for a further period, subject to compliance with terms and conditions that will be defined under the Supply Agreement.

(c) A Take or Pay payment mechanism will be set up for a minimum annual volume of natural gas and in accordance with the mechanism to be determined.

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

The parties to the MOU have agreed that, for a period of 180 days from signing of the MOU, Energean will not engage in negotiations for the sale of gas that could hinder its ability to supply the gas under the MOU, and the Company has undertaken not to engage in negotiations that would prevent it from purchasing the foregoing volume of gas from Energean. The negotiations with Energean were conducted by the Company, Israel Chemicals Ltd.2 and OPC Energy Ltd.3 (the "Buyers") together in order to leverage the combined buying power of the Buyers to receive preferential purchase terms from Energean.

The MOU was signed by each of the Buyers separately and if the Supply Agreement will be signed, it too will be signed by each of the Buyers separately.

It is hereby clarified that engaging in an agreement for the supply of gas and the actual supply of gas thereunder is subject, among other things, to completing the negotiations, the signing of a binding Supply Agreement and compliance with various milestones and other contingent conditions. The binding Supply Agreement, if it will be signed, will be approved as required by the competent organs of the Company.

<u>Forward-looking information</u>: The foregoing information concerning the negotiations for a supply agreement, including the conclusion thereof and its terms and conditions, constitute forward-looking information, as defined in the Securities Law, and is contingent and dependent on a number of factors. The foregoing information may not materialize or could materialize in a manner materially different from that stated above due to various factors, including the failure of the parties to reach agreement or failure to obtain the required approvals with respect to the supply agreement.

[2] A public company under the control of Israel Corporation Ltd., the controlling shareholder of the Company.

[3] As the Company was informed, a company controlled by Kenon Holdings Ltd. ("Kenon") Kenon is an affiliate company of the Company's controlling shareholders in Israel, whose shares are double listed for trading on the New York Stock Exchange (NYSE) and the Tel Aviv Stock Exchange Ltd. (TASE).

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

Upon completion of the arrangement to replace Carmel Olefins debentures with debentures (Series G) of the Company, under which Carmel Olefins provided collateral for the Company's obligations to the holders of its debentures (Series G) as set out in Note 14A to the Annual Statements, Carmel Olefins ceased to be a reporting corporation and all its reporting obligations have cease.

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

Below are the Condensed Consolidated Interim Financial Statements of Carmel Olefins used in the preparation of the Company's consolidated financial statements (audited or reviewed, accordingly):

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

	As at		
	September 30, 2017	**September 30, 2016**	**December 31, 2016**
	(Unaudited)		**(Audited)**
Current assets			
Cash and cash equivalents	66,807	25,836	28,161
Trade receivables	162,415	102,956	98,544
Other receivables	15,592	8,668 (*)	2,248 (*)
Financial derivatives	2,880	5,827	7,727
Inventories	58,243	56,257	51,119
Total current assets	305,937	199,544	187,799
Non-current assets			
Financial derivatives	5,819	3,292	453
Long term receivables	4,969	20,981 (*)	6,357 (*)
Property, plant and equipment, net	650,871	690,474	674,475
Intangible assets, net	12,388	14,217 (*)	13,879 (*)
Total non-current assets	674,047	728,964	695,164
Total assets	979,984	928,508	882,963

(*) Reclassified

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

	As at		
	September 30, 2017	September 30, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current liabilities			
Current maturities of bank loans	36,171	34,002	44,014
Loan to subsidiary (including current maturities)	5,750	47,563	2,808
Trade payables	75,561	77,060	39,844
Other payables	40,310	14,553	17,568
Financial derivatives	1,692	1,788	2,576
Provisions	7,469	5,913	6,090
Total current liabilities	166,953	180,879	112,900
Non-current liabilities			
Liabilities to banks, net	13,937	54,014	6,782
Loan from the parent company, net	75,917	107,908	149,428
Other long-term liabilities	12,490	10,409	9,852
Financial derivatives	--	33	756
Employee benefits, net	19,425	17,930	17,722
Deferred tax liabilities, net	80,842	63,655	70,396
Total non-current liabilities	202,611	253,949	254,936
Total liabilities	369,564	434,828	367,836
Capital			
Share capital	116,997	116,997	116,997
Capital reserves	(12,501)	(11,308)	(11,306)
Retained earnings	505,924	387,991	409,436
Total capital	610,420	493,680	515,127
Total liabilities and capital	979,984	928,508	882,963

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

	Nine months ended		Three months ended		Year ended
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
Revenue	684,840	528,553	230,267	183,568	727,499
Cost of sales	521,384	376,730	176,861	134,534	529,990
Gross income	163,456	151,823	53,406	49,034	197,509
Selling and marketing expenses	21,571	17,501	7,283	6,494	24,439
General and Administrative Expenses	11,796	10,524	3,673	3,773	14,177
Other income	-	(2,562)	-	(2,562)	(2,409)
Other expenses	-	2,434	-	360	4,459
Operating profit	130,089	123,926	42,450	40,969	156,843
Financing revenues	635	121	1,363	39	314
Financing expenses	(11,079)	(17,677)	(3,657)	(8,945)	(21,526)
Financing expenses, net	(10,444)	(17,556)	(2,294)	(8,906)	(21,212)
Income before taxes on income	119,645	106,370	40,156	32,063	135,631
Income tax	(22,112)	(19,442)	(7,654)	(5,226)	(27,461)
Net profit for the period	**97,533**	**86,928**	**32,502**	**26,837**	**108,170**
Items of other comprehensive income (loss) transferred to profit or loss					
Effective share of the change in fair value of cash flow hedging, net of tax	(2,233)	1,332	(1,152)	149	844
Foreign currency translation differences for foreign operations	807	(470)	303	(24)	(228)
Other comprehensive income (loss) transferred to profit or loss, net of tax	(1,426)	862	(849)	125	616
Items of other comprehensive loss, net of tax, not transferred to profit or loss					
Reclassification of defined benefit plan, net to tax	(599)	(344)	(599)	--	(141)
Items of other comprehensive income (loss), net of tax, not transferred to profit or loss	(599)	(344)	(599)	--	(141)
Total income for the period	**95,508**	**87,446**	**31,054**	**26,962**	**108,645**

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

	Nine months ended		Three months ended		Year ended
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Net profit for the period	97,533	86,928	32,502	26,837	108,170
Adjustments to cash flows from operating activities:					
Expenses not involving cash flows (Appendix A – section A)	70,573	52,441	18,386	20,386	76,074
	168,106	139,369	50,888	47,223	184,244
Changes in assets and liabilities items (Appendix A - section B)	(43,807)	63,165	(26,123)	(14,266)	50,551
Interest paid, net (*)	(11,061)	(17,635)	(2,020)	(6,782)	(18,282)
Income tax paid	(203)	(157)	(85)	(48)	(204)
Net cash from ongoing operating activities	113,035	184,742	22,660	26,127	216,309
Cash flow for investment activities					
Change in deposits and others, net	626	(161)	19	(95)	17,744
Changes in parent company debt balance	--	--	37,006	--	--
Investments in property plant and equipment (including periodic maintenance) (*)	(6,416)	(56,993)	(2,999)	(17,535)	(67,672)
Net cash deriving from (used for) investment activities	(5,790)	(57,154)	34,026	(17,630)	(49,928)
Cash flow from financing activities					
Deposits received	1,620	--	70	--	--
Long term loans received from parent company	--	--	--	--	57,335
Short-term borrowing from the parent company	10,999	--	10,999	--	--
Repayment of short-term loan, net	(831)	(79,666)	--	(1,922)	(79,290)
Repayment of long term borrowings from banks	(4,313)	(14,129)	(1,438)	(7,210)	(106,394)
Receipts (payments) from currency exchange transaction and interest, net	(1,214)	(1,683)	--	--	(1,683)
Repayment of long term borrowings from banks	15,000	--	--	--	--
Repayment of loans from parent company	(91,023)	(32,879)	(52,298)	--	(34,349)
Net cash used in finance activities	(69,762)	(128,357)	(42,667)	(9,132)	(164,381)
Increase (decrease) in cash and cash equivalents	**37,483**	**(769)**	**14,019**	**(635)**	**2,000**
Effect of exchange rate fluctuations on cash and cash equivalents	1,163	1,253	642	170	809
Cash and cash equivalents at beginning of period	28,161	25,352	52,146	26,301	25,352
Cash and cash equivalents at the end of the period	**66,807**	**25,836**	**66,807**	**25,836**	**28,161**

(*) At September 30, 2017 interest payments on the loan from the parent company in the amount of USD 3 million were deferred to October 1, 2017.

(**) For further information concerning the periodic maintenance work carried out on the Company's facilities in 2016 see Note 10 to the Annual Statements.

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
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
A. Income and expenses not that do not involve cash flows:					
Depreciation and amortization	37,022	29,891	12,230	11,844	43,394
Net Financing Expenses	14,811	19,338	(2,131)	10,868	19,378
Other income	--	(2,409)	--	(2,409)	(2,409)
Net changes in fair value of derivative financial instruments	(3,603)	(14,166)	569	(5,224)	(12,343)
Share-based payment of parent company	231	345	64	81	593
Income tax	22,112	19,442	7,654	5,226	27,461
	70,573	52,441	18,386	20,386	76,074
B. Changes in assets and liabilities					
Decrease (increase) in trade receivables	(61,830)	13,456	(53,739)	(13,045)	16,911
Decrease (increase) in other receivables	(13,298)	26,382	9,739	1,688	27,998
Increase in inventory	(5,656)	(7,020)	(966)	(18,311)	(2,700)
Increase in trade payables	33,609	33,898	18,871	16,643	8,326
Increase (decrease) in other accounts payable	1,434	(5,057)	174	(1,933)	(2,238)
Increase (decrease) in provisions	1,379	(12)	31	23	290
Increase (decrease) in employee benefit liabilities, net	555	1,518	(233)	669	1,964
	(43,807)	63,165	(26,123)	(14,266)	50,551

Somekh Chaikin
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04-861 4800

Auditors Report to the Shareholders of Bazan Limited

Introduction

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

Review scope

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

Conclusion

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

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

Without qualifying our above conclusions, we draw attention to the contents of Note 5A to the financial statements (including by way of reference to Note 20 to the annual financial statements) regarding administrative and other proceedings, other contingencies, laws and regulations relating to the environment. Based on the opinion of the legal counsel of the Company and its subsidiaries, the managements of the Company and the subsidiaries believe that, at this stage, it is not possible to assess the effect of the aforesaid on the operating results and financial position, if any exists, and therefore, no provision regarding this matter was included in the financial statements.

Somekh Chaikin
Certified Public Accountants

Haifa, November 15, 2017

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	September 30, 2017	September 30, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current assets			
Cash and cash equivalents	392,552	255,030	290,399
Deposits	81,228	54,764	80,370
Trade receivables	507,243	316,275	377,812
Other receivables	35,713	24,917	16,586
Financial derivatives	5,603	9,397	12,665
Inventory	478,524	529,318	531,271
Total current assets	1,500,863	1,189,701	1,309,103
Non-current assets			
Investments in associates	1,793	3,173	2,449
Loan to Haifa Early Pensions Ltd.	49,330	50,177	48,178
Long term loans and debit balances	8,844	22,995 (*)	13,146
Financial derivatives	48,034	20,741	9,590
Property, plant and equipment, net	2,234,931	2,276,631	2,255,227
Intangible assets and deferred expenses, net	29,148	30,372	30,006
Total non-current assets	2,372,080	2,404,089	2,358,596
Total assets	3,872,943	3,593,790	3,667,699

***) Reclassified, see Note 2C**

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

Approval date of the condensed interim financial statements: November 15, 2017

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 the financial statement is the Hebrew version..

Condensed Consolidated Interim Statements of Financial Position
USD thousands

	September 30, 2017	September 30, 2016	December 31, 2016
	(Unaudited)		(Audited)
Current liabilities			
Loans and borrowings (including current maturities)	214,332	281,558	238,811
Trade payables	601,989	550,031	689,337
Other payables	172,035	101,980	128,429
Financial derivatives	19,861	19,513	22,589
Provisions	52,856	44,839	44,564
Total current liabilities	1,061,073	997,921	1,123,730
Non-current liabilities			
Liabilities to banks, net	400,629	448,956	410,726
Debentures, net	1,064,971	992,401	918,834
Other long-term liabilities	40,473	29,839	28,167
Financial derivatives	8,137	8,845	15,865
Employee benefits, net	56,910	52,052	50,400
Deferred tax liabilities, net	119,101	70,860	82,880
Total non-current liabilities	1,690,221	1,602,953	1,506,872
Total liabilities	2,751,294	2,600,874	2,630,602
Capital			
Share capital	805,605	805,282	805,282
Share premium	32,000	31,962	31,962
Capital reserves	29,393	39,835	41,286
Retained earnings	254,651	115,837	158,567
Total capital	1,121,649	992,916	1,037,097
Total liabilities and capital	3,872,943	3,593,790	3,667,699

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

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

	Nine months ended		Three months ended		Year ended
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
Revenue	4,029,606	3,069,128	1,446,225	1,012,211	4,320,868
Cost of sales	3,591,183	2,718,166	1,278,780	930,727	3,836,449
Gross profit	438,423	350,962	167,445	81,484	484,419
Selling and marketing expenses	62,977	60,948	23,720	19,067	82,946
General and administrative expenses	37,804	37,853	14,114	11,490	49,370
Other revenues, net	--	(3,320)	--	(3,320)	(990)
Loss from impairment of cash-generating units	--	13,700	--	13,700	13,700
Voluntary redundancy expenses	--	1,011	--	--	9,854
Operating profit	337,642	240,770	129,611	40,547	329,539
Financing income	(10,343)	(24,342)	(7,126)	(13,275)	(2,458)
Financing expenses	112,297	122,174	26,536	48,835	134,047
Financing expenses, net	101,954	97,832	19,410	35,560	131,589
Company's share in profits (losses) of associates, net of tax	(307)	(64)	149	89	(56)
Income before taxes on income	235,381	142,874	110,350	5,076	197,894
Income tax	(51,902)	(26,648)	(18,734)	(3,650)	(40,050)
Net income for the period	**183,479**	**116,226**	**91,616**	**1,426**	**157,844**
Items of other comprehensive income (loss) transferred to profit or loss					
Foreign currency translation differences for foreign operations	807	(470)	303	(24)	(228)
Effective share of the change in fair value of cash flow hedging, net of tax (see Note 3)	(8,847)	1,332	1,362	149	1,418
Change in fair value hedging costs, net of tax	(6,148)	3,331	(4,612)	889	3,544
Other comprehensive income (loss) for the period transferred to profit or loss, net of tax	(14,188)	4,193	(2,947)	1,014	4,734
Items of other comprehensive income (loss) not transferred to profit or loss					
Remeasurement of a defined benefit plan, net of tax	(2,395)	(1,360)	(2,395)	--	(248)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	1,763	(1,083)	1,186	1,881	(929)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	33	6	24	(1)	(3)
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	(599)	(2,437)	(1,185)	1,880	(1,180)
Comprehensive income for the period	**168,692**	**117,982**	**87,484**	**4,320**	**161,398**
Earnings per share (USD)					
Basic and diluted earnings per 1 ordinary share	0.057	0.036	0.029	0.0004	0.049

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

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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, 2017 (unaudited)									
Balance as at January 1, 2017 (audited)	**805,282**	**31,962**	**12,356**	**5,640**	**(6,810)**	**28,478**	**6,175**	**(4,553)**	**158,567**	**1,037,097**
Profit for the period	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**183,479**	**183,479**
Other comprehensive income (loss):										
Actuarial losses from a defined benefit plan, net	--	--	--	--	--	--	--	--	(2,395)	(2,395)
Foreign currency translation differences for foreign operations	--	--	--	807	--	--	--	--	--	807
Change in fair value hedging costs, net of tax	--	--	--	--	--	--	(6,148)	--	--	(6,148)
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	(8,847)	--	--	(8,847)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	--	--	--	--	--	--	1,763	--	1,763
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	--	--	--	--	33	--	--	--	--	33
Total other comprehensive income (loss) for the period, net of tax	**--**	**--**	**--**	**807**	**33**	**--**	**(14,995)**	**1,763**	**(2,395)**	**(14,787)**
Total comprehensive income (loss) for the period	**--**	**--**	**--**	**807**	**33**	**--**	**(14,995)**	**1,763**	**181,084**	**168,692**
Exercised share options	**323**	**38**	**(361)**	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Dividend paid	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**(85,000)**	**(85,000)**
Share-based payment	**--**	**--**	**860**	**--**	**--**	**--**	**--**	**--**	**--**	**860**
Balance as at September 30, 2017	**805,605**	**32,000**	**12,855**	**6,447**	**(6,777)**	**28,478**	**(8,820)**	**(2,790)**	**254,651**	**1,121,649**

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

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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
	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 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.

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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, 2017 (Unaudited)									
Balance as at July 1, 2017	**805,282**	**31,962**	**12,988**	**6,144**	**(6,801)**	**28,478**	**(5,570)**	**(3,976)**	**165,430**	**1,033,937**
Profit for the period	--	--	--	--	--	--	--	--	**91,616**	**91,616**
Other comprehensive income (loss):										
Actuarial losses from a defined benefit plan, net	--	--	--	--	--	--	--	--	(2,395)	(2,395)
Foreign currency translation differences for foreign operations	--	--	--	303	--	--	--	--	--	303
Change in fair value hedging costs, net of tax	--	--	--	--	--	--	(4,612)	--	--	(4,612)
Effective share of the change in fair value of cash flow hedging, net of tax	--	--	--	--	--	--	1,362	--	--	1,362
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax	--	--	--	--	--	--	--	1,186	--	1,186
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	--	--	--	--	24	--	--	--	--	24
Total other comprehensive income (loss) for the period, net of tax	--	--	--	**303**	**24**	--	**(3,250)**	**1,186**	**(2,395)**	**(4,132)**
Total comprehensive income (loss) for the period	--	--	--	**303**	**24**	--	**(3,250)**	**1,186**	**89,221**	**87,484**
Exercised share options	**323**	**38**	**(361)**	--	--	--	--	--	--	--
Share-based payment	--	--	**228**	--	--	--	--	--	--	**228**
Balance as at September 30, 2017	**805,605**	**32,000**	**12,855**	**6,447**	**(6,777)**	**28,478**	**(8,820)**	**(2,790)**	**254,651**	**1,121,649**

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

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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 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.

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

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

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

Condensed Consolidated Interim Statements of Cash Flows
USD thousands

	Nine months ended		Three months ended		Year ended
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Profit for the period	183,479	116,226	91,616	1,426	157,844
Adjustments to cash flows from operating activities:					
Revenue and expenses not involving cash flows (Appendix A – section A)	226,592	215,365	76,421	73,888	319,700
	410,071	331,591	168,037	75,314	477,544
Changes in assets and liabilities (Appendix A – section B)	(91,231)	(74,771)	(39,319)	(62,658)	22,337
Income tax paid (see Note 8A)	(9,023)	(853)	(518)	(513)	(1,101)
Net cash from operating activities	309,817	255,967	128,200	12,143	498,780
Cash flow used for investment activities					
Interest received	3,169	1,722	2,158	1,055	2,060
Increase in deposits, net	(4,121)	(20,283)	(35,307)	(1,982)	(31,224)
Dividend received from investees	341	1,689	21	--	2,421
Repayment of long-term loans from others, net	66	160	29	49	214
Repayment of loan from Haifa Early Pensions	3,663	4,035	3,663	4,035	4,035
Acquisition of property, plant and equipment (including periodic maintenance) (**)	(97,653)	(141,226)	(13,903)	(62,312)	(187,838)
Purchase of intangible assets and deferred expenses	(1,768)	(1,154)	(721)	(675)	(1,775)
Net cash used for investment activities	(96,303)	(155,057)	(44,060)	(59,830)	(212,107)
Cash flow from financing activities					
Short-term borrowing, net	(1,455)	(84,765)	--	(2,834)	(82,510)
Receipt of deposits from customers and others, net	21,733	15,042	657	13,136	8,747
Interest paid (*)	(95,078)	(74,220)	(10,162)	(15,157)	(84,055)
Derivative transactions, net	(271)	(5,436)	--	(6,270)	(12,234)
Receipt of long-term bank loans, net of raising costs	31,457	55,000	--	--	411,613
Repayment of long-term bank loans	(37,968)	(118,192)	(9,688)	(24,978)	(599,302)
Repayment of debentures (*)	(121,793)	(67,991)	(1,217)	(1,145)	(69,106)
Issue of debentures (less issuance expenses)	170,188	144,607	--	--	144,607
Dividend paid	(85,000)	--	--	--	--
Net cash used for financing activities	(118,187)	(135,955)	(20,410)	(37,248)	(282,240)
Net increase (decrease) in cash and cash equivalents	95,327	(35,045)	63,730	(84,935)	4,433
Effect of exchange rate fluctuations on cash and cash equivalents	6,826	3,726	346	2,279	(383)
Cash and cash equivalents at beginning of period	290,399	286,349	328,476	337,686	286,349
Cash and cash equivalents at the end of the period	392,552	255,030	392,552	255,030	290,399

(*) As at December 31, 2016, principal and interest payments on the debentures in the amount USD 49 million and USD 27 million respectively, were deferred under the provisions of the deeds of trust as at January 1, 2017, since the contractual repayment date was not a business day. As at September 30, 2017, principal payments on the Debentures (Series G and I) in the amount USD 7 million were deferred under the provisions of the deeds of trust as at October 1, 2017, since the contractual repayment date was not a business day.

(**) In the first quarter of 2017, periodic maintenance was performed in some of the Company’s facilities, including the CCR facility, and in all Gadiv's facilities, with a direct cost amounting to USD 56 million (of which, USD 26 million at the Company and USD 30 million at Gadiv). For information about the cost of periodic maintenance in 2016, see Note 11 A to the Annual Statements.

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

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

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

	Nine months ended		Three months ended		Year ended
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
A. Income and expenses not included in cash flows:					
Depreciation and amortization	117,041	101,514	38,837	36,080	141,349
Other revenue	--	(3,320)	--	(3,320)	(990)
Loss from impairment of cash-generating units	--	13,700	--	13,700	13,700
Financing expenses, net	61,445	69,903	1,170	26,404	112,838
Net changes in fair value of derivatives	2,501	(4,807)	15,385	(1,097)	(3,087)
Changes in fair value of the loan to Haifa Early Pensions Ltd.	(5,502)	(2,709)	421	(1,011)	(1,079)
Share in losses (profits) of associates, net	307	64	(149)	(89)	56
Loss (gain) and change in inventory hedge deposits, net	(1,962)	13,026	1,795	(754)	14,752
Share-based payments	860	1,346	228	325	2,111
Income tax	51,902	26,648	18,734	3,650	40,050
	226,592	215,365	76,421	73,888	319,700
B. Changes in assets and liabilities					
Decrease (increase) in trade receivables	(127,384)	41,825	(100,445)	25,200	(20,669)
Decrease (increase) in other receivables	(21,323)	16,483	2,905	223	26,596
Decrease (increase) in inventory	54,216	(93,428)	48,164	(42,558)	(96,157)
Increase (decrease) in trade payables	(74,995)	(39,581)	(48,606)	(56,407)	116,053
Increase (decrease) in other payables and provisions	75,131	(1,733)	58,970	9,478	(5,226)
Increase (decrease) in employee benefits, net	3,124	1,663	(307)	1,406	1,740
	(91,231)	(74,771)	(39,319)	(62,658)	22,337

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 (primarily 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, 2017 include the statements of the Company and its subsidiaries (jointly: “the Group”) and the Group’s interests in associates.

NOTE 2 - BASIS OF PREPARATION

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

The condensed consolidated interim financial statements were approved by the Company’s Board of Directors on November 15, 2017.

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:

C. Reclassification

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

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

Accounting policy for new transactions or events

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

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

See section 7B below for further information.

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

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

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

NOTE 4 – SEGMENT REPORTING

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

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

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

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

USD thousands

NOTE 4 – SEGMENT REPORTING (CONTD.)

	Fuels	Polymers: Carmel Olefins	Polymers: Ducor	Polymers: Total	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Nine months ended September 30, 2017 (unaudited)								
Revenue from external sources	3,084,652	512,145	171,861	684,006	223,574	3,992,232	37,374	--	4,029,606
Revenue from inter-segment sales	407,805	6,291	--	6,291	20,667	434,763	196	(434,959)	--
Segment revenue	3,492,457	518,436	171,861	690,297	244,241	4,426,995	37,570	(434,959)	4,029,606
Accounting EBITDA	272,088	148,692	18,418	167,110	11,420	450,618	4,762	(697)	454,683
Depreciation and amortization	(64,559)	(34,073)	(1,580)	(35,653)	(7,191)	(107,403)	(313)	48	(107,668)
Accounting EBITDA less amortization and depreciation									347,015
Amortization of excess cost arising on acquisition of subsidiaries									(9,373)
Operating profit									337,642
Financing expenses, net									(101,954)
Group's share in losses of associates, net of tax									(307)
Income before taxes on income									235,381

(1) Adjusted EBITDA in the fuel segment for the nine months ended September 30, 2017 - USD 230,503 thousand.

USD thousands

NOTE 4 – SEGMENT REPORTING (Contd.)

		Polymers							
	Fuels	**Carmel Olefins**	**Ducor**	**Total**	**Aromatics**	**Total reportable segments**	**Others**	**Adjustments to consolidated**	**Consolidated**
	Nine months ended September 30, 2016 (unaudited)								
Revenue from external sources	2,228,745	383,840	144,628	528,468	277,998	3,035,211	33,917	--	3,069,128
Revenue from inter-segment sales	375,397	3,855	--	3,855	21,298	400,550	200	(400,750)	--
Segment revenue	2,604,142	387,695	144,628	532,323	299,296	3,435,761	34,117	(400,750)	3,069,128
Accounting EBITDA	185,219	131,743	22,100	153,843	13,524	352,586	1,242	--	353,828
Depreciation and amortization	(59,169)	(27,664)	(2,379)	(30,043)	(3,733)	(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 losses 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	Polymers: Ducor	Polymers: Total	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Three months ended September 30, 2017 (unaudited)								
Revenue from external sources	1,109,385	169,996	59,998	229,994	95,120	1,434,499	11,726	--	1,446,225
Revenue from inter-segment sales	156,203	2,312	--	2,312	8,963	167,478	80	(167,558)	--
Segment revenue	1,265,588	172,308	59,998	232,306	104,083	1,601,977	11,806	(167,558)	1,446,225
Accounting EBITDA	110,909	48,607	6,073	54,680	5,330	170,919	1,523	(3,994)	168,448
Depreciation and amortization	(21,030)	(11,020)	(729)	(11,749)	(2,814)	(35,593)	(95)	--	(35,688)
Accounting EBITDA less amortization and depreciation									132,760
Amortization of excess cost arising on acquisition of subsidiaries									(3,149)
Operating profit									129,611
Financing expenses, net									(19,410)
Group's share in earnings of associates, net of tax									149
Income before taxes on income									110,643

(1) Adjusted EBITDA in the fuel segment for the nine months ended September 30, 2017: USD 124,218 thousand

USD thousands

NOTE 4 – SEGMENT REPORTING (Contd.)

	Fuels	Polymers: Carmel Olefins	Polymers: Ducor	Polymers: Total	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Three months ended September 30, 2016 (unaudited)								
Revenue from external sources	724,696	137,268	46,649	183,917	95,274	1,003,887	8,324	--	1,012,211
Revenue from inter-segment sales	137,228	335	--	335	7,201	144,764	63	(144,827)	--
Segment revenue	861,924	137,603	46,649	184,252	102,475	1,148,651	8,387	(144,827)	1,012,211
Accounting EBITDA	31,364	45,060	5,705	50,765	5,770	87,899	(2,630)	1,891	87,160
Depreciation and amortization	(20,187)	(11,785)	(211)	(11,996)	(1,225)	(33,408)	(229)	72	(33,565)
Accounting EBITDA less amortization and depreciation									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	Polymers: Ducor	Polymers: Total	Aromatics	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Year ended December 31, 2016								
Revenue from external sources	3,185,686	533,317	194,067	727,384	365,829	4,278,899	41,969	--	4,320,868
Revenue from inter-segment sales	507,953	5,395	--	5,395	29,504	542,852	240	(543,092)	--
Segment revenue	3,693,639	538,712	194,067	732,779	395,333	4,821,751	42,209	(543,092)	4,320,868
Accounting EBITDA	280,478(1)	174,338	27,950	202,288	16,515	499,280	(1,326)	(4,502)	493,452
Depreciation and amortization	(81,765)	(39,517)	(1,874)	(41,391)	(4,892)	(128,048)	(722)	97	(128,672)
Accounting EBITDA less amortization and depreciation									364,780
Other revenue, net									990
Impairment loss									(13,700)
Voluntary redundancy expenses									(9,854)
Amortization of excess cost arising on acquisition of subsidiaries									(12,677)
Operating profit									329,539
Financing expenses, net									(131,589)
Group's share in losses of associates, net of tax									(56)
Income before taxes on income									197,894

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

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

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) Commercial claims

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

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

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

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

2) On August 9, 2017, the court approved and upheld the judgment and gave the validity of a judgment to the settlement agreement (hereinafter in this section: “the Agreement”) with the plaintiff, amounting to NIS 140 million (as at the filing date), together with a motion for certification as a class action against the State of Israel, the Company, and the Company’s directors and CEO on the privatization date and on August 31, 2011 regarding the emergency stockpile agreement.

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

In the reporting period, the plaintiff filed an appeal on the amount of the compensation and legal fees ruled by the Court. The appeal does not change the total amount to be paid under the judgment, as described above.

Since the Company's financial statements as at December 31, 2016 include a provision that is an appropriate reflection of the costs expected to be paid under the Agreement, and an indemnification asset was recognized for the insurance cover for the Company's liability under the Agreement, the Court’s approval of the Agreement had no effect on the operating results in the reporting period.

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

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

A. Contingent liabilities (contd)

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

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

C) Liabilities relating to environmental quality

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

2) In the reporting period, the Company received a warning of alleged violations of its the emission permit for alleged deviation from the maximum emission values and alleged violation of the provisions of the permit referring to the adaptation of two stacks at the Company's plant to the provisions in the Regulation for Testing for Air Pollutants in a Stack set by the Ministry of Environmental Protection. The Company submitted its response to the warning to the Ministry of Environmental Protection. At this very preliminary stage, the Company is unable to estimate the exposure for the warning.

3) The Ministry of Environmental Protection is investigating alleged violations of the personal orders issued to the Company, Carmel Olefins and Gadiv. At this preliminary stage, the Company is unable to estimate the exposure for the investigation.

4) Further to Note 20B3 to the Annual Statements regarding the notice of the Ministry of Environmental Protection of its intention to impose a financial sanction on Carmel Olefins for alleged offenses of the emission permit in three technical issues, subsequent to the reporting period, Carmel Olefins received notice of the Ministry's decision to reduce the amount of the financial sanction to NIS 2.2 million. The Company has included an appropriate provision that reflects the costs for the demand for financial sanction. At the same time, the Ministry is continuing the investigation of the events underlying the financial sanction. The Company is unable to estimate the results of the investigation.

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

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

A. Contingent liabilities (contd)

C) Liabilities relating to environmental quality

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

7) Subsequent to the reporting period, Gadiv received a warning for alleged violations of the provisions of the emission permit, referring to several issues: deviation from the maximum values set for pollutant emission from some of the plant stacks, non-compliance with the dates set in the permit for connecting some of the tanks to the exhaust gas treatment system, and non-compliance with the date set in the permit for connecting the facility to the exhaust gas treatment system. Gadiv is preparing a detailed response to the warning. At this preliminary stage, Gadiv is unable to estimate the exposure for the warning.

2. As set out in Note 20B3 to the Annual Statements, there are administrative and other proceedings against Bazan Group regarding environmental quality. For some of these claims, the Company believes, based on the opinion of its legal counsel, that at this stage, it is not possible to assess their effect, if any, on the financial statements as at September 30, 2017. Accordingly, 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 following:

1. New inventory availability agreement

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

The main terms of the agreement are as follows:

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

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

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

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

B. Agreements (contd.)

1. New inventory availability agreement (contd.)

D) Under the agreement, the Company granted the Second Party a put option, whereby the Second Party may sell to the Company, at the end of the Agreement Period, crude oil as set out in the Agreement (up to 1.8 million barrels) at the market price of crude oil at the end of the Agreement Period. At the reporting date, based on spot market price of crude oil, the value of the inventory in the Agreement is estimated at USD 105 million.

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

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

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

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

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

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: (1) changes in the ordinary course of business in the amount of open short-term documentary letters of credit to suppliers; (2) release of bank guarantees for infrastructure fees for Haifa Port amounting to USD 33 million, as set out in section A1(a) above; (3) provision of a bank guarantee for the new inventory availability agreement amounting to USD 10 million, as set out in section B above; (4) release of the bank guarantee for the inventory availability agreement that ended, amounting to USD 55 million, as set out in section B above.

NOTE 6 - FINANCIAL COVENANTS

A. The Company

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

	Required	Required ratio/amount	Actual ratio/amount
Consolidated adjusted equity (USD million)	>	750	1,150.2
Consolidated adjusted equity to total consolidated statement of financial position	>	20.0%	32.8%
Consolidated ratio (net financial debt + factoring receivables) to consolidated adjusted EBITDA	>	5.0	2.1
Consolidated principal and interest cover ratio	>	1.1	3.5
Separate cash statement (USD millions)	>	75	391.5

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

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

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

	Required	Required ratio/amount	Actual ratio/amount
Equity (USD millions)	>	200	610.4
Total separate financial debt (USD millions)	>	550	133.6
Consolidated principal and interest cover ratio	>	1.0	5.6

NOTE 6 - FINANCIAL COVENANTS (CONTD.)

B. Carmel Olefins

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

	Required	Required ratio/amount	Actual ratio/amount
Consolidated intangible equity (USD million)	>	220	597.9
Consolidated tangible equity of net consolidated tangible total balance sheet	>	24%	66.4%
Financial debt to consolidated EBITDA	>	4.5	0.3
Consolidated principal and interest cover ratio	>	1.1	5.6

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

C. Gadiv

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

	Required	Required ratio/amount	Actual ratio/amount
Net financial debt to EBITDA	≥	4.5	2.5
Tangible equity to tangible balance sheet	>	25%	54.2%
Tangible equity (USD millions)	>	75	123.7

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

D. Ducor

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

USD thousands

NOTE 7 - FINANCIAL INSTRUMENTS - FAIR VALUE

A. Fair value of financial instruments for disclosure purposes only

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

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

	September 30, 2017			
	Par value Adjusted	Carrying amount	Fair value level 1	Fair value level 2
Financial liabilities				
Private debentures (3)	8,057	8,057	--	8,374
Marketable Debentures (Series F and I) (1)(3)	482,043	484,838	523,270	--
Marketable Debentures (Series D-E) (1)(4)	376,544	390,386	436,449	--
Bank loans (2)	478,089	465,522	--	508,090
	1,344,733	1,348,803	959,719	516,464

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

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

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

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

	September 30, 2017	
	Par value Adjusted	Carrying amount
Debentures at fair value:		
Marketable Debentures (Series A)	203,178	215,797
Marketable Debentures (Series G) (1)	108,512	115,324
	311,690	331,121

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

USD thousands

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

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

	September 30, 2016			
	Par value Adjusted	**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 TASE price as at 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	
	Par value Adjusted	**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.)

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

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

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

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

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

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

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

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

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

USD thousands

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

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

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

	September 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivatives used for accounting hedging				
CCIRS	--	34,202	--	34,202
Derivatives for inventory	1,852	--	--	1,852
Derivatives for margins	--	--	171	171
Interest rate swaps	--	327	--	327
Derivatives that are not used for accounting hedging				
CCIRS	--	16,648	--	16,648
Interest rate swaps	--	143	--	143
Derivatives for margins	--	294	--	294
	1,852	51,614	171	53,637
Financial liabilities				
Non-derivative				
Marketable Debentures (Series A, G)	331,121	--	--	331,121
Derivatives used for accounting hedging				
CCIRS	--	831	--	831
Derivatives for inventory (*)	7,209	--	--	7,209
Interest rate swaps	--	296	--	296
Derivatives that are not used for accounting hedging				
CCIRS	--	3,714	--	3,714
Derivatives for inventory	1,172	9,380	--	10,552
Forward contracts	--	2,284	--	2,284
Derivatives for margins	--	3,112	--	3,112
	339,502	19,617	--	359,119

(*) Further to Note 3 above, in the nine and three months ended September 30, 2017, a pre-tax loss of USD 7 million and gain (before tax) of USD 3 million, respectively, were recognized as a hedging reserve for the effective share of the fair value change of futures on Brent. Accordingly, as at September 30, 2017, the balance of the hedge fund (before tax) amounts to USD 7 million.

USD thousands

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

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

	September 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
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 and margins	--	1,051	5,982	7,033
	774	23,382	5,982	30,138
Financial liabilities				
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 and margins	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.)

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

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

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

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

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

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

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

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

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

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

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

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

F. Further to Note 6 to the Annual Statements regarding the factoring agreements of the Company and its subsidiaries, in the reporting period, Carmel Olefins signed an agreement with a bank for the non-recourse sale of certain trade receivables, which are secured by credit insurance, in a maximum amount of USD 15 million, such that as at the reporting date, Carmel Olefins has agreements for the sale of trade receivables under factoring agreements in a maximum cumulative amount of USD 90 million. As at September 30, 2017, the Company derecognized an amount of USD 143 million, Carmel Olefins and amount of USD 12 million and Gadiv an amount of USD 24 million from their trade receivables, in accordance with IFRS 9.

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

G. In the reporting period, the Company signed settlements with the insurers, according to which:

1. The Company will receive insurance indemnity for the loss of profits amounting to USD 5.5 million that it incurred due to the malfunction in the hydrocracker in prior years. In the reporting period, the indemnity was received.

2. The Company, Carmel Olefins and Gadiv will receive insurance indemnity for the loss of profits amounting to USD 12 million (the share of the Company is USD 1.5 million, Carmel Olefins USD 10 million and Gadiv USD 0.5 million) that they incurred due to the breakdown in the ethylene turbine of Carmel Olefins in 2016. Accordingly, in the second quarter of 2017, the companies included revenue for insurance indemnity in the statement of income.

H. On November 11, 2017, the Company's Board of Directors discussed the distribution of dividend based on the Company's financial statements as at September 30, 2017. At the end of the discussion, the Board of Directors resolved to approve the distribution of an interim dividend in the amount of USD 65 million, subject to the approval of the general meeting of shareholders with a vote of a special majority. The Company will convene a general meeting for this purpose. The dividend to be distributed, if distributed, is not from profits eligible for benefits by virtue of the Encouragement of Capital Investments Law, 1959.

I. Further to Note 21D to the annual financial statements, subsequent to the reporting period, the validity of the Company’s shelf prospectus was extended to November 21, 2018.

Bazan Limited

Condensed Separate Interim Financial Information

as at September 30, 2017

(Unaudited)

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

Somekh Chaikin
7 Nahum Het Street,
PO 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, 2017 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.

Review scope

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that this separate interim financial information was not prepared, in all material respects, in accordance with the provisions of Article 38(D) of the Securities Regulations (Periodic and Immediate Reports), 5730–1970.

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

Somekh Chaikin
Certified Public Accountants

Haifa, November 15, 2017

Condensed Separate Interim Information on Financial Position
USD thousands

	As at		
	September 30, 2017	**September 30, 2016**	**December 31, 2016**
	(Unaudited)		**(Audited)**
Current assets			
Cash and cash equivalents	316,153	215,444	249,899
Deposits	81,228	50,034	80,370
Trade receivables	365,298	271,043	305,347
Other receivables	85,833	19,668	15,424
Current maturities of bank loans	36,171	34,002	44,014
Financial derivatives	4,692	3,566	3,932
Inventories	377,521	438,449	446,270
Total current assets	1,266,896	1,032,206	1,145,256
Non-current assets			
Investments in investees	894,000	798,640	805,484
Loan to Haifa Early Pensions Ltd.	49,330	50,177	48,178
Long term loans and debit balances	3,833	2,305	6,777
Loans to investees	85,917	107,908	149,428
Financial derivatives	42,215	17,449	9,137
Deferred tax assets, net	498	30,723	22,066
Property, plant and equipment, net	1,264,423	1,290,759	1,278,725
Intangible assets and deferred expenses, net	11,340	10,366	10,638
Total non-current assets	2,351,556	2,308,327	2,330,433
Total assets	3,618,452	3,340,533	3,475,689

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

Date of approval of the separate financial information: November 15, 2017

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		
	September 30, 2017	**September 30, 2016**	**December 31, 2016**
	(Unaudited)		**(Audited)**
Current liabilities			
Loan to subsidiary (including current maturities)	208,582	248,413	237,765
Trade payables	561,982	521,405	657,359
Other payables	149,157	80,557	105,487
Financial derivatives	17,654	17,707	20,013
Provisions	36,949	32,238	31,379
Total current liabilities	974,324	900,320	1,052,003
Non-current liabilities			
Liabilities to banks, net	386,692	394,942	403,944
Debentures, net	1,064,971	992,401	918,834
Other long-term liabilities	27,983	19,430	18,315
Financial derivatives, net	8,137	8,812	15,109
Employee benefits, net	34,696	31,712	30,387
Total non-current liabilities	1,522,479	1,447,297	1,386,589
Total liabilities	2,496,803	2,347,617	2,438,592
Capital			
Share capital	805,605	805,282	805,282
Share premium	32,000	31,962	31,962
Capital reserves	29,393	39,835	41,286
Retained earnings	254,651	115,837	158,567
Total capital	1,121,649	992,916	1,037,097
Total liabilities and capital	3,618,452	3,340,533	3,475,689

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
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
Revenue	3,492,457	2,604,142	1,265,588	861,924	3,693,639
Cost of sales	3,244,061	2,434,944	1,161,970	840,177	3,437,583
Gross income	248,396	169,198	103,618	21,747	256,056
Selling and marketing expenses	21,378	19,556	6,998	4,192	27,693
General & administration expenses	21,679	23,467	8,931	6,334	29,650
Other expenses, net	--	--	--	--	1,419
Voluntary redundancy expenses	--	2,511	--	1,127	4,422
Operating profit	205,339	128,686	87,689	12,348	192,872
Financing revenues	(17,590)	(24,165)	(9,388)	(13,224)	(13,199)
Financing expenses	105,428	101,723	25,145	38,612	122,412
Financing expenses, net	87,838	77,558	15,757	25,388	109,213
Company's share in profits (losses) of investees, net of tax	90,695	73,064	30,970	10,616	88,626
Income before taxes on income	208,196	124,192	102,902	(2,424)	172,285
Taxes on income (tax benefit)	24,717	7,966	11,286	(3,850)	14,441
Profit for the period	**183,479**	**116,226**	**91,616**	**1,426**	**157,844**
Items of other comprehensive income (loss) after initial recognition in comprehensive income is transferred to profit or loss					
Other comprehensive income (loss) for investees, net of tax	(1,290)	862	(713)	125	616
Effective share of the change in fair value of cash flow hedging, net of tax	(6,750)	--	2,378	--	574
Changes in fair value hedging costs, net of tax	(6,148)	3,331	(4,612)	889	3,544
Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax	(14,188)	4,193	(2,947)	1,014	4,734
Items of other comprehensive income (loss) not transferred to profit or loss					
Reclassification of defined benefit plan, net to tax	(1,640)	(928)	(1,640)	--	(34)
Net change in fair value of debentures at fair value through profit or loss, attributable to change in credit risk, net of tax (*)	1,763	(1,083)	1,186	1,881	(929)
Other comprehensive loss for investees, net of tax	(755)	(432)	(755)	--	(214)
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	33	6	24	(1)	(3)
Other comprehensive income (loss) for the period, not transferred to profit or loss, net of tax	(599)	(2,437)	(1,185)	1,880	(1,180)
Total income for the period	**168,692**	**117,982**	**87,484**	**4,320**	**161,398**

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
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016	December 31, 2016
	(Unaudited)		(Unaudited)		(Audited)
Cash flows from operating activities					
Profit for the period	183,479	116,226	91,616	1,426	157,844
Adjustments required to present cash flows for operating activities:					
Revenue and expenses not involving cash flows (Appendix A – section A)	42,357	63,785	22,197	22,995	126,979
	225,836	180,011	113,813	24,421	284,823
Changes in assets and liabilities (Appendix A – section B)	(8,677)	(157,881)	3,581	(50,101)	(53,351)
Net income tax paid	(8,705)	(612)	(404)	(434)	(794)
Net cash deriving from (used for) ongoing operations	208,454	21,518	116,990	(26,114)	230,678
Cash flow for investment activities					
Interest received	12,915	14,932	4,487	6,221	16,618
Increase in deposits, net	(4,732)	(20,069)	(35,324)	(1,869)	(48,857)
Dividend received from investees	341	43,557	21	--	52,589
Repayment of long-term loans from others, net	45	92	24	27	132
Repayment of long term loans from investees	91,023	32,880	52,298	--	34,350
Provision of long term loans to investees	(10,000)	--	--	--	(57,335)
Decrease in cash from investments in investees, net	(55,930)	--	(28,277)	--	--
Repayment of loan from Haifa Early Pensions	3,663	4,035	3,663	4,035	4,035
Investments in property plant and equipment (including periodic maintenance) (**)	(55,677)	(74,478)	(5,859)	(39,432)	(104,988)
Purchase of intangible assets and deferred expenses	(1,672)	(1,154)	(707)	(675)	(1,725)
Net cash used for investing activities	(20,024)	(205)	(9,674)	(31,693)	(105,181)
Cash flow from financing activities					
Short-term borrowing, net	(624)	(3,844)	--	--	(3,220)
Receipt of deposits, net	20,113	15,042	587	13,136	8,747
Interest paid (*)	(92,766)	(69,325)	(9,716)	(13,646)	(79,679)
Dividend paid	(85,000)	--	--	--	--
Derivative transactions, net	943	(3,753)	--	(6,270)	(10,551)
Increase (decrease) in cash from funding activities with investees, net	(1,760)	(62,586)	(39,791)	5,236	(72,511)
Receipt of long-term bank loans	16,457	55,000	--	--	411,613
Repayment of long-term bank loans	(33,655)	(69,777)	(8,250)	(17,768)	(458,622)
Repayment of debentures (*)	(121,793)	(67,991)	(1,217)	(1,145)	(69,106)
Issue of debentures (less issuance expenses)	170,188	144,607	--	--	144,607
Net cash used in finance activities	(127,897)	(62,627)	(58,387)	(20,457)	(128,722)
Net increase (decrease) in cash and cash equivalents	60,533	(41,314)	48,929	(78,264)	(3,225)
Effect of exchange rate fluctuations on cash and cash equivalents	5,721	2,343	(252)	2,021	(1,291)
Cash and cash equivalents at beginning of period	249,899	254,415	267,476	291,687	254,415
Cash and cash equivalents at the end of the period	316,153	215,444	316,153	215,444	249,899

(*) As of December 31, 2016, principal and interest payments for debentures in the amount of USD 48 and USD 27 million, respectively, were deferred pursuant to the provisions of the deeds of trust to January 1, 2017, as their contractual maturity date was not a business day. At September 30. 2017 payments of interest on debentures in the amount of USD 7 million were deferred pursuant to the provisions of the deeds of trust to October 1, 2017 as their contractual maturity date was not a business day.

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

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

Condensed 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
		September 30, 2017	**September 30, 2016**	**September 30, 2017**	**September 30, 2016**	**December 31, 2016**
		(Unaudited)		**(Unaudited)**		**(Audited)**
A.	**Income and expenses not that do not involve cash flows**					
	Depreciation and amortization	66,749	59,169	23,220	20,138	81,765
	Financing expenses, net	46,129	63,393	931	20,083	106,126
	Net changes in fair value of derivatives	2,404	(4,862)	15,381	(1,206)	(3,108)
	Changes in fair value of a loan to Haifa Early Pensions Ltd.	(5,502)	(2,709)	421	(1,011)	(1,079)
	Share in earnings of investees, net	(90,695)	(73,064)	(30,970)	(10,616)	(88,626)
	Other expenses	--	--	--	--	1,419
	Loss (income) and changes in inventory hedging deposits, net	(1,962)	13,026	1,795	(754)	14,752
	Share-based payments	517	866	133	211	1,289
	Income tax (tax benefit)	24,717	7,966	11,286	(3,850)	14,441
		42,357	63,785	22,197	22,995	126,979
B.	**Changes in assets and liabilities**					
	Decrease (increase) in trade receivables	(59,951)	(42,390)	(47,785)	29,294	(76,694)
	Decrease (increase) in other receivables	(8,911)	19,344	(1,177)	(2,048)	23,681
	Decrease (increase) in inventory	68,749	(85,582)	57,224	(21,101)	(93,361)
	Increase (decrease) in trade payables	(86,217)	(23,913)	(61,639)	(69,297)	124,261
	Increase (decrease) in other payables, credit balances and provisions	75,377	(25,451)	57,051	12,374	(31,095)
	Increase (decrease) in employee benefits, net	2,276	111	(93)	677	(143)
		(8,677)	(157,881)	3,581	(50,101)	(53,351)

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

ADDITIONAL INFORMATION

1. General

A. The condensed separate interim financial information of the Company were prepared in accordance with the provisions of Regulation 38D and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970 relating to the condensed separate interim financial information of a company. This information should be read in conjunction with the separate financial information as at December 31, 2016 (the "Annual Reports") and the condensed interim consolidated financial statements as at September 30, 2017 ("the Consolidated Financial Statements").

B. Definitions:

The Company – Bazan Ltd.

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

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

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

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

For details see Note 5 to the Consolidated Financial Statements.

4. Financial covenants

For details see Note 6 to the Consolidated Financial Statements.

5. Significant events during and subsequent to the reporting period

On September 28, 2017 Carmel Olefins made early repayment of part of the long term loans grantedto it by the Company, in the amount of USD 47 million, in return for an early repayment commission in an immaterial amount and at market terms.

For further information regarding other events see Notes 5 and 8 to the Consolidated Financial Statements.