



Oil Refineries Ltd.



Periodic Report

2024

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Part A - General

The description of the Company's business as detailed in this Chapter below was prepared on the assumption that the reader has before him/her the full periodic report of the Company, including all of its parts.

1.1 Company Operations and Description of the Development of its Business

1.1.1 Defined Terms

- 1.1.1.1 **Orthoxylene** – an aromatic material made from refined products. For details, see Section 1.7.12 below.
- 1.1.1.2 **Ethylene** – A colorless, odorless gas at room temperature, used as a raw material in the petrochemical industry, mainly for the production of polyethylene.
- 1.1.1.3 **ORA** - Ashdod Refinery Ltd.
- 1.1.1.4 **Bitumen** – One of the refined products of crude oil; used mainly as a principal component in road building and for insulation.
- 1.1.1.5 **Gasoline** – One of the refined products of crude oil; used as fuel for transport.
- 1.1.1.6 **Benzene** – an aromatic material made from refined products. For details, see Section 1.7.12 below.
- 1.1.1.7 **Gadiv** - Gadiv Petrochemical Industries Ltd.
- 1.1.1.8 **Natural Gas** – A gaseous substance that forms naturally underground, composed (in Israel) mostly of methane. Natural gas can be used as an energy source or raw material, is used by the Company for heating boilers and furnaces and raw material for producing hydrogen.
- 1.1.1.9 **LPG** - Liquefied Petroleum Gas, also known as cooking gas, and one of the refined products of crude oil.
- 1.1.1.10 **USD** - US dollar.
- 1.1.1.11 **Consolidated Financial Statements** – The Company's Consolidated Financial Statements as of December 31, 2024, attached to **Chapter C of this Report**.
- 1.1.1.12 **Ducor** - Ducor Petrochemicals B.V.
- 1.1.1.13 **Raw materials** – Materials purchased by the Company and used by it in the production process, including, but not limited to, crude oil.
- 1.1.1.14 **Feedstock** – Materials produced by the Company and used as interim materials for its other facilities or as raw materials for its subsidiaries that are engaged in the production of petrochemical products.
- 1.1.1.15 **Toluene** – An aromatic material made from refined products. For details, see Section 1.7.12 below.
- 1.1.1.16 **Carmel Olefins** - Carmel Olefins Ltd..
- 1.1.1.17 **Fuel oil** – a product obtained after the initial refining processes; used mainly for heating and fueling ships.
- 1.1.1.18 **Very-low sulfur fuel oil** - Fuel oil with a sulfur content of up to 0.5%.
- 1.1.1.19 **IPE** - Israel Petrochemical Enterprises Ltd. A publicly-traded company whose shares are listed on the Tel Aviv Stock Exchange Ltd. and which is the controlling shareholder of the Company.
- 1.1.1.20 **The refining margin** is the difference between revenue from the sale of the Company's product mix and the refinery cost of the raw materials purchased by the Company (mainly various kinds of crude oil, diesel fuel and HVGO) and energy costs.
- 1.1.1.21 **Crude Oil** – A mixture composed primarily of hydrocarbons, formed in a natural underground process and mainly used to create petroleum distillates and petrochemical products. There are many different types of crude oil, characterized based on the location where they are produced.
- 1.1.1.22 **Naphtha** – one of the refined products of crude oil. Used as one of the components for the production of gasoline and industrially used as a raw material for the production of petrochemical products.
- 1.1.1.23 **Solvents** – Materials made from refined products. For details, see Section 1.7.12 below.

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- 1.1.1.24 **Diesel fuel** – One of the refined products of crude oil; used for transport, electricity generation, and heating.
- 1.1.1.25 **Vacuum Gasoil or Heavy Vacuum Gasoil (VGO or HVGO)** – an interim material produced by way of primary refining and used in advanced refining processes for manufacturing oil products with high added value, primarily diesel fuel, kerosene and gasoline.
- 1.1.1.26 **Paraxylene** – An aromatic material made from refined products and by production processes in Gadiv. For details, see Section 1.7.12 below.
- 1.1.1.27 **Polypropylene** – A polymer, the main uses of which are in engineering, for the production of consumer goods (such as diapers, toys, bottles, containers, household plumbing, tool boxes, disposable tableware, outdoor furniture, food packaging, office equipment), fibers and threads for making carpets, for use in the vehicle industry, and others.
- 1.1.1.28 **Polyethylene** – A polymer, the main uses of which are for manufacturing plastic products, such as products for agricultural use (such as food packaging, sheeting for greenhouses), for making flexible and hard packaging (such as bags and bottles), insulation products and household utensils.
- 1.1.1.29 **Paz** – Paz Retail and Energy Ltd. (formerly - Paz Oil Company Ltd.).
- 1.1.1.30 **Phthalic Anhydride** – A solid material produced from orthoxylene, which is made from refined products. Used in the production of components for the plastics industry, the production of resins for the paint industry in the production of various polyesters. For details, see Section 1.7.12 below.
- 1.1.1.31 **Petroleum or PCH** - Petroleum Capital Holdings Ltd. - a subsidiary wholly-owned by IPE.
- 1.1.1.32 **Propylene** – A colorless, odorless gas at room temperature, used as a raw material in the petrochemical industry, mainly for the production of polypropylene.
- 1.1.1.33 **Kerosene/jet fuel** – One of the refined products of crude oil; used mainly as jet fuel and for heating.
- 1.1.1.34 **The IMO 2020 Standard** – a Standard set by the International Maritime Organization, which came into effect on January 1, 2020, and requires ships to adhere to new, strict emission levels. For this purpose, they must use, in certain areas, fuel with a sulfur content that does not exceed 0.5%, or install a treatment device on the ship that will reduce the ship's emission to the required level. As from May 2025, the Mediterranean region will be considered a limited emissions area - MED ECA - and the sulfur content in fuel will be limited to 0.1% for tankers, which have not installed a facility to reduce sulfur oxides emissions.

1.1.2 Establishment of the Company and main stages in its development

Oil Refineries Ltd. (hereinafter - the “**Company**” or “**Bazan**”), was incorporated and registered in Israel in August 1959 under the name Haifa Refineries Ltd., which has absorbed the operations of the Haifa refinery that began operating in 1938 under the British mandate.

After the Ashdod refinery was split off from the Company and sold to Paz, in February 2007, the State of Israel sold all of the Company's issued and paid up share capital, such that following the sale, the Company ceased being a government company, and its shares were listed for trade on the TASE (hereinafter - “**Privatization of the Company**”). As of the report date, the controlling shareholder of the Company is IPE (directly and via Petroleum). For details regarding the holding rate of the Company's controlling shareholder as of the report date, see the report of the Status of Holdings of Interested Parties and Senior Officers published by the Company on January 7, 2025 (Ref.: 2025-01-002527), which is included herein by way of reference.

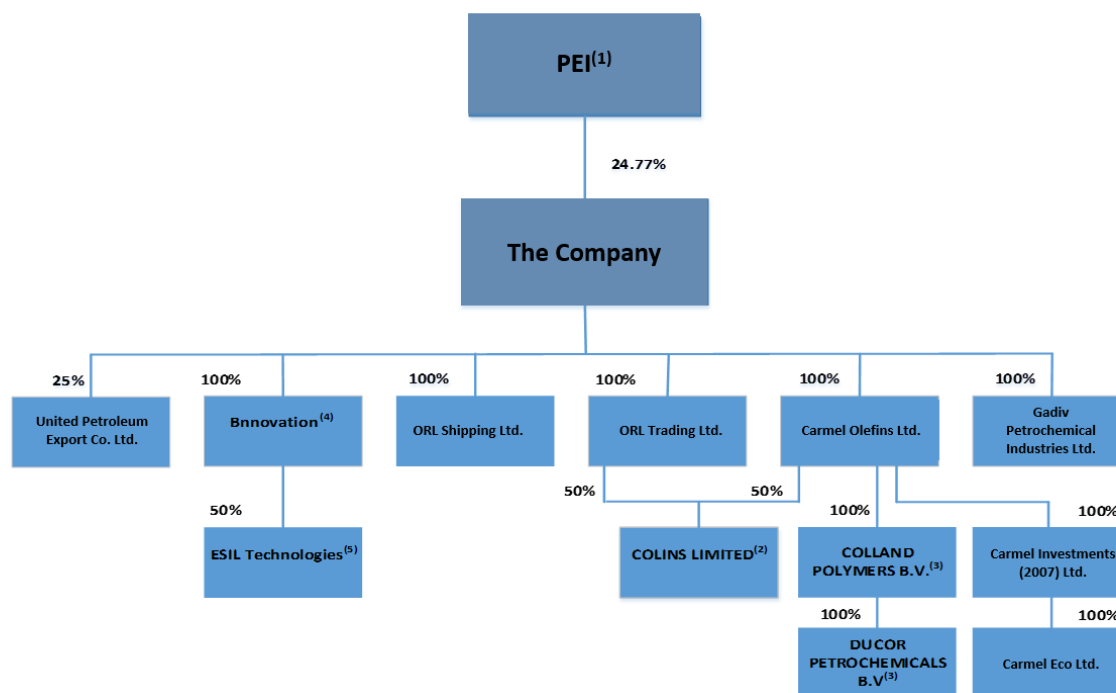
For details regarding the Company's control permit granted to IPE, see Section 1.18.9.3 below.

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The Company and its subsidiaries (hereinafter - the “Companies” or “Group Companies” or the “Group” or “Bazan Group”) are industrial companies operating mainly in Israel¹ and are engaged primarily in the production of fuel products and aromatics used as raw materials for the chemical and petrochemical industry, as well as the production of polymers used as raw materials for the plastics industry. The facilities of the Israel-based material subsidiaries are integrated with those of the Company.

1.1.3 Chart of the Company’s holding structure as of December 31, 2024²

- (1) The shares are held directly by IPE and indirectly by Petroleum. IPE is a public company whose shares are listed on the TASE.
- (2) A company registered in Guernsey.
- (3) Companies registered in the Netherlands.



- (4) A limited partnership wholly-owned by Bazan Group, which coordinates the innovation activity. For details regarding the innovation activity, see Section 1.11.2 below.
- (5) Limited partnership established by the Company and EDF Renewables in collaboration with Johnson Matthey under the innovation activity as detailed in Section 1.11.2 below.

1.2 Company's areas of activity

The Company was engaged in two areas of operation, reported as business segments in its financial statements, as follows:

¹ With the exception of Ducor, which operates in the Netherlands, and with the exception of additional companies whose operations are not material and which are not involved in production.

² The figure shows active material companies. It is noted that as of the report date, the Company holds a number of additional companies whose activity is negligible compared to the Group’s business, and/or that are not active and therefore do not appear in the chart.

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1.2.1 **Refining Segment:**

As part of its operations in the refinement field, the Company purchases crude oil and intermediate materials; it refines, separates and processes them into various products, some of which are finished products and others are raw materials for the manufacture of other products. As part of this area of activity, the Company and Gadiv sell finished fuel products, intermediate products and aromatic products to its customers in Israel³ (including Carmel Olefins) and abroad.

For details on refinement operations, see Section 1.7 below.

1.2.2 **Polymers:** As part of its polymer activity, the Company is engaged, through Carmel Olefins Ltd., a private company wholly owned by the Company, and via a private company wholly-owned (indirectly) by Carmel Olefins, which is registered and operates in the Netherlands, in the production of polyethylene and polypropylene, which are the principal raw materials in the plastics industry as well as in mechanical recycling through Carmel Eco Ltd.

For a description of the activities of Carmel Olefins, Ducor and Carmel Eco Ltd., see Section 1.8 below.

1.2.3 **Additional (other) activities:** The Company is involved, inter alia, in trade activities that does not constitute an operating segment in its financial statements, including mainly leasing of tankers for maritime shipping of fuel products, which is performed by the companies ORL Trading and ORL Shipping, private companies that are wholly owned by the Company (hereinafter - the “**Trade Segment**”). For further details, see Section 1.9 below. In addition, the Company has investees that are engaged in additional activities that are immaterial to the Company.

1.2.4 The Group’s two areas of activity are synergistic (see Section 1.7.1.3) and all areas of activity constitute part of the Bazan Group, which operates by way of central control through the Company’s headquarters. This structure of the Group and the concentration of its plants in a single geographic region (except for Ducor and Carmel Eco) and physically connected, yield significant benefits, including, among other things, maximum utilization of raw materials, such that the by-products of one of the plants are used as the raw material of another, and maximizing the added value of joint activity (by optimizing production, procurement, inputs and joint headquarter services). The head office services include: operation of optimization systems for production planning, finance and accounting services, IT, human resources services, safety, environmental issues, security, overall quality, purchasing, engagements and legal services. In addition, the Company purchases for Group companies operating in the Bazan compound in Haifa, Israel various inputs such as natural gas, electricity and more.

³ In this context, it should be noted that the Company provides its client with infrastructure services in regard to some of the products sold by it.

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1.3 Investments in Company Equity and Transactions in Company Shares

- 1.3.1 No investments in the Company's equity have taken place during the past two years.
- 1.3.2 On September 15, 2022, IPE completed (through Petroleum) the acquisition of 534,953,382 shares the Company from the Israel Corporation Ltd. (hereinafter - the “**Israel Corporation**”) from the Israel Corporation, under a right of first refusal granted to IPE under the joint control agreement between IPE and between Petroleum and Israel Corporation. In consideration for these shares, IPE paid approx. NIS 554 million. When exercising the abovementioned right of first refusal, the agreement between IPE, Petroleum and Israel Corporation for joint control in the Company expired and the control permit granted to each of them under the Government Companies Ordinance (Declaration of Essential Interests for the State in Bazan Ltd.), 2007 also expired. On September 5, 2022, IPE, Petroleum and Mssrs. Yaakov Gutenstein, Alex Passal, David Federman and Adi Federman, the controlling shareholders of IPE (hereinafter - the “**Controlling Shareholders Individuals**”) received a control permit and became the only holders of control permit in the Company.⁴
- 1.3.3 To the best of the Company’s knowledge, prior to the exercise of the right of first refusal, as set out above, under a debt settlement plan between IPE and the holders of its debentures, among other things, 271,774,526 Company shares were transferred to the holders of IPE’s Debentures (Series 8), which were pledged in their favor, representing approx. 8.48% of the Company's issued and paid-up share capital at the time, against the delisting and cancellation of this debenture series and the repayment of IPE’s debt to the debenture series.
- For further details regarding an amended control permit that IPE and Petroleum received in connection with their holdings in the Company, see the Company’s report of September 7, 2022 (Ref. No. 2022-01-092931), included herein by way of reference as well as Section 1.18.9.3 below.
- 1.3.4 On February 13, 2023, Israel Corporation sold its remaining shares to qualified investors by virtue of an option they were awarded under a transaction of November 2021. For further details see the immediate reports dated September 18, 2022 and February 12, 2023 (Ref. Nos. 2022-01-095826 and 2023-01-013717), included herein by way of reference.
- 1.3.5 For details regarding IPE’s announcement regarding agreements signed between its shareholders (including regarding a voting agreement with respect to the appointment of the Company's directors), see the Company's reports of February 16, 2025 and February 23, 2025 (Ref. Nos.: 2025-01-010777 and 2025-01-012111, respectively), the details of which are included herein by way of reference.
- 1.3.6 For further details regarding the Company’s capital, see Note 21 to the Consolidated Financial Statements. For details regarding the Company's share buybacks, see Section 1.4.2 below.

⁴ The particulars in this Section are to the best of the Company’s knowledge. For information about the amended control permit granted to IPE and the individual controlling shareholders in this company see Section 1.18.9.3 below.

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1.4 **Dividend distribution**

1.4.1 On March 11, 2025, the Company's board of directors resolved to revise the dividend distribution policy dated November 7, 2021, as from the financial statements for 2024 onwards. For details regarding the dividend distribution policy, see the Company's immediate report dated March 11, 2025 (Ref. No.: 2025-01-016284), included herein by way of reference, as well as Note 21C to the Consolidated Financial Statements, including with respect to the dividend distribution policy dated November 7, 2021.

1.4.2 In the reporting year and last year the Company distributed dividends as follows:

| Distribution date ⁵ | Type of distribution | Grand total |
|--------------------------------|----------------------|------------------------------|
| March 8, 2023 | In cash | USD 200 million |
| March 8, 2023 | Share buyback | USD 20 million |
| August 16, 2023 | In cash | USD 50 million |
| November 26, 2023 | Share buyback | USD 8 million ^(*) |
| March 13, 2024 | In cash | USD 144 million |
| August 25, 2024 | In cash | USD 30 million |
| August 25, 2024 | Share buyback | USD 5 million |

(*) The buyback plan was not fully realized.

For further details regarding the buyback plans under which the shares were purchased as detailed in the above table, see Note 21C to the Consolidated Financial Statements.

on March 11, 2025, the Company's Board of Directors approved the distribution of a dividend in the amount of USD 50 million, based on the Company's Consolidated Financial Statements.

1.4.3 The corporation's retained earnings as of December 31, 2024, as defined in Section 302 to the Companies Law, 1999 (hereinafter - the "**Companies Law**") was approx. USD 914 million.

1.4.4 For details regarding the financial covenants which may restrict the distribution of a dividend by the Company, and conditions for paying the Dividend as set forth in the Company's agreements with banking corporations, see Note 13B to the Consolidated Financial Statements. For details regarding financial covenants and conditions for paying the Dividend that the Company undertook towards debenture holders, see Note 14 to the Consolidated Financial Statements.

⁵ Date of approval by the Board of Directors.

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1.5 **Financial information concerning the Company's areas of activity**

The following is a summary of the companies consolidated financial data:

| 2024 | | | | | |
|---|-----------------|-----------------|----------------------------|--------------------|--------------|
| | Refining | Polymers | Other⁽¹⁾ | Adjustments | Total |
| In USD million | | | | | |
| Total revenue from external sources | | | | | |
| Revenues in Israel | 4,623 | 322 | - | - | 4,945 |
| Revenue from other countries | 2,104 | 484 | 9 | - | 2,597 |
| Total revenue from external sources | 6,727 | 806 | 9 | - | 7,542 |
| Total inter-segment revenues (in Israel) | 307 | 1 | 29 | (337) | - |
| Total revenues | 7,034 | 807 | 38 | (337) | 7,542 |
| Costs for operating segment – external sources | | | | | |
| Variable - raw materials | 5,968 | 145 | - | - | 6,113 |
| Variable - other | 425 | 194 | 13 | - | 632 |
| Fixed | 241 | 152 | 1 | - | 394 |
| Depreciation expenses | 104 | 48 | 19 | - | 171 |
| Total | 6,738 | 539 | 33 | - | 7,310 |
| Costs for area of activity – inter-segment costs | | | | | |
| Variable - raw materials | 30 | 307 | - | (337) | - |
| Operating profit (loss) in the segments | 266 | (39) | 5 | - | 232 |
| Other expenses, net | - | - | - | (8) | (8) |
| Operating profit (loss) attributable to the Company's shareholders | 266 | (39) | 5 | (8) | 224 |
| Total assets attributable to area of activity | 3,315 | 1,098 | 75 | (36) | 4,452 |
| Total liabilities attributable to area of activity | 2,476 | 251 | 89 | (128) | 2,688 |

(1) "Others" includes the Trade Segment as set forth in Section 1.2.3 above and Section 1.9 below.

For explanations concerning the developments in the above financial data, see the Board of Directors' explanations in Chapter 2 to the Report of the Board of Directors for 2024, which is attached as Chapter B to the Annual Report (hereinafter - the "Report of the Board of Directors").

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| 2023 | | | | | |
|---|-----------------|-----------------|----------------------------|--------------------|--------------|
| | Refining | Polymers | Other⁽¹⁾ | Adjustments | Total |
| In USD million | | | | | |
| Total revenue from external sources | | | | | |
| Revenues in Israel | 5,000 | 238 | - | - | 5,238 |
| Revenue from other countries | 2,515 | 543 | 28 | - | 3,086 |
| Total revenue from external sources | 7,515 | 781 | 28 | - | 8,324 |
| Total inter-segment revenues (in Israel) | 264 | 1 | 13 | (278) | - |
| Total revenues | 7,779 | 782 | 41 | (278) | 8,324 |
| Costs for operating segment – external sources | | | | | |
| Variable - raw materials | 6,308 | 208 | - | - | 6,516 |
| Variable - other | 467 | 182 | 15 | - | 664 |
| Fixed | 244 | 145 | 1 | - | 390 |
| Depreciation expenses | 97 | 47 | 18 | - | 162 |
| Total | 7,116 | 582 | 34 | - | 7,732 |
| Costs for area of activity – inter-segment costs | | | | | |
| Variable - raw materials | 15 | 264 | - | (279) | - |
| Operating profit (loss) in the segments | 648 | (64) | 7 | 1 | 592 |
| Other expenses, net | - | - | - | (19) | (19) |
| Operating profit (loss) attributable to the Company's shareholders | 648 | (64) | 7 | (18) | 573 |
| Total assets attributable to area of activity | 3,475 | 1,086 | 72 | 24 | 4,657 |
| Total liabilities attributable to area of activity | 2,587 | 205 | 86 | (78) | 2,800 |

(1) "Others" includes the Trade Segment as set forth in Section 1.2.3 above and Section 1.9 below.

For explanations concerning the developments in the above financial data, see the Board of Directors' explanations in Chapter 2 to the Report of the Board of Directors.

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| 2022 | | | | | |
|---|-----------------|-----------------|----------------------------|--------------------|---------------|
| | Refining | Polymers | Other⁽¹⁾ | Adjustments | Total |
| In USD million | | | | | |
| Total revenue from external sources | | | | | |
| Revenues in Israel | 6,186 | 285 | - | - | 6,471 |
| Revenue from other countries | 3,686 | 640 | 31 | - | 4,357 |
| Total revenue from external sources | 9,872 | 925 | 31 | - | 10,828 |
| Total inter-segment revenues (in Israel) | 256 | 1 | 10 | (267) | - |
| Total revenues | 10,128 | 926 | 41 | (267) | 10,828 |
| Costs for operating segment – external sources | | | | | |
| Variable - raw materials | 8,189 | 277 | - | - | 8,466 |
| Variable - other | 981 | 222 | 19 | - | 1,222 |
| Fixed | 245 | 139 | 1 | - | 385 |
| Depreciation expenses | 91 | 42 | 12 | - | 145 |
| Total | 9,506 | 680 | 32 | - | 10,218 |
| Costs for area of activity – inter-segment costs | | | | | |
| Variable - raw materials | 11 | 256 | - | (267) | - |
| Operating profit (loss) in the segments | 611 | (10) | 9 | - | 610 |
| Other expenses, net | - | - | - | (16) | (16) |
| Operating profit (loss) attributable to the Company's shareholders | 611 | (10) | 9 | (16) | 594 |
| Total assets attributable to area of activity | 3,399 | 1,158 | 45 | (75) | 4,527 |
| Total liabilities attributable to area of activity | 2,681 | 222 | 64 | (184) | 2,783 |

(1) "Others" includes the Trade Segment as set forth in Section 1.2.3 above and Section 1.9 below.

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1.6 Economic environment and impact of external factors on the corporation's activity

1.6.1 General

The Bazan Group is affected by events, developments and trends in the domestic and global energy sectors, as well as by developments in domestic and/or global macroeconomic factors - including the interest rates, the inflation rates, exchange rates, the situation of the domestic and global economy, political and security developments and extensive regulations that cover various aspects of the Group's activities, as detailed below.

1.6.2 Changes in crude oil prices, petroleum products prices and the refining margins

The Group's operating results are derived mainly from the refining and petrochemical margins, which reflect the difference between the revenues from the sale of the product mix and the cost of the raw materials and energy required to produce them. Over the years, the global oil market, especially refining operations, experienced significant fluctuations, product prices and raw material costs (causing margin fluctuations), as a result of geopolitical events, macroeconomic events, such as changes in demand and supply of crude oil and petroleum products across the world, wars, changes in exchange rates of foreign currencies, etc. - events and changes that are mostly unpredictable. For more information about fluctuations in crude oil prices, the refining margins and petroleum products prices, see Section 1.7.2.2 below.

1.6.3 The security situation

1.6.3.1 Political and security developments across the world and in Israel have a direct effect on petroleum distillates prices and crude oil prices, and consequently they also affect the Group's operating results, whether due to crude oil shortages or due to trade and transportation restrictions in connection therewith.

1.6.3.2 For details regarding the impact of the Iron Swords War on the Group's activity, see Chapter 10 to the Report of the Board of Directors. In this context, it is noted that on December 30, 2024, the Company filed an online compensation claim for indirect damage caused to it due to the Iron Swords War, and in accordance with the provisions of Section 35 to the Property Tax and Compensation Fund Law, 1961.

1.6.3.3 For details regarding the Russia-Ukraine war and its effect on the Group's activities, see Note 1C to the Consolidated Financial Statements.

1.6.4 Interest rate fluctuations

For information about the potential effects of changes in interest rates on the Group's finance costs, see Section 1.23.2.6 below.

1.6.5 Changes in exchange rates

For information about potential effects of changes in the exchange rates of the various currencies on sales, current cost, investments denominated in foreign currency and debentures issued by the Company, see Section 1.23.2.5 below.

1.6.6 Effects of an economic slowdown or recession in the domestic market

For information about the potential effects of an economic slowdown or a recession in the domestic market on the Group's revenues' see Section 1.23.2.2 below.

1.6.7 Regulation

1.6.7.1 Due to the Group's prominent position in the Israeli energy sector, and its environmental footprint, it is subject to tight regulation in multiple areas, including: Competition, price control, environmental protection, security and information security, protection of essential interests of the state, workplace safety, etc. In recent years, there has even been a trend of stricter enforcement of laws with respect to environmental protection.

1.6.7.2 This extensive regulation, Government Resolution No. 1231 (in terms of the government's desire to evacuate the Company's facilities from the Haifa Bay as mentioned below) and NOP 75, which is promoted under the abovementioned resolution, may have an effect on the Group's ability to act without constraints, on the actual operation of the Group's facilities, and on the considerations taken into account in its business activity; they may even involve substantial costs arising from actions taken by the Group to comply with the regulatory requirements and the consequences of the effects of Government Resolution 1231.

For further details, see Sections 1.17 and 1.18 below and Note 20C to the consolidated financial statements regarding Government Resolution 1231 and the development of the Haifa Bay.

1.6.8 Changes in customer preferences in connection, among other things, with environmental protection

1.6.8.1 The climate crisis and the increase in awareness of its effects, as well as the environmental effects of using fossil fuels and non-recyclable materials, cause changes in preferences of some end customers of the Group's customers and in their willingness to purchase its products. This change is reflected, among other things, in a transition to electric vehicles, with the extensive introduction of electric vehicles or hybrid vehicles, the commencement of the use of fuel substitutes originating from renewable sources, such as ethanol, hydrogen and biodiesel (which do not originate from fossil fuels). This change may be accompanied by restrictive laws and the provision of incentives, which may increase the said decline in demand for the Group's products. In addition, it is noted that there is a growing awareness of the pollution caused by plastic waste has been on the rise, and consequently there is a desire to reduce the use of plastic and increase the use of recyclable plastics. This trend may be accompanied by legislation that encourages the reduction of the use of plastics. Over time, these changes may result in a decline in the Group's revenues, if it fails to adapt itself to those changes. For further details, see Section 1.23.3 below.

1.6.8.2 In June 2022 the European Parliament approved the legislation regarding Carbon Border Adjustment Mechanism in Europe (hereinafter - "CBAM"), aiming to regulate carbon taxation adjustment mechanisms in Europe; according to the legislation, various products imported into EU countries will be taxed in accordance with the carbon footprint generated in their production process. In accordance with this legislation, the reporting requirement will apply as from the fourth quarter of 2023, and the tax will be applicable as from 2026. In May 2023, an appendix was published comprising the list of products that fall within the scope of the legislation. According to this appendix, Group companies' products are not included in the said list. In that context, it should be noted that European Union is expected to review, by the end of 2025, the list of products, which will include polymers and chemicals. As of the approval date of the financial statements - and noting the re-evaluation of the list of products as stated above and that the payment on carbon emissions as part of the CBAM has yet to begin - it is impossible to assess whether the Group's activity will be impacted.

1.6.8.3 During the Reporting Period, the pricing of emissions from local pollutants and greenhouse gases was approved by amending the Excise Tax on Fuel Ordinance (hereinafter - the "Carbon Tax"), which came into force on January 1, 2025. For further details, see Section 1.17.3.1.5(b) below.

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- 1.6.8.4 The Company is making preparations to cope with those changes and has also begun to engage in the field of alternative fuels, with an emphasis on hydrogen-powered vehicles, and addressing the changing needs of all of its customers, while performing sustainability-oriented activities, reducing its carbon emissions and streamlining and improving its refining processes.
- 1.6.8.5 In 2024, reporting regulations relating to the various fields of sustainability (CSRD) came into effect in Europe, including climate and environmental aspects. These regulations are expected to apply gradually to tens of thousands of companies in Europe and around the world, subject to defined criteria. The Company is in the process of studying the regulations and making preparing for them, while examining the framework and dates of applicability for its activities in Europe and Israel. In addition, IFRS sustainability standards (issued by the ISSB), which have been adopted by the International Organization of Securities Commissions (IOSCO), have been adopted by various countries around the world, but have not yet been adopted in Israel.

Part B – The Refining Segment

1.7 Refining Segment

1.7.1 General

1.7.1.1 In this segment, the Company operates a refinery in the Haifa Bay, which has been operating since 1939, and through which it refines, separates and processes - from crude oil and intermediate materials - a range of end products such as petroleum distillates and raw materials used to manufacture other products marketed in the domestic market and to export markets, including fuels and aromatics (as described in Section 1.7.14.2 below). The Company's facilities in the Refining Segment include various systems (as described in Section 1.7.19 below), whose complexity is rated 11.1 in the Nelson Index (which is an index that measures the complexity of refineries as stated in Section 1.7.19.6 below) and the refining capacity of the refining facilities is approx. 9.8 million tons of crude oil per year.

Production and marketing of fuels is carried out by the Company while production and marketing of the aromatic products are carried out through Gadiv, a private company, which was founded in 1974 and has been wholly owned by the Company since 1994.

1.7.1.2 The Refining Processes

The refining of oil is a process that consists of a number of stages, the purpose of which is to separate out the various components in crude oil, and to turn them into useful products such as: gasoline, naphtha, diesel fuel, kerosene, fuel oil, liquefied petroleum gas (LPG) and bitumen. Refining is carried out at high temperatures (up to approx. 500°C) and at high pressures (up to approx. 180 atmospheres). In some processes, catalysts are used to speed up the chemical reaction of cracking or reforming of intermediate materials.

There are four main production processes:

Separation by distillation - processes that result in groups of products, according to the differences in their boiling points.

The refining of crude oil leaves an unrefined residue that is used to make asphalt and fuel oil or are sent to the cracking facilities.

Cracking and reformation - which alter the chemical composition of some of the materials separated out, so as to give rise to products of a higher added value.

Refining - a finishing-off process, the purpose of which is to decontaminate and cleanse the products of the separation processes, and to improve the qualities of such (such as reduction of sulfur content).

Finishing - the products undergo finishing, in order to meet the requisite parameters.

The Company's refining operations are carried out at the Company's refinery at Haifa. The Company sells intermediate materials produced at its plants but not processed into end products at the plants of the Company and its subsidiaries, in quantities that are immaterial relative to its entire activity. Intermediate materials required by the Company and/or subsidiaries, which are not supplied by the Company's own refinery facilities, may be purchased from foreign suppliers and/or from ORA. The facilities' operating regime as part of the refining activity aims to modify the crude refining facilities in order to reduce the refinery residue and increase the volume of intermediate products, which enable the production of high added value products, improving the Company's ability to mix various intermediate components and products, which allows it to produce a range of products in compliance with the required standards and to adapt and diversify the types of crude oil it processes.

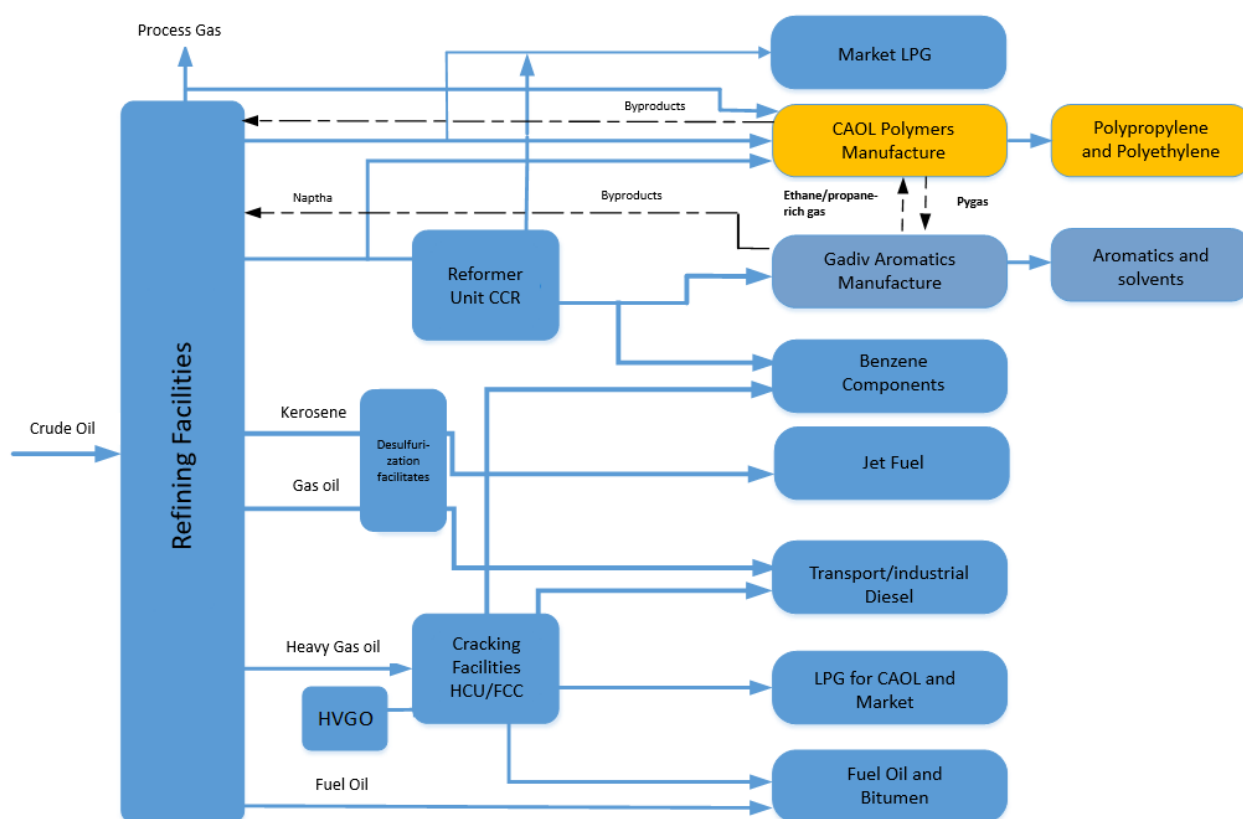
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1.7.1.3 Downstream processes

In addition, some of the refining products of the Company's refineries are raw materials, which are transferred to be used by Carmel Olefins and Gadiv.

In this respect, the Carmel Olefins and Gadiv plants in Israel are downstream facilities of the Company and 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. The Group's refining operations are integrated with its polymers operations in Israel, enabling the Group's companies to consecutively manufacture the products that they market, in accordance with the required standards and specifications.

The following is a diagram that illustrates the integration between the various operations of the Group:



In the Company's opinion, the integration and synergy between the facilities and the various areas of activity leads to an increase in the aggregate margins flowing to the Group from all of its areas of activity and under certain circumstances - moderation in fluctuations of the Group's profitability, since the business turnovers in the Company and the subsidiaries' areas of activity do not necessarily overlap.

The Companies (Bazan, Carmel Olefins and Gadiv) have operated jointly in their various areas of activity: overall production planning is carried out by the optimization segment in a way that is intended to maximize the added value over the activities of the Companies, starting from the purchasing of crude oil up to the production of fuel and aromatics products, as well as polymers products.

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In order to optimize decision-making with respect to determining the types of crude oil and intermediate products to be purchased by the Company and the composition of the products to be produced by it, the Company, among other things, uses a computerized system of linear planning based on a multiple-variable mathematical model which takes into account commercial data such as: prices of various kinds of crude oil and intermediate materials and prices of the various products produced by the companies: prices of various oil and aromatics products, prices of polymers, customer orders, and technical data relating to the production capacity and availability of the Companies' facilities in light of demand in markets of activity.

The model recommends production functions (the mix of crude oil and intermediate products, and the mix of products produced using it) that maximize the Group's profitability. This system is used by the Company both for its ongoing operations and for the purpose of long-term future planning.

In addition, the Companies are working continuously to identify and apply opportunities for further synergies through projects which integrate materials and processes from their plants. In this context, projects were executed, inter alia, for the utilization of process gases produced by the downstream facilities as raw materials in Carmel Olefins, and the companies are constantly examining possibilities for new projects.

1.7.2 Structure of the operating segment and changes therein

1.7.2.1 The fuels industry in Israel

The fuels industry in Israel includes a number of subsegments:

1.7.2.1.1 Offloading and storage of crude oil and loading of distillates for export - the offloading of crude oil and distillates and the loading of distillates for export is carried out in the sea ports: Haifa, Ashdod, Ashkelon and Eilat. As to the crude oil, after its is offloading at the port, it is pumped to the premises of the refineries, among other things, through pipelines owned by the Europe Asia Pipeline Company Ltd. (hereinafter - "**EAPC**") and/or Energy Infrastructures Ltd. (hereinafter - "**Energy Infrastructures**").⁶ Until such time when it is pumped as described above, the crude oil is stored in terminals in the area of the offloading ports, which are operated by Energy Infrastructures and EAPC, and thereafter in the refineries themselves.

1.7.2.1.2 Refining of oil - There are two refineries operating in Israel and competing with one another - the Company's refinery, which is located at the Haifa Bay, and the second refinery, which is located in Ashdod and owned by Oil Refinery Ashdod. This refinery was previously part of the Company and was split therefrom in 2006 and transferred to Paz; to the best of the Company's knowledge, in August 2023 and according to ORA's publications, the listing of ORA's shares on the TASE was completed as a company without a controlling core.

⁶ For details regarding the court ruling and a compromise outline agreed upon thereafter with respect to tankers and buildings used by Energy Infrastructures for the provision of the services it renders to the Company for the importation, storage and piping of crude oil, see Section 1.7.20.10 below.

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1.7.2.1.3 **Transmission, storage and distribution of petroleum products** - the petroleum products which are manufactured by the refineries, as stated above, are piped and transmitted from the refineries through a national distillates pipeline, which is mainly owned by Oil Products Pipeline Ltd. (a subsidiary of Energy Infrastructures, hereinafter - “OPP”), to the Pi Gilloth fuel terminals, to Energy Infrastructures’ terminals and to the storage facilities and terminals of the various fuel companies, and they are stored (in addition to storage in the refineries themselves) mainly in the terminals of Energy Infrastructures, EAPC, Pi Gilloth, terminals of the fuel companies, and more. From there and the refineries, the petroleum products are distributed to the gas stations using road tankers.

1.7.2.1.4 **Regulation of the fuels industry** - the fuels industry is subject to government regulation, which includes the operating licensing of infrastructures; product supply; price control over certain petroleum products and public utility services (offloading, storage, distribution, and pumping); and environmental protection. For further details regarding the regulation of the Group’s activity, see Section 1.18 below.

1.7.2.2 **Factors affecting the industry**

1.7.2.2.1 **The global oil market - general**

The various kinds of crude oil and refined products, as well as some of the products produced by the subsidiaries, are traded as commodities, the prices of which are set in sophisticated international markets and the majority of which are quoted on various commodities exchanges around the world; the Company and its subsidiaries have no influence over the international price. The purchase prices of crude oil paid by the Company are set on the basis of international prices, with adjustments for each individual transaction and to the extent possible, identification of spot opportunities in order to reduce costs. The prices for the sale of fuel products and aromatics products, by the Companies to its customers are set based on international prices, with adjustments based on the specifics of each transaction, while identifying opportunities and needs in the active markets in order to maximize value. The prices for marine transportation of crude oil, refined products and petrochemical products, which are paid for by the Companies, are also fixed on the basis of international prices. As part of the ramifications and effects of the Iron Swords War, the Company incurred additional costs due to the difficulties in transporting raw materials and distillates to and from Israel; with respect of some of those costs the Company took action to exhaust its legal rights as stated in Section 1.6.3.2 above. As noted, the Companies have no influence over international prices and the price of concrete transitions are fixed, with adjustments based on the transaction details and opportunities identified.

1.7.2.2.2 **Refining margin**

The refining margin is the major factor affecting the operating results in the operating segment (in addition to the utilization of the production facilities). The key factors which affect the Company’s refining margin are the margins in the international markets.

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Global prices of crude oil and distillates are highly volatile and are set, inter alia, by global supply and demand, and are also affected by geopolitical and other events which are not directly related to the production of oil but which are viewed by the markets as having a potential impact on future production, as well as the extremely large scope of global trade in futures and derivatives, which do not necessarily or consistently reflect the actual market for crude oil and its products. The level of the refining margin is a result of the market forces acting on two different planes: one, supply and demand of crude oil and trade in futures and derivatives, and the other, supply and demand of end products. In 2022, there was a substantial increase in the refining margin, mainly due to the effects of the Russia-Ukraine war; in 2023, the refining margin subsided, and in 2024 it declined again, but was still at a level higher than the multi-year average. For further details regarding the business environment, which affected the Company's operations, see Section B in Chapter 1 of the Report of the Board of Directors.

1.7.2.2.3 Factors and trends that affect supply and demand for crude oil

As set out in Section 1.7.2.1.1 above, crude oil is a commodity whose prices are fixed in complex global markets. The supply of crude oil is first and foremost influenced by the existence and location of oil fields underground, or under the seabed, including the residual cost for oil production, which varies from field to field. It is noted that, in view of the development of new discovery and production methods of shale gas and shale oil fields, technology has also been developed for producing gas and oil from shale.

In addition, the supply of crude oil depends on a very large number of factors, such as the ability to extract crude oil and pump it from the oil fields to ports, the assessments of the fuel producers as to future prices, the ability of the production company to store the fuel produced for long periods of time, international geopolitical events and so forth.

The demand for crude oil is impacted by the demand for petroleum products (see below in Section 1.7.2.2.4) and global refining capacity.

In the long term there may be a downward trend in demand for crude oil due to the trend of minimizing the use of fossil fuels.

During the Reporting Period, the Brent price continued to be characterized by a mixed trend, trading at USD 70 to USD 93 per barrel. For details regarding crude oil prices in the reporting year and the factors which affected the Brent price, see Section B to Chapter 1 to the Report of the Board of Directors.

1.7.2.2.4 Factors and trends that affect the supply and demand of fuel products

The supply of fuel products - aside from the supply of crude oil - is mainly influenced by the global refining capacity (which is approx. 100 million barrels per day), which dictates the global supply ceiling for end products and varies in accordance with changes which occur from time to time in capacities of existing facilities around the world (such as construction of new facilities, closure of refineries, etc.) and due to temporary factors such as malfunctions, refurbishment of facilities, etc.

Demand for refined products is affected, mainly, by the following factors: the rate of growth of the world's largest economies, economic crises and economic prosperity, rises and falls of standards of living, mainly in highly-populated countries, the effect of forestation and developments primarily in developed countries, the price of fuel products, increasing seasonality in cases of extreme weather conditions, improving energy consumption efficiency, alternative energy products coming onto the market (such as natural gas and power not generated using fuel products) and renewable sources.

Furthermore, the demand for transportation fuel products is affected by several global trends aimed at reducing greenhouse gas and pollutant emissions into the environment:

- (a) Transition to vehicles powered by alternative energies - the growing use of vehicles powered by electricity, gas, or hydrogen, as well as improvements in the efficiency of engines, may reduce transportation fuel consumption. This trend expands with the increase in the number of vehicle models powered by alternative energies and with the decrease in the prices of such vehicles. For further details, see Section 1.7.10.2 below. For details regarding the Group's activity in the field of hydrogen fueling, see Section 1.11.2.9 below. As of the report date, the introduction into Israel of private vehicles powered by such alternative energies is relatively slow; however, numbers are rising, particularly those of private EVs.⁷ Furthermore, announcements were made about the intention to restrict the use of vehicles powered by fossil fuels in the future in certain cities across the world. In Israel - government resolutions regarding the development of green and low-carbon transportation were published, according to which, among other things, restrictions will be placed on the importation of private vehicles powered by fossil fuel. In addition, goals have been published for reducing the use of fossil fuels in trucks and buses.
- (b) Regulation and natural gas - environmental regulation and the introduction of natural gas as a substitute in many places has led to a decrease in demand for petroleum products, especially heavy oil products, primarily fuel oil. In Israel, this regulation (that applies to vessels and plants) requires users to consume natural gas or low-sulfur fuels. The Company produces or takes steps to produce some of the required low-sulfur fuels, by utilizing the complexity and flexibility of its refining facilities and adapting the mix of raw material it uses.
- (c) Continuous improvement of the properties of fuel products - the global trend is to improve fuel product properties, such as: reducing sulfur levels and improving combustion qualities, the purpose of which is to burn cleaner materials more efficiently which reduces the burden on the environment in terms of levels of emission of the pollutants generated in the process of combustion of fuel substances. The Company adapts its products mix to supply the required fuels in line with Western standards, which have become stricter over the years. As part of this trend, the Company meets the conditions of the IMO 2020 standard, and is preparing for the revision of the ECA MED fueling standard, according to which, as of May 2025, in the Mediterranean region will be considered a limited emissions area, and the sulfur content in fuel will be limited to 0.1% for tankers, which have not installed a facility to reduce sulfur oxides emissions.

⁷ According to the publications of the Central Bureau of Statistics and the Israel Vehicle Importers Association.

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- (d) Production of fuel substitutes from renewable sources - production of transportation fuel components from renewable (plant) resources, such as used cooking oil, can lower the demand for fuel products for transportation. The production of fuel substitutes from renewable sources is primarily regulated by the European Union, where there is an emphasis on the production of diesel and jet fuel according to quantity targets. The regulatory guideline in the European Union applies to a small quantity in 2025, which will gradually increase by 2050. In the domestic market, there are intentions to apply the European regulation with a delay of three to four years, in order to prepare the economy for the changes. As at the report date, the scope of such operations is negligible. The development of this trend in the future depends, among other things and in addition to the abovementioned, on the prices of the oil products, compared with the alternatives that will be available on the market.
- (e) In accordance with international publications,⁸ despite the expected increase in the use of alternative fuels, the global demand for distillates produced from petroleum is expected to continue to grow in the coming years and to stand in the next decade at an average level similar to the current global demand, due to the increase in the overall demand for fuel products.
- (f) On June 16, 2024, the Ministry of Energy and Infrastructures published a strategic study - in cooperation with strategic consulting firm TASC - on the future of the Israeli fuel economy. The study⁹ focused on assessing the situation of the Israeli fuel sector until 2050, beyond the reduced emissions economy, and formulating operative measures to realize the responsibility of the Fuel and Gas Administration. As part of its main working assumptions, the study assumed that distillate production will be discontinued and be replaced by imports due to Bazan's closure. According to the study, there are several options for the discontinuation of refining by Bazan, from 2029 to 2040.

The study presented a forecast for fuel consumption in Israel until 2050. According to the forecast, in the long term, the consumption of distillates is on the rise – except for gasoline, which is in a significant decline assuming a TASC of e-vehicle penetration at the rate of 100% of new sales in 2037.

The Company regularly reviews the developments in Israel and worldwide of the markets for the products of its operating segments and adapts its capacities to such developments.

⁸ Based on forecasts by S&P Global Commodity Insights (IHS).

⁹ See the following link:
<chrome-extension://cfaidnbmnnnibpceaipcgclclefindmkaj/https://www.gov.il/BlobFolder/reports/fuel-strategy-june-2024/he/fuel-strategy-june-2024.pdf>

The Company's estimates of the effect of future global trends, which aim to reduce emission of greenhouse gases and pollutants, including the transition to e-vehicles or alternative-fuel vehicles, regulatory changes, and production of fuel substitutes, on the supply of crude oil and on the demand for the Company's products, is forward-looking information, as defined by the Securities Law, 1968 (hereinafter - the Securities Law”) and as such they are uncertain and they may not materialize, in whole or in part, or may materialize in a way that is different than expected. These assessments are based, among other things, on various publications on the subject in Israel and worldwide, on regulatory provisions and various trends regarding this subject both in Israel and worldwide, and on third parties’ forecasts as of the date of this report, which may change from time to time, and their materialization is uncertain and is not under the Company’s control. Additionally, these estimates may not materialize or may materialize in part, as the rate of technological development of alternative energy and fuel substitutes and their actual use accelerates or slows down, expansion and tightening of regulation in the sector, growing public awareness of the need to reduce greenhouse gas emissions and greater public and private action in the field.

1.7.2.2.5 Factors and trends that affect supply and demand for aromatics

In this area of activity, the Group manufactures a range of aromatics (as described in Section 1.7.14.2 below), which are raw materials used to manufacture other products, used mainly in the textiles, paint, chemistry and plastics industries. These products include benzene, which is Gadiv’s key product (which is used as a basic chemical in the manufacturing of a broad variety of products used in day-to-day life, such as polystyrene (used, among other things, to produce styrofoam), polycarbonate (used, among other things, for the production of boards for modular prefabricated construction, etc.); paraxylene, which is a key component in the production of polyester; toluene (which is used to prepare insulation or coating foam); solvents (which are mainly used in the paint and polishes industries) and more. Most aromatics are sold abroad, mainly in Europe and the USA.

- 1.7.2.2.6 Most of the aromatic products are commodities, the prices of which are set on a competitive supply and demand market. The activity of emerging markets, led by the Chinese market, has in recent years caused an increase in demand for many products that are used in the production of downstream products, and among them aromatic products. As a result, additional plants, which operate in the field of aromatics, are being set up and are expected to be set up worldwide, mainly in Asia, which, if set up, will add considerable production capacity and affect the supply of products.

The Company's assessments regarding the development of demand and supply of aromatics in the global market in general and the effects of emerging markets in this market in particular is forward-looking information, and as such is uncertain and may not materialize, in whole or in part, or may materialize differently than planned. These estimates are based, among other things, on past experience, on information collected by the Company and on the Company's assessments and estimates, as at the Reporting Date, which may change from time to time, and their materialization is uncertain and is not under the Company’s control. These assessments may not materialize or may materialize partially, if the macroeconomic and geopolitical measures lead to changes in the developments observed in this segment until now, due to changes in the consumption habits of the consumers of aromatics and due to the other risk factors facing the Company, as specified in Section 1.23 below.

1.7.2.2.7 Factors and trends affecting the refining margin and their effect on the refining margin and the operating income

The factors that affect demand and supply for crude oil and fuel products, and refining margins, as reviewed above, give rise to fluctuations and cyclicalities in the refining industry's profitability.

For details about the adjusted refining margins of the refining sector in 2023-2024, the changes that occurred and the main reasons for them and the emerging trends at the beginning of 2025, see Chapter 1, Sections A-B and Chapter 2 to the Report of the Board of Directors.

The Company's refining volume includes refining of crude oil and heavy vacuum diesel processing. A change of one USD in the adjusted refining margin is expected to affect the same refining volume (in USD millions) as the operating profit and the Company's adjusted EBITDA (for example: the effect of USD 10 million relative to a 10 million barrel refining volume). For details regarding the Company's refining volume during the reporting period and the comparative periods, see Section B to Chapter 1 of the Report of the Board of Directors.

1.7.3 Restrictions, legislation and special constraints that apply to this area of activity

For details regarding constraints placed on the Company in this area of activity in terms of competition, environmental risks, essential services, and by virtue of other legal requirements, see Sections 1.17 and 1.18 below.

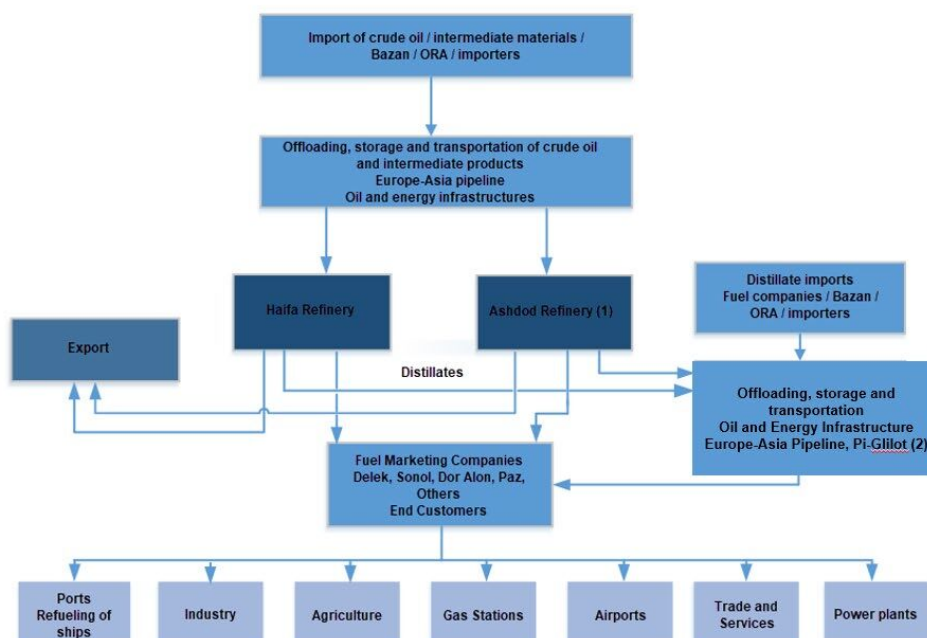
1.7.4 Changes in the segment's volume of activity and profitability in the reporting period

For details regarding changes in the operating segment's volume of activity and profitability, see Chapter 1 Section B to the Report of the Board of Directors.

Market developments in the operating segment or changes customers' characteristics

Domestic market for fuel products

Chart describing the structure of the petroleum sector in Israel:



¹ Until August 2023, the refinery was owned by Paz

² Operated by Gadot Ltd.

It is noted that the above figure describes the structure of the Israeli fuel sector during normal times. During the Iron Swords War, the Company supplied emergency diesel fuel for electricity and distillates production to the IDF both directly or through resellers.

In the Company's opinion, the local refined product market is part of the Mediterranean market to which frequent changes apply according to the changes in international markets. There are two refineries operating in the domestic market, as well as importers. For details regarding the changes in distillate consumption in the domestic market in 2022-2024, see below as well as Section B, Chapter 1 to the Report of the Board of Directors.

The Company has a monopoly with regard to some of the products it sells, under the Economic Competition Law, 1988 (hereinafter - the "**Economic Competition Law**"). For details regarding restrictions applicable to the Company, including in the Refining Segment, see Section 1.18 below.

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Breakdown of the Company's figures ⁽¹⁾ with respect to Israel's domestic consumption of fuel products in 2022-2024 (in thousands of metric tons):

| <u>Year</u> | <u>Transport diesel fuel</u> | <u>Gasoline</u> | <u>Kerosene (jet fuel)</u> | <u>LPG</u> | <u>Bitumen</u> | <u>Fuel oil</u> | <u>Diesel fuel for heating</u> | <u>Petrochemical feedstock</u> | <u>Total</u> |
|-------------|------------------------------|-----------------|----------------------------|------------|----------------|-----------------|--------------------------------|--------------------------------|--------------|
| 2022 | 3,686 | 3,441 | 919 | 606 | 306 | 598 | 105 | 952 | 10,613 |
| 2023 | 3,557 | 3,403 | 941 | 585 | 292 | 537 | 78 | 989 | 10,382 |
| 2024 | 3,366 | 3,440 | 654 | 556 | 289 | 556 | 72 | 981 | 9,914 |

(1) These figures were taken from Ministry of Energy and Infrastructures publications as published from time to time and do not include military use, emergency stock, and the Company's own consumption. Consumption of diesel fuel for transportation includes the use of diesel fuel for electricity generation.

For further details regarding changes in oil prices, see Section 1.7.2.2.3 above, and for further details regarding changes in the refining margin, see Section 1.7.2.2.7 above.

1.7.6 **Technological changes that may have a material effect on the area of activity**

Governments, authorities and various corporations in Israel and abroad invest in the development of alternative energy sources to oil and in mitigating the environmental impact of petroleum products. These changes may affect the Company's activity in this field. In addition, given this global trend, the Company is examining the development of alternative energy sources to oil, including hydrogen, which it produces from natural gas in its dedicated facility; it also invests, from time to time, in a technology aimed to minimize its carbon footprint, and to adapt its products such that they comply with its customers' various regulatory requirements.

1.7.7 **Critical success factors in the area of activity and changes thereto**

The critical success factors in the Refining Segment are: operational flexibility and efficiency and a high level of technological ability, access to capital and funding sources, reputation with customers and suppliers, commercial flexibility in the purchase of raw materials, high-quality employees with unique engineering knowledge, the ability to adapt to the changing regulation in the sector, particularly in environmental aspects, as set out below.

Due to these factors, throughout the years, the Company has employed several methods for ensuring its own position among and differentiation from its competitors, including:

- 1.7.7.1 Developing its reputation as a reliable company, in terms of its commercial relations with suppliers and customers and in the field of product quality and compliance with various standards, while building long-term commercial ties with its suppliers and customers in Israel and abroad.
- 1.7.7.2 Access to capital and various sources of financing needed for ongoing operating as well as for maintaining the flexibility and ability to adapt operations and the product mix to meet the changing market needs.
- 1.7.7.3 Operational flexibility for extended periods that allows for diversity in selecting the mix of products produced and adapting them to consumer preferences and regularly changing regulatory requirements.

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- 1.7.7.4 High-level operating capacities combined with a use of state-of-the-art technology, enabling the Company to use diverse types of crude oil (the Company can use a broad range of varying types of crude oil based on their feasibility), the highly efficient and accessible production of diverse refined product mixes based on market demands and changes, short and long term, in the relevant markets, the production of aromatic products based on exclusive methods for optimal energy utilization that lowers the cost of aromatic products production and adherence to stringent quality requirements. For information concerning the Nelson Complexity Index see Section 1.7.19.6 below.
- 1.7.7.5 Maximum utilization of the synergy between overlapping and complementary operations to increase competitiveness, increase production flexibility to match changes in demand for aromatic products and fuel products (when demand for aromatic products decreases, Gadiv increases the flow of raw materials back to the Company for the production of gasoline and vice versa) and the production of value-added and environmentally friendly products.
- 1.7.7.6 The use of natural gas as an alternative raw material for fuel oil and for replacing the materials used to produce petrochemical products increase the Company's energy consumption efficiency.
- 1.7.7.7 Maintaining maximum commercial flexibility when purchasing raw materials such that it will be possible to exploit the technological capabilities and business opportunities, based on the changes taking place in the various markets.
- 1.7.7.8 Continue building capabilities and implementing principles, policies and best practices in environment, social and corporate governance (ESG) aspects with the aim of complying with international standards - to ensure the Company's business continuity - against the background of multiple changes, which include new reporting regulation in Europe and more thorough reporting obligations for the Company and its customers in the foreseeable future.¹⁰
- 1.7.8 **Changes in suppliers and raw materials for the segment**
For information on changes in the purchase patterns of crude oil and intermediate materials in the Refining Segment, see Section 1.7.20 below.
- 1.7.9 **Principal entry and exit barriers to the Refining Segment, and changes thereto**
In the Company's assessment, the following factors constitute the main entry barriers to the area of activity:
- 1.7.9.1 The need for sizable capital investments, when the scope of the investment is impacted by, among others, the scope of production and requisite production quality.
- 1.7.9.2 The relatively long time required for constructing the facilities of a refinery, and the extensive amount of land required for its construction.

¹⁰ For the latest ESG report published by the Company, see:
https://media.bazan.co.il/bazan/media/qulaufre/esg_2023_bazan_heb.pdf

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- 1.7.9.3 Obtaining the regulatory consents required in order to set up and operate a refinery and facilities for the production of aromatic products, and to comply with the conditions thereof.
- 1.7.9.4 Dependence upon port, transportation and supply infrastructures.
- 1.7.9.5 Vast technological knowledge and experience with regard to crude oil, petroleum and aromatic products, which is a complex and dynamic field that requires considerable skill and expertise.
- 1.7.9.6 Dependence on the supply of raw materials, and with regard to aromatics production, having a refinery located close to the plant, is also an advantage for the Company.
- 1.7.9.7 The need for business and financial robustness, which allows for high construction and maintenance costs, for withstanding the extreme volatility of this market and the relatively long business cycles.
- 1.7.9.8 The ability to make significant investments in order to meet the strict regulations in the area of activity.
- 1.7.9.9 For further details on competition in the Refining Segment and the Company's risk factors, see Sections 1.7.17 and 1.23.3 below.
- 1.7.9.10 As to the exit barriers - the most significant ones are the economic value of the Company's refinery facilities and the Interests Ordinance (see Sections 1.18.8-1.18.9 below), due to the refinery's importance to the State of Israel's energy security
- 1.7.10 **Alternatives for Segment Products and changes therein**
- 1.7.10.1 **Natural gas** - substituting some fuel products with natural gas is a global trend. Natural gas has become a significant source of energy in Israel, which has replaced most of the consumption of fuel oil, and is expected, in the coming years, to also replace most of the consumption of diesel fuel for heating, fuel oil for electricity generation, industrial LPG and certain transportation fuels. The Company is adopting measures for adapting to these changes, whether by using natural gas as a combustion material and as a raw material in its plants, in order to streamline and minimize the Company's production expenses and energy consumption or by modifying its product mix and customer mix to the changing market conditions. For further details concerning the use of natural gas in the Company's plants and the Company's agreements for the purchase of natural gas, see Note 20B to the Consolidated Financial Statements and Section 1.7.20 below.

In addition, the Company may engage in the sale or marketing of natural gas, subject its compliance, as an oil refinery or as a party involved in oil refining, with the conditions prescribed in the Natural Gas Market Law (for further details see Section 1.18.4 below).
- 1.7.10.2 **Vehicles powered by alternative energies** - the widespread introduction of electric powered and hybrid cars, which combine fuel and electric systems, and the introduction of renewable fuel substitutes to the Company's products, such as ethanol, hydrogen and biodiesel that are not produced from crude oil offer an alternative to the fuel products manufactured by the Company. For further details see Section 1.7.2.2.4 above, with special attention to the paper on Energy Economy Objectives for 2030. As part of the Company's strategy, it works to further establish its capabilities in future areas of activity, including green fuels and hydrogen, see Section 1.22 below.

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The information contained in this section relates to the continuing introduction of natural gas and fuel substitutes such as: electricity, hydrogen and renewable sources, the scope of their use and expected restrictions on their use, and the effect of all of these on the Company is forward-looking information, based on the availability and feasibility of types of crude oil for purchase by the Company, the fuel oil and gas-oil market in the regions of the Company's operations outside of Israel and other factors; and on the Company's assessment as to the rate of introduction of components that are not products of crude oil, for use as transportation fuels and the energy sector as a whole, which may change from time to time, and the materialization of which is uncertain and is not under the Company's control. There is no certainty that the Company's assessments as to each of these factors will materialize, and there is no certainty as to the way in which, or the degree to which the Company will handle this, or the costs involved. These assessments may not materialize or may materialize partially, if the macroeconomic and geopolitical measures lead to changes in the prices of raw material and the Company's various products, or in the preference to use fuel alternatives, due to changes in the availability of fuel alternatives or technological delays in introducing these alternatives to the energy industry, changes in consumer tastes, regulatory and tax changes, and due to the other risk factors facing the Company, as specified in Section 1.23 below.

1.7.11 **Competitive structure of the operating segment and changes therein**

For details regarding the competitive structure of the operating segment and changes therein, see Section 1.7.17 below.

1.7.12 **Main products in the operating segment**

A large number of substances can be produced from crude oil. The oil products are usually separated from the crude into a number of groups of substances, each of which includes a substantial number of chemical compounds:

- 1.7.12.1 **Light gases** - for energy and as raw materials for industry.
- 1.7.12.2 **Liquefied petroleum gas (LPG) (a propane and butane mixture)** - used for domestic cooking, as raw material for manufacturing, energy production in general - specifically heating, and for combustion in adapted vehicle engines (automotive LPG).
- 1.7.12.3 **Naphtha** - as a raw material for industry, including products produced by Carmel Olefins – see Section 1.8.12.1 below.
- 1.7.12.4 **Various kinds of gasoline** – for combustion in gasoline engines.
- 1.7.12.5 **Kerosene (jet fuel, oil)** - fuel for jet airplanes, and for heating.
- 1.7.12.6 **Various kinds of diesel fuel** - for combustion in diesel engines, heating for homes and in industry, and as a component of marine fuel.
- 1.7.12.7 **Various kinds of fuel oil** - heavy fuel used in industrial furnaces and in power generation overseas and marine fuel.
- 1.7.12.8 **Waxy substances (HVGO)** – substances which bind at relatively high temperatures, used mostly as feedstock for the HVGO plants.
- 1.7.12.9 **Bitumen** - used for tarring roads and manufacturing sealing products.
- 1.7.12.10 **Aromatic materials** are produced, through Gadiv, from raw materials supplied by the Company as set out in Section 1.7.7.5 above, the main ones being:

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- 1.7.12.10.1 **Benzene** – benzene is used as a basic chemical in the manufacture of a broad variety of products used in day-to-day life, such as polystyrene (used, among other things, for insulation), polycarbonate (used, among other things, for the production of boards for modular prefabricated construction), etc.
- 1.7.12.10.2 **Toluene** – is a component in the manufacture of polyurethane, which is used to prepare foam for insulation or coating, and is common in the vehicle, furniture, construction and other industries. Toluene is also used in the production of paraxylene and benzene.
- 1.7.12.10.3 **Xylene** – is used as a raw material in the production of paraxylene, and as an organic solvent in the paint and insecticide industries.
- 1.7.12.10.4 **Paraxylene** – is an important component in the production of polyester, which is a component used in the clothing industry. It is also used as a raw material in the production of beverage packaging.
- 1.7.12.10.5 **Orthoxylene** – is used as a raw material for the production of phthalic anhydrides.
- 1.7.12.10.6 **Phthalic anhydrides** – used in the production of components for the plastics industry, the production of resins for the paint industry in the production of various polyesters.
- 1.7.12.10.7 **Solvents** - solvents are mainly used in the paint and coating industries. Solvents are also used as a raw material in agriculture, in the area of pesticides, weed killers, etc., and in the ink printing industry, as a raw material in the sanitizing industry and for extracting edible oils.
- 1.7.12.11 In addition to the above, the Company manufactures hydrogen from natural gas in a dedicated facility. Hydrogen is used to power vehicles and for various industrial applications. For further details, see Section 1.11.2.8 below.
- 1.7.12.12 For information about trends and changes in supply and demand for the segment's key products, see Sections 1.7.2.2.4, 1.7.2.2.5 and 1.7.10 above.
- 1.7.13 **Breakdown of revenues from products**

For information regarding the distribution of the Company's revenues from external customers by its principal product groups in the Refining Segment, which constitute 10% or more of the Group's total revenues, see Note 28C to the Consolidated Financial Statements.

Since the Company's production is a continuous process in which all of the products are manufactured from raw materials in joint processes that cannot be allocated based on the end products, it is not possible to allocate costs according to classes of products.

In this segment, the Company derives additional revenues (mainly from providing infrastructure services),¹¹ in amounts that are not material to the Company.

¹¹ Regarding this matter, see Section 1.18.1 below.

1.7.14 **Customers**

The Company has two main domestic customers who generate more than 10% of the Company's income from the Refining Segment. The engagement with the abovementioned customers is for short periods of up to one year under which the sold quantities are agreed in advance and a price formula (mainly agreements for the sale of diesel fuel and gasoline) and as specified below. For details regarding the Company's revenues from these customers, see Note 28C3 to the Consolidated Financial Statements. The Company is not dependent on any of its customers.

1.7.14.1 **Fuel products:**

The refined products produced by the Company for domestic use are sold mainly to fuel and gas marketing companies registered with the Fuel Administration or licensed as gas supply licenses by the Ministry of Energy. A substantial number of these customers have been with the Company for decades. The Company has long standing contracts with various customers (mainly annual, often monthly, or for other periods, based on the understandings with the customers). With regard to the Company's marketing of fuel, the agreements set out the quantities and price formulas of the various fuel products that the customers intend to purchase from the Company during the course of the year, and that the Company intends to sell to them in the same year. Under these agreements, the customers are given certain flexibility regarding the volumes that they will purchase. Prior to the beginning of every month, the customers order the fuel products that they will undertake to purchase during that month, and this volume is sold to them during the month, in accordance with the provision of the specific agreements.

For details regarding the price of the products sold on the domestic market, see Sections 1.18.1 and 1.18.2 below.

In 2024, sales in Israel constitute approx. 74% of total sales in the segment, together with intra-group sales. The rest of the sales (26%) are to various customers worldwide (primarily in the Mediterranean). Export sales are partially made in spot contracts between the Company and foreign fuel companies or global commerce companies, and partially on the basis of one-year contracts or contracts for a different period, according to negotiations with the customer. Some of these customers have been with the Company for decades. Export prices of the Company's products on global markets, whether based on spot purchases or under such contracts, are set according to a price formula which is based on market prices immediately prior to delivery of the products. During the Reporting Period, the Company's key export products were diesel fuel and fuel oil. Since the introduction of natural gas into the domestic market, the domestic market demand for fuel oil has diminished to minor volumes, and it is exported mainly to the Mediterranean countries.

The Company has ties and access to markets, such as: Cyprus, Greece and the Black Sea region, which import transportation fuels.

On May 3, 2024, the Company learned from media reports and from conversations with Turkish customers, suppliers and agents, that the Turkish Ministry of Trade published an announcement whereby trade between Turkey in Israel will be suspended immediately (hereinafter in this section - the "**Announcement**"). As stated above, prior to the announcement, the Group has had trade activity involving various parties in Turkey, both as part of exports activities and as part of import activities. For further details, see the immediate report dated May 4, 2024 (Ref. No. 2024-01-046884), which is included herein by way of reference. The Group has prepared for the operational consequences of the announcement and - alongside finding solutions for importing raw materials from Turkey - started to market and export those of its products, which were previously sold to Turkey, to other markets such that the aforesaid does not have a material effects on its 2024 financial results.

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For details regarding the Group's revenues from the segment's customers, by geography, see Note 28C2 to the Consolidated Financial Statements.

1.7.14.2 Aromatics:

As at the report date, most sales of aromatic products were executed by Gadiv - approx. 96% in 2024 (similarly to 2023), are to customers overseas, mainly in Europe and the US.

Due to the properties of the aromatic products, the primary customers for these products are manufacturers in the textile, pain, chemicals and plastics industries. The textile and plastics industries are growing rapidly in Asia (coinciding with new paraxylene manufacturers in this region). Furthermore, during certain periods, surplus supply of benzene and paraxylene has been noted in Europe.

As aromatic products are used as raw materials in the production of other products and are supplied mainly to industrial companies, Gadiv's customers consider the regular supply and Gadiv's reliability for supplying its products to be highly important. As a result, this is a relatively conservative industry which prefers to act in long-term cooperation with its various suppliers, such as Gadiv.

Consequently, Gadiv is in annual contracts with most of its customers, most of which are renewed annually.

1.7.14.3 The breakdown of this segment's revenues from sales to the domestic market and for export changes from time to time based on the Company's analysis of its optimal mode of operation with regard to the mix of products it manufactures and marketing goals and based on the prevailing conditions in the various markets.

1.7.14.4 The following are details of the Company's Refining Segment's product sales in the domestic market and for exports, according to quantities sold (in thousands of metric tons): For further details regarding the decrease in sales in the reporting year, see Sections B and C to Chapter 2 to the Report of the Board of Directors.

| | 2024 | | 2023 | | 2022 | |
|---------------------------------|--------------|-------------|--------------|-------------|---------------|-------------|
| | Ktons | % | Ktons | % | Ktons | % |
| Domestic market | 5,474 | 70% | 6,517 | 67% | 6,572 | 63% |
| Sales in other countries | 2,335 | 30% | 3,249 | 33% | 3,931 | 37% |
| Total | 7,809 | 100% | 9,766 | 100% | 10,503 | 100% |

1.7.14.5 The product mix obtained from each barrel of crude oil depends on the nature of the crude oil and the configuration of the facilities available to the Company and is subject to some flexibility given these factors. For determining its production mix, the Company takes into account, first and foremost, the domestic market needs and balances these needs by exporting products, especially those for which there is insufficient demand on the domestic market.

1.7.14.6 For further details regarding the Company's revenues from its key customers in the Refining Segment (customers which account for 10% or more of the Group's sales turnover) as well as revenues by territory and credit risk, see Notes 28C and 29B to the Consolidated Financial Statements, respectively.

1.7.14.7 The Company has binding agreements with certain customers. In addition, the Company and Gadiv have agreements with a financing syndicate for the non-recourse sale of some trade receivables. For information, see Note 16B to the consolidated financial statements.

1.7.14.8 For a breakdown of sales for the Refining Segment by geographic region out of Carmel Olefins' total revenues, see Note 28C2 to the Consolidated Financial Statements.

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1.7.15 **Marketing and distribution**

1.7.15.1 **Marketing and distribution in Israel**

The sale of the segment's fuel products in Israel is affected primarily at the Company's gate, with the fuel and gas marketing companies "extracting" the products from pipelines belonging to companies that provide infrastructure services in the fuel industry, or by road tankers from the Company's supply depot, and they resell the fuel products wholesale for industry and transportation, and retail to the public at large, mainly via gas stations located around the country. A minor part of the aromatic products sold by the Company are sold in Israel. It is noted that, to the best of the Company's knowledge, Gadiv is the only Israeli manufacturer of these products and their main supplier.

1.7.15.2 **International marketing and distribution**

Most marketing and distribution of the foreign activity's fuel products is carried out in the Mediterranean Basin and the Black Sea region to save on shipping costs. The majority of Gadiv's sales are abroad and the aromatic products are marketed and distributed in the Mediterranean Basin, Europe, North America and South America.

The Company has a reputation for the quality of its products and their compliance with the requirements of the customers. In general, the Company's marketing expenses for segment products are immaterial.

The Company markets and distributes its products through its employees at the Company's head office in Haifa Bay and Gadiv sells aromatic products outside Israel through agents and distributors abroad according to sales areas. Gadiv is not dependent on these marketing channels and the commissions paid to agents is at generally accepted rates.

Transportation costs for the Company's products earmarked for export have a material impact on the profitability of sales. Therefore, the Company has an advantage in supplying fuel products to customers in the Mediterranean Basin. Gadiv operates in accordance with market opportunities while maximizing the contribution, including in respect to freight costs.

For the purpose of its operations overseas, the Company leases tankers for maritime shipping of refined products (and crude oil), under long-term leases. Gadiv also sells its products to end customers in ISO-tanks, containers, and supplies them from containers that Gadiv leases in various places, close to the customers. For further details on leasing petroleum and crude oil products transportation tankers, see Section 1.9 below.

For details regarding the dependence of the Group's activity on infrastructure companies, see Sections 1.7.20.10, 1.7.20.12, 1.7.20.13 and 1.23.3.7 below.

1.7.16 **Order backlog**

Generally, the order backlog in the segment arises mainly from agreements in the domestic market for short periods of up to one year, under which the sold quantities are agreed in advance (mainly agreements for the sale of diesel fuel and gasoline). The order backlog in this segment as at December 31, 2024 from customers of the Company and Gadiv in Israel and abroad amounted to a total volume of approx. 5.8 million tons and an amount of approx. USD 4,123 million (which reflects the product prices quote known immediately prior to the date to which the order backlog refers) compared with approx. 6 million tons and approx. USD 4,907 million as at December 31, 2023. In 2025, most of the order backlog is expected to be spread evenly throughout the year. The decrease in the order backlog as of December 31, 2024, compared with December 31, 2023, is mainly due to a decrease in the quoted distillate prices as of the order backlog dates. Immediately prior to the report approval date, the order backlog stands at approx. 4.8 million tons and a total of approx. USD 3,543 million (which reflects the product prices known quote immediately prior to the date to which the order backlog refers); the decrease in the order backlog compared to December 31, 2024 is mainly due to a decrease in quantities over time.

The rest of the Company's sales in Israel are based on monthly orders, which are supplied in the month following the month the order is placed. Foreign sales are carried out based spot sales agreements and are supplied within a short period of time after the date of contracting.

The scope and timing of the order backlog may change, inter alia, in the event of a material change in customer orders and/or the ability of the Company or Gadiv to supply the orders and/or in macroeconomic figures and/or other factors that the Company and Gadiv have no control over and that are unknown to them at the Reporting Date.

The forgoing with regard the order backlog, the uniform spreading of orders over 2025 and the scope of monthly and spot sales is forward-looking information as defined by the Securities Law, based primarily on the companies' experience in previous years as well as actual orders. The factors affecting the companies are detailed above; consequently, there is no uncertainty regarding the breakdown of actual orders during 2025 and the scope of monthly and spot orders during the year.

1.7.17 **Competition**

- 1.7.17.1 There are two refineries operating in Israel which compete against each other, the Company and Oil Refinery Ashdod, as well as global companies that offer fuel products, primarily to the large and mid-size fuel marketing companies and to large-scale consumers.

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- 1.7.17.2 Oil Refinery Ashdod is located in Ashdod (near the country's large demand areas), and according to its reports,¹² its refinery has a nominal refining capacity of approx. 5.4 million tons of crude oil per year, its refining activity includes importing and exporting crude oil and crude oil products, refining oil and selling its products to the local market and for export, electricity generation and sale activity and fuels storage and supply services. Until the listing of the shares on the TASE (as a company without a controlling core) on August 28, 2023, ORA was owned by Paz. At the spin off completion date of ORA's split from Paz, and as part thereof, an oil and distillate agreement was signed, according to which Paz will continue to purchase most of its fuel from Oil Refinery Ashdod until the end of 2025.¹³ These changes in ORA could increase competition in Israel for the products of this operating segment that are also sold by ORA.
- 1.7.17.3 The Company estimates that, over time, the competition reflects the terms on the global market for oil products in the Mediterranean Basin. The Company is of the opinion, based on public information published by the Fuel Authority, that the Company's share of the domestic market in this operating segment (diesel fuel, gasoline, jet fuel, fuel oil, marine fuels, Bitumen and LPG) for 2024 was approx. 67% compared to approx. 65% in 2023 in the domestic market.¹⁴
- 1.7.17.4 The fuel storage and supply depots located in the areas of demand (Ashdod and Ashkelon), that enable, in addition to the fuel products produced by ORA, the import of fuel products and their distribution throughout the center and south of the country, as well as the cost of using the fuel industry infrastructures, may have an adverse impact on the Company's ability to compete in those areas. It is noted that the Company's customers and others have the option of using those depots to import gasoline.
- 1.7.17.5 The peace agreements signed by the State of Israel with a number of Gulf states as from 2020 have created new opportunities for the Group in this operating segment, as well as risks of increased competition in the operating segment as a result of foreign players from these countries entering the domestic market.
- 1.7.17.6 The cost of supply to the center and southern Israel increased. The infrastructure costs affect the Company's ability to compete in distant areas from its refinery, and an increase in these costs could adversely affect this ability. Especially since its main competitor - Oil Refinery Ashdod - has fuel storage and distribution facilities in the Ashdod area. In this context, it should be noted that, according to the Control of Prices of Products and Services Ordinance (Fuel Economy Infrastructure Tariffs), 2014, published subsequent to the report date, the infrastructure activities paid by the Company will become more expensive. For further details, see Section 1.18.1 below.
- 1.7.17.7 The Company's operations in Israel and overseas take place under conditions of international competition. Most of the competition in the field of refining operations focuses on maintaining the quality of these products over time, adaptation of the products to comply with changing standards, ability to adapt and respond to changes and trends in the operating markets and the upholding a high level of reliability with regard to complying with dates of supply and payment practices to suppliers. Unlike the Company's share of the domestic market, the Company's share in the international market is minor.

¹² The data regarding ORA are based on information presented in ORA's 2023 Annual Report published on March 21, 2024 (Ref. No.: 2024-01-029958) (hereinafter - the "ORA's 2023 Annual Report").

¹³ For details, see Section 3.31.17.2 to ORA's 2023 Annual Report.

¹⁴ For data regarding the size of the entire market, see Section 1.7.5 above and Chapter 1, Section B, to the Report of the Board of Directors.

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- 1.7.17.8 Gadiv operates in a highly competitive market, and competes with international manufacturers such as: Exxon, Mobil, BP, Repsol, Cepsa and Petkim. Gadiv is a small player in the international market of aromatic product manufacturers, and so are most of its competitors in its main operating segment (in countries in the Mediterranean Basin and Western Europe). However, in the Mediterranean Basin, Gadiv is a significant player both as a manufacturer of aromatic products and as an active player in commercial operations. The Company estimates that Gadiv's share in aromatic products segment in the Mediterranean Basin is estimated at approx. 6% of the market (approx. 7 in 2023); the decrease compared to last year is the result of the discontinued sales to Turkey.
- 1.7.17.9 Gadiv is the only aromatic products manufacturer in Israel, to the best of the Company's knowledge, and has been declared a monopoly pursuant to the Economic Competition Law in Benzene, Toluene and Xylene. As set out in Section 1.7.14.2 above, most of Gadiv's sales are to customers overseas.

The Company's assessments regarding competition and its effect on the Company's areas of operation, as specified in this Section 1.7.17 above, is forward-looking information as defined by the Securities Law, and as such is uncertain and may not materialize, in whole or in part, or may materialize differently than expected. These assessments are based, among other things, on publications on the subject in Israel and worldwide, including information published by the Fuel Administration and the Company's competitors, on the Company's past experience in dealing with local and regional competition and on the Company's assessments and estimates, as at the Reporting Date, which may change from time to time, and their materialization is uncertain and is beyond the Company's control. These assessments may not materialize or may materialize in part, inter alia, in the event of a material change in other geopolitical and/or macroeconomic and/or factual data, difficulties in implementation of the intentions and plans of the Company's competitors, entry of competitors into the aromatics sector, and due to the other risk factors to which the Company is exposed, as outlined in Section 1.23 below.

1.7.18 **Seasonality**

The Company manufactures oil products based on standards that change according to season. The standards are intended to ensure that the quality of the products complies with changing environmental conditions, in accordance with seasonal climates.

In addition, there are seasonal fluctuations in consumption of the Company's products which affect the relative prices of the various products. Consequently, in the winter months the relative prices of fuel products used for heating (such as diesel fuel) usually increase, and in the summer months the relative prices of transportation fuels (such as gasoline) usually increase.

The abovementioned seasonal effect is relatively small compared to the effect of other factors (such as the condition of the facilities, the Company's general refining capacity, and the viability of refining and competing imports) on the scope of product sales by the Company and on its product mix.

1.7.19 **Production capacity**

- 1.7.19.1 The plant facilities include, among other things, initial distillation units (crude refining), catalytic cracking units and catalytic reformer units (for refining and finishing fuel products), other production units (for production of isomert, which is used as one of the components of gasoline), and facilities for treatment of sulfur.

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- 1.7.19.2 The production capacity of the companies at Reporting Date, is distillation of crude oil (carried out in the crude distillation facilities) of approx. 197 thousand barrels of crude per day (approx. 9.8 million tons per year) and approx. 3.2 thousand tons per day of feedstock to the Aromatics facilities. Refining capacity is measured in barrels of crude oil per day which a refinery can process in its refining facilities. The actual refining volume and the type of crude oil that is processed are determined by overall optimization and based on the Company's needs. For further details regarding the breakdown of the Refining Segment's output by main product groups, see Chapter 1, Section B of the Report of the Board of Director.
- 1.7.19.3 Continuity of the facilities' activity - The Group's production facilities work continuously 24/7, 365 days a year, some of which were built many years ago, operate non-stop, under continuous physical and chemical conditions, and are therefore exposed, from time to time and in the ordinary course of business, to operational incidents and malfunctions that may result in the shutdown of the relevant facility and the shutdown of other production facilities operating in conjunction with or near the facility in which the malfunction occurred. Suspension the operation of the Group's facilities, to repair malfunctions or for maintenance, upgrading, and overhauling (as described below) may affect the continuous operation of its facilities, their effective utilization, and accordingly, also the results of the Group's operations (for further information about this risk factor, see Section 1.23.3.8 below). However, the Group Companies manage these events in an informative manner, with the aim of minimizing their consequences, and makes preparations to include them as part of its daily routine. This includes planned shutdowns of the Group's facilities for preventive maintenance and enhancement of systems, to minimize damage and to ensure proper management, and the Company is also ready to handle various incidents and malfunctions, both through adoption of procedures for effective handling - including investments in early detection of malfunctions, and through work plans which include, as a working assumption, possible shutdown of the Group's facilities due to unexpected incidents and malfunctions.
- 1.7.19.4 Preventive maintenance - Generally, each of the main facilities in the compound is shut down once every four to six years for periodic maintenance (refurbishment) that generally takes between approx. 35 and approx. 60 days. The period varies on the facility and the volume and intensity of work required. During periodic maintenance, the facilities are serviced and renovated with the aim of ensuring that they continue to operate with optimal safety and availability until the following periodic maintenance.
- Prior to performing the periodic maintenance, the Group's companies make logistics, commercial and financial preparations, including contracting with suppliers and contractors, to produce everything required for replacement or upgrade during the maintenance and for performance of the actual maintenance works; the raw material purchasing mix, production plan and sales commitments are adjusted based on expected changes due to the periodic maintenance; and if necessary, an inventory of products is manufactured in advance for the periodic maintenance period to allow orders to customers to be supplied in this period.
- The dates of the periodic maintenance were set to combine periodic maintenance of facilities that feed each other, if possible, so as to minimize the effect of the shutdown of the facilities on the Group's operating results.
- 1.7.19.5 In addition to the plans for ongoing maintenance and periodic maintenance work of the Company's facilities, the Company acts to upgrade, improve and expand its facilities in accordance with plans approved from time to time; this is done in order to meet market requirements which change in accordance with technology, and to enable the production of products that comply with strict quality requirements (such as deployment of emission reduction

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systems). For details regarding the master plan applicable to the Bazan complex and the planning restrictions thereunder, see Section 1.10.8 below.

1.7.19.6 For details regarding the rate of utilization of the crude oil facilities in 2023 and 2024, and the factors impacting it, see Section B in Chapter 1 to the Report of the Board of Directors. The refinery's capacity to produce refined products with a high added value using complex distillation facilities is measured according to the Nelson Complexity Index distillation (hereinafter - the "**Nelson Index**") which, for refineries in the Mediterranean Basin, fluctuates between 5 and 10 (excluding the Aromatics facilities). The higher the index result, the more the refinery is capable of producing products of higher added value and/or of refining types of crude oil of lower quality. The Company's refinery index (including aromatic facilities) is 11.1 on the Nelson Index (compared to 9.1 on the Nelson Index, excluding the aromatics facilities).

1.7.19.7 Breakdown of production capacities of the major refining facilities listed in Section 1.10.1 below:

| | | <u>Production capacity</u> (barrels per day) | <u>Year of establishment</u> | <u>Date of last upgrade</u> | <u>Date of last maintenance</u> |
|---|--|---|-------------------------------------|------------------------------------|--|
| Crude refining facilities (including vacuum): | | | | | |
| Crude Refining Plant 1 | | 27,000 | 1939 | 1995 | 2019 |
| Crude Refining Plant 3 | | 57,000 | 1944 | 1979 | 2025 |
| Crude Refining Plant 4 | | 113,000 | 1985 | 2009 | 2024 |
| Total refining capacity | | 197,000 | - | - | - |
| Visbreaking facilities (3/4) | | 43,500 | 1944/1945 | 1982 | 2018/2024 |
| Fluid catalytic cracking (FCC) facility | | 25,500 | 1979 | 2005 | 2022 |
| Mild hydrocracker (MHC) ⁽¹⁾ | | 31,000 | 1964 | 2009 | 2022 |
| Continuous catalytic reformer (CCR) | | 33,000 | 1995 | 2017 | 2017 |
| Isomerization facility | | 12,000 | 2006 | N/A | 2017 |
| Hydrocracker (HCU) | | 36,000 | 2012 | N/A | 2025 |
| Hydrogen production facility ⁽²⁾ | | 120 | 2012 | N/A | 2025 |
| Desulfurization facilities: | | | | | |
| Naphtha | | 40,000 | 1995 | N/A | 2017 |
| Kerosene ⁽³⁾ | | 16,500 | 1962 | 2007 | 2022 |
| Diesel fuel | | 72,000 | 2002 | N/A | 2024 |
| FCC gasoline | | 15,500 | 1962 | 2002 | 2022 |
| Aromatics facilities | | | | | |
| | | 3,200 ⁽⁴⁾ | 1977 | 2010 | 2017 |

(1) Established as a diesel fuel desulfurization facility, it was converted to a mild hydrocracker.

(2) Tons of hydrogen per day.

(3) Established as a naphtha desulfurization facility, it was converted to serve as a kerosene hydrosulfurization unit (HDS).

(4) Gadiv has annual processing capacity of approx. 1,100,000 tons reformate¹⁵ and approx. 100,000 tons dripolene¹⁶ (aromatic byproduct produced at Carmel Olefins).

¹⁵ A high-octane material produced in the Company's catalytic reformer (CCR), which contains high concentrations of aromatic substances.

¹⁶ A by-product in the naphtha cracking process at Carmel Olefins plants, that contains a high concentration of benzene.

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- 1.7.19.8 A periodic maintenance work was scheduled in CDU 4 and ancillary facilities for the fourth quarter of 2023; however, following the Iron Swords War and the directive issued to the Company by the Minister of Energy and Infrastructures, whereby it is required to operate its facilities continuously, it had to postpone the periodic maintenance work. For further details, see the immediate reports dated October 15, 2023 and November 19, 2023 (Ref. Nos. 2023-01-115680 and 2023-01-104779), which are included herein by way of reference. The said periodic maintenance work took place in the reporting year and its direct cost (before capitalization of payroll and other costs) totaled approx. USD 95 million, and it includes excess costs in respect of the abovementioned deferral. Subsequent to the Reporting Period, during the first quarter of 2025, periodic maintenance work was carried out in the hydrocracker and hydrogen production (HCU) facilities, CDU 3 and ancillary facilities, and its direct cost is estimated at approx. USD 80-90 million. During 2026, the Company plans to carry out periodic maintenance work in its continuous catalytic reformer (CCR) facilities, isomerization facilities, aromatics facilities and ancillary facilities, with a direct cost estimated at USD 80-90 million. During 2026-2027, the Company plans to carry out periodic maintenance work in CDU 1, at a total cost that is immaterial. In addition, during 2027-2028, the Company plans to carry out periodic maintenance work in a cracker facility (FCC), and in all of Carmel Olefins' facilities.

The information presented above regarding the Company's decisions to carry out scheduled periodic maintenance work in the Company's facilities and their cost constitute forward-looking information as defined by the Securities Law, and as such is uncertain and may not materialize, in whole or in part, or may materialize differently than expected. This information is based on the Company's current plans, which may not materialize, may materialize in part or in a manner which is materially different than expected, as a result of factors which are beyond the Company's control, including changes in costs, required regulatory approvals, availability of contractors, as well as the high level of uncertainty still prevalent as to the protraction of the Iron Swords War and its byproducts and its effect on the functioning of the Israeli economy and home front, including the Company's activity, directives the Company will receive as a result of the above and/or as a result of the possibility that the Israeli economy will enter a prolonged state of emergency and/or as a result of the Company and its activity adapting to the state of war, as well as due to the other risk factors to which the Company is exposed, as stated in Section 1.23 below.

- 1.7.19.9 The Company has a cogeneration power plant with upgraded power generating capacity of approx. 40 MW and approx. 350 tons/hour of steam. The electricity and steam produced at the station are used for the purpose of operating the Company's plant and are in part sold to other companies in the Haifa Bay. As from July 2013, the Company purchases the remaining power it requires for the Group's Bazan site plants from OPC Rotem Ltd. (hereinafter - "**OPC**"), in accordance with an agreement signed between the Company and OPC in 2011 and renewed and amended on May 23, 2023 for a further ten-year period as from July 2023. In accordance with the agreement, the price of electricity reflects a discount off the supervised price of electricity set by the Israeli Electricity Authority. For details regarding the agreement with OPC, see Note 27E to the Consolidated Financial Statements and an immediate report published by the Company on May 24, 2023 (Ref. No.: 2023-01-047446), included herein by way of reference.

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1.7.20 **Raw materials and suppliers**

- 1.7.20.1 The Company's raw materials are crude oil, and the intermediate materials produced in the processes of separating out crude oil, and which are intended for processing in downstream facilities (primarily heavy vacuum diesel - HVGO and straight run atmospheric residue). Around the world, a wide variety of types of crude oil is traded, each of which is different from the others with regard to qualities. As said, the market for crude oil and its products is a commodities market. This market is a sophisticated one, which is characterized by a very high level of trading, including derivatives and futures contracts on the commodities exchange or with large international bodies.
- 1.7.20.2 Moreover, there are crude oil suppliers and trading companies which do not sell crude oil to Israeli companies, which to an extent limits the possibilities for the Company to contract with crude oil suppliers and even causes an increase in the Company's transportation expenses. Likewise, the availability of tankers to transport crude oil to Israeli ports is limited and a number of international shipping companies do not contract with the Company, which causes additional costs. For information regarding tankers that the Company leases, see Section 1.9 below.
- 1.7.20.3 The Company purchases crude oil and intermediate materials for the production of the products it plans to sell to its customers, in quantities and of types based on its order backlog and the Company's estimate of additional quantities it expects to sell, taking into consideration, inter alia, the expected timing of receipt thereof and processing; the storage options available to the Company; market conditions and other factors.
- 1.7.20.4 The Company purchases crude oil and intermediate materials to produce end products from various suppliers worldwide mainly international and national trading companies, and refineries and other companies that specialize in trading of oil and its products, with which the Company may have commercial ties over many years. Part of the Company's purchases are under agreements for a period of one or a few years (hereinafter - "**Periodic Purchase**"). These agreements fix the volumes that the Company will purchase over the term of the agreement, with certain flexibility regarding such volumes. If price formulas are set in an agreement, they are based on prices that are derived from the market price close to date of delivery. Furthermore, the Periodic Purchase agreements may contain a mechanism for deciding the type of crude that will be purchased and its price, during the term of the agreement. In the event that the Company does not utilize part of the quantities it undertook to purchase in the period, it can easily sell these quantities on the global oil market, which as aforesaid is a sophisticated market with very high tradability. It is clarified that such a sale may require price adjustments which are not expected to be material to the Company. In 2023 and 2024, most purchases were on the basis of spot transactions, and the Company estimates that this trend is expected to continue in 2025. In 2023-2024, the Company purchased approx. 30% of its crude oil and intermediate materials under periodic purchase agreements. In the Reporting Year, the Company continued engaging in agreements mainly with suppliers of crude oil allowing it to obtain credit for 60 days (and, in some cases, up to approx. 90 days), enabling the Company flexibility in managing the working capital needed for its operations. For further details, see Note 15A to the consolidated financial statements.

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- 1.7.20.5 In the Reporting Period, the Company sourced crude oil (and other raw materials) from a range of sources that change from time to time, in accordance with the economic viability of buying each type of crude oil. In this context, it is noted that in the Report Year, the Company was engaged in a crude oil inventory availability agreement; for further details regarding the agreement, see Notes 20B4, 23 and 29D3B to the Consolidated Financial Statements. For details regarding the crude oil inventory availability agreement entered into by the Company subsequent to the report date, see Note 20B4, as well as an immediate report published by the Company on March 11, 2025 (Ref.: 2025-01-016286), included herein by way of reference.
- 1.7.20.6 The Company purchases heavy vacuum gas oil (HVGO) on an ongoing basis; HVGO is used as feedstock for some of the Company's downstream facilities. Most of the HVGO in the global market is manufactured in refineries located in Russia. In 2024, and with respect to 2025, the Company signed agreements to purchase most of its HVGO from non-Russian parties; however, this HVGO is still manufactured in Russian refineries. The remaining HVGO quantities, which are required for the Company, are purchased during the year through spot transactions. Furthermore, from time to time the Company purchases atmospheric residue (straight run), which is used as a substitute for certain types of crude oil in the refining process. Most of the atmospheric residue in the Mediterranean Basin, which is relevant to the Company, originates in Russian refineries. The Company does not have long-term agreements to purchase atmospheric residue, and it purchases it on an as-needed basis, in accordance with the purchase's economic merits, and only as part of spot transactions. Trade in products from a Russian source is according to sanctions that are updated from time to time. As of the reporting period and based on external legal advice, trade in these products from Russian sources under the sanctions, is permitted to destination countries which do not belong to the price cap coalition, which has set price caps for providing services for Russian oil and oil products (hereinafter - the **"Price Cap Coalition"**); and if the price is lower than the relevant price cap for each product, it can also be transported and insured, and have additional services provided for that product, through entities from the Price Cap Coalition, mainly the US, Europe and G7 countries. For further details regarding the potential effects of the imposition of sanctions on Russia on the purchase of feedstock from Russian sources, see Note 1C to the Consolidated Financial Statements.
- 1.7.20.7 During the Reporting Period, condensate constituting approx. 0.6% of the volume of refined crude oil was pumped to the Company; for further details, including regarding Leviathan Reservoir's notice on the cessation of condensate pumping from the Leviathan Reservoir to the Company following Leviathan Reservoir Partnership's entering into an agreement for the sale of condensate with ORA, see Note 20B2 to the Consolidated Financial Statements.
- 1.7.20.8 Breakdown of percentage of raw materials purchased by the Company from its three largest suppliers: In 2024 - approx. 36%, approx. 14% and approx. 9% and in 2023 - approx. 29%, approx. 22% and approx. 8%. In the Company's assessment, it is not dependent upon suppliers of crude oil.
- 1.7.20.9 Gadiv's operations are synergistic with those of the Company, which is the only supplier of Gadiv's raw materials. Therefore, Gadiv and the Company are co-dependent. The raw materials required to manufacture Gadiv's products are supplied to it by the Company under a raw materials processing and purchase agreement.

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1.7.20.10 Petroleum and Energy Infrastructures, which provides the Company with services for unloading crude oil, storage and delivery services to the refinery, storage of fuel products, and port infrastructure for unloading intermediate materials and for loading products for export, as well as domestic infrastructure for the transportation of fuel products. The prices that Energy Infrastructures charges for its services is supervised under the Supervision of Prices Ordinance, which sets a fixed price for these services. In the Company's assessment, should Energy Infrastructures cease providing services to the Company, the Company's operations may be materially adversely affected. In the Company's assessment, the possibility that Energy Infrastructures will willingly cease to provide services to the Company, under circumstances other than a malfunction or a regulatory order, etc., is unreasonable, due to, among other things, the fact that Energy Infrastructures is a government company and in light of its being a monopoly in the services that it provides, and taking into account Energy Infrastructures' dependence upon the Company as its primary customer. Nonetheless, some of Energy Infrastructures' facilities through which the Company receives infrastructure services are outdated and the level of service provided through them is limited. For further details regarding the risk to the Company due to dependence on infrastructure companies, see Section 1.23.3.7 below.

1.7.20.11 On June 25, 2024, as part of a proceeding to which Energy Infrastructures is a party and which was conducted in the Haifa Local Affairs Court, a decision was made to the effect that in the absence of a building permit, within six months from the date of the decision Energy Infrastructures is required to discontinue the operation of the main tankers in the Kiryat Haim tanks farm and several other buildings within nine months from the decision date (as stated above, Energy Infrastructures uses the containers and buildings to provide services the Company for the importation, storage and piping of crude oil). On August 18, 2024, Energy Infrastructures delivered a notice to the Company, according to which a settlement procedure was conducted and completed, as part of which Energy Infrastructures and the Haifa Municipality reached an agreed and approved memorandum of understanding, according to which Energy Infrastructures acts (hereinafter in this subsection - the "**Outline**"); accordingly, Energy Infrastructures is of the opinion that the Outline allows for the continued use of the tanks and the required buildings in the Kiryat Haim tanks farm, such that the provision of all the services rendered to the Company by Energy Infrastructures will continue as usual. Based on Energy Infrastructures' notice, the Company is of the opinion that it is not expected that it will be impacted to a material extent, if at all, as a result of the abovementioned resolution of the Local Affairs Court.

The above statement regarding the effect on the Company constitutes forward-looking information, as defined by the Securities Law; it is based on the notice and assessment of Energy Infrastructures, which owns the tanks farm and provides the storage services to the Company. This assessment may not materialize in whole or in part or materialize in a manner different than expected, if Energy Infrastructures' assessment as to the implementation of the Outline will not materialize in the manner Energy Infrastructures believes it will materialize.

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- 1.7.20.12 The Company is operationally dependent upon EAPC, which provides the Company with: crude oil unloading and storage services at its facilities at Ashkelon and Eilat, transportation services for crude oil, via the pipeline infrastructure that belongs to EAPC. The tariffs and conditions for the services provided by EAPC to the Company, are prescribed from time to time by negotiations between the parties. In the Company's assessment, should EAPC cease providing services to the Company, the Company's operations may be materially adversely affected. In the Company's assessment, the possibility that EAPC will willingly cease to provide services as aforesaid, under circumstances other than a malfunction or regulatory order, etc., is unreasonable, due to, among other things, the fact that EAPC is a government company and in light of its being a monopoly in the services that it provides, and taking into account EAPC's dependence upon the Company as its primary customer. For further details regarding the risk to the Company due to dependence on infrastructure companies, see Section 1.23.3.7 below.
- 1.7.20.13 The companies' facilities are connected to the national natural gas transmission system. As at the report publication date, the Company consumes the entire quantity of natural gas that it needs. For the supply of natural gas, the Company is dependent on Israel Natural Gas Lines Ltd. (hereinafter - "INGL") with which it has engaged in an agreement, as stated in Note 20B1 to the Consolidated Financial Statements. Should INGL cease to provide services to the Company, the Company's operations may be materially adversely affected as shall be the supply of LPG to the Israeli market. For further details regarding the risk to the Company due to dependence on infrastructure companies, see Section 1.23.3.7 below, and for details regarding the risks involved in interruption to the supply of natural gas to the Company, see Section 1.23.4.2 below.

It is hereby clarified that the Company's foregoing assessments regarding the possibility of termination of the services provided to the Company by Energy Infrastructures, INGL and EAPC, and the risks involve in failure in the routine supply of gas, and the implications thereof constitute forward-looking information, as defined by the Securities Law, and as such, it is uncertain and may not materialize, in whole or in part, or may materialize differently than expected. These assessments are based, inter alia, on assessment of the status and characteristics of the infrastructure service providers as government companies and monopolies, the Company's status as a key customer of these companies, regulation of the operations of these companies, analysis of the significance of these matters by the Company and its past experience in dealing with them. These assessments may not materialize or may materialize in part, if these companies are privatized and/or the state's interest in them decreases or state policy regarding them changes for any presently unforeseeable reason or if the Company's status as their customer changes or due to material malfunctions in their operations and/or due to insufficient resources to continue their operations or various court decisions and due to the other risk factors facing the Company, as specified in Section 1.23 below.

- 1.7.20.14 The Company and Group companies use natural gas for energy purposes, as a raw material, and as the main energy source for their operations. If the Group companies do not receive a continuous supply of natural gas, this may have a significant effect on their operations that use natural gas as energy in the many refining processes and as a raw material. For further details, see Section 1.23.4.2 below.

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- 1.7.20.15 The use of natural gas in the Group's facilities leads directly and indirectly to more efficient energy consumption and reduced maintenance and other costs, the scope of which varies from time to time based on the relative prices of alternative energy sources, and it is necessary in order for the Group's companies to be able to comply with the environmental requirements. If natural gas is supplied to the Group Companies in sufficient quantities for all their needs, the use of natural gas allows them to comply with the provisions of the emission permits issued for them by the Ministry of Environmental Protection.
- 1.7.20.16 It should be noted that as at the approval date of the report, there are three natural gas suppliers in Israel (the Tamar Reservoir, Leviathan Reservoir, and the Karish Reservoir). In 2018, the Company engaged with Energean Israel Limited (hereinafter - "**Energean**"), the owner of the leases in Karish and Tanin reservoirs (hereinafter - the "**Gas Reservoir**") in a natural gas purchase agreement to operate its facilities and those of Carmel Olefins and Gadiv operating in Haifa Bay, according to which, as of April 1, 2023, Energean is required to supply natural gas to the Company, on a firm basis, in accordance with the provision of the agreement. For further details regarding this transaction, see Note 20B1 to the Consolidated Financial Statements.
- 1.7.20.17 If the Karish Reservoir is unable to supply natural gas, the Company purchases natural gas from the Tamar Reservoir¹⁷ and/or Leviathan Reservoir,¹⁸ and as part of agreements with independent power producers and natural gas marketers, which are signed from time to time. For further details, see Note 20B1 to the Consolidated Financial Statements. The Company estimates that although from time to time the Karish Reservoir and the other reservoirs are inactive due to maintenance work, security or other considerations, in view of the existing alternatives as detailed above, no material effects are expected on the Company in the event that the Karish Reservoir is unable to supply natural gas; the Company is expected to supplement the natural gas shortfall to ensure continuity of natural gas supply for the facilities of Group companies.

The Company's foregoing assessments regarding the continuity of natural gas supply constitutes forward-looking information. These assessments are based on reports of those companies and partnerships as well as data and assessments by professionals in the Company. There is no certainty that these assessments will materialize, since they are highly complex issues and their implementation depends on entities outside the Company and developments in the relevant markets. These assessments may also change materially in case of a material change in other geopolitical and/or macroeconomic and/or factual data over which the Company has no control and which it is unaware of as at the date of this report.

¹⁷ In accordance with Tamar Partnership's reports, the Tamar Partnership includes Chevron Mediterranean Limited, Dor Gas Exploration Limited Partnership, Isramco Negev 2 Limited Partnership, Tamar Investment 2 Limited, Tamar Petroleum Ltd., Mubadala Energy (Tamar) RSC Ltd., and Union Energy & Systems 2 Ltd.

¹⁸ According to the reports of the partnerships to the Leviathan Partnership, the Leviathan Partnership includes Chevron Mediterranean Ltd., NewMed Energy L.P. (formerly Delek Drilling), and Ratio Energies L.P. (formerly Ratio Oil Exploration).

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Part C - Polymers Segment

1.8 **Carmel Olefins - Polymers Segment**

1.8.1 **General information**

1.8.1.1 **General**

The Group conducts its polymer operations (manufacturing raw materials for the plastics industry) through Carmel Olefins.

Carmel Olefins was established in 1988, as a privately-held company.

From December 30, 2009 - following an agreement whereby the Company acquired 50% of Carmel Olefins' shares held by IPE - the Company holds 100% of Carmel Olefins' share capital.

1.8.1.2 Carmel Olefins is an industrial company operating in the petrochemicals industry and engaged in the manufacture and marketing of polymers (mainly polypropylene and low-density polyethylene) both directly and through Ducor, a wholly-owned private subsidiary of Carmel Olefins, registered in the Netherlands (hereinafter - "**Carmel Olefins Products**" or "**Segment Products**"), which are used principally as raw materials for the plastics industry.

Carmel Olefins also manufactures feedstock (ethylene and propylene), used as raw materials in the production of polymers.

Furthermore, Carmel Olefins operates through Carmel Eco Ltd. (formerly - V.P.M. Plast Ltd.) (hereinafter - "**Carmel Eco**"), a subsidiary, in which Carmel Olefins has had a 76% stake since August 2022 and a 100% stake since September 2024.

Carmel Eco is one of the main manufacturers of recycled plastic in Israel, specializing in plastic recycling in an annual volume of approx. 10,000 ton and supplying several types of recycled plastic according to customer specifications. Control over Carmel Eco was acquired as part of implementation of the strategic plan for the Polymers Segment and development of a circular economy (which is based on reuse and recycling of resources) for the Group; this acquisition constitutes yet another step towards the realization of Carmel Olefins' vision of leading Israel's plastic recycling market and gaining an important foothold in mechanical recycling, and it will allow the Company to supply a wide range of solutions to all Group customers.

1.8.2 **Polymers Segment - segment structure and developments therein**

1.8.2.1 As noted above, Segment Products are used as raw material in the plastics industry.

1.8.2.2 In Israel, Carmel Olefins is the single manufacturer of polypropylene and low-density polyethylene, and, in fact, its competitors in the domestic market are foreign manufacturers that operate through agents in Israel and local distributors that import those products to Israel on an occasional basis from a variety of sources, depending on the export prices in each of the main supply sources (Europe, the USA, the Far East, and the Middle East). Carmel Olefins' share in the global market (including Ducor) is negligible. For additional information about the competitive structure of this area of activity, see Section 1.8.18 below.

1.8.2.3 The Segment Products are viewed globally as commodities, bought at more or less identical prices from all manufacturers. The prices of raw materials fluctuate and are affected, among other things, by global supply and demand cycles.

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- 1.8.2.4 The growth in demand for plastic products worldwide is primarily prompted by the development of the standard of living and changes in economic status. However, in recent years, there has been a growing global trend stemming from consumers' demand for the use of recycled input materials and renewable sources (hereinafter - "biopolymers"). In addition, global regulation encourages this trend. Changes in supply, on the other hand, depend on when new facilities come online and closure of old facilities, lower production rates, and the cost of raw materials, which have gone down for some manufacturers due to new raw materials used on the production of olefins (shale oil in North America, coal and methanol in China). Carmel Olefins believes that in the future, the use of raw materials from renewable sources (such as used oils and chemical recycling) will grow. The supply and demand dynamics create boom and bust cycles in demand and prices of Segment Products, with each cycle lasting several years.
- 1.8.2.5 In Israel, there are hundreds of plastics plants that purchase the products they require from Carmel Olefins and from imports. The prices at which the products are purchased in Israel and overseas are derived from the prices of these products on the global market. Following the peace agreements the State of Israel signed with several countries in the region as of 2020, imports of products from the said countries increased, which affects product prices and competition in the area of activity. In light of the high volume of imports in the first half of 2023 and real estimates of global oversupply in the forthcoming years, a special effort has been made in the second half of 2023 to increase the volume of sales in the domestic market by closing supply transactions in the second half of 2023 and during 2024. As a result of the said special effort, domestic market sales during 2024 were approx. 50% higher than sales in 2023. Due to the above, in 2024, the rate of sales in Israel was approx. 54% and the balance (approx. 46%) was overseas; in previous years, most of the segment sales were made abroad and stood at approx. 58% of product sales.
- 1.8.2.6 The Iron Swords War broke out after the main move implemented to increase the share in sales in the domestic market was achieved. The War has a complex and dynamic effect on domestic market demand. Increased demand for military and medical supplies, a shortage of workers in the construction industry and other industries, an expensive and long supply chain and a concern that ports will be closed, an embargo imposed by Turkey on exports from Israel, a ban on direct exports to the State of Israel and more.
- 1.8.2.7 In light of growing awareness of plastic waste pollution, and in order to recycle plastic, a global trend has begun to increase demand for recycled plastic products; more and more manufacturers of various consumer goods are announcing plans to dramatically decrease their use of plastic in general, and non-recycled plastic in particular; furthermore, declarations are issued and laws are enacted to reduce the prevalence of single-use plastic. Thus, for example, the European Union imposed, as of January 1, 2021, a national dedicated tax on all plastic packaging, manufactured or imported into its territory that is not recyclable. Alongside these recent trends, there have also been converse changes; thus, for example, an inter-governmental negotiating committee, which was established following a resolution of the United Nations Environment Assembly with the aim of formulating a draft of a binding international environmental treaty to prevent plastic pollution by the end of 2024, has encountered difficulties despite the support of many countries in limiting plastic production and prohibiting the use of harmful chemicals, and a broad agreement on the matter has not yet been reached. In addition, in the US, the Trump administration decided to cancel an order restricting the use of disposable plastic straws, and in Israel the Minister of Finance finally canceled the purchase tax applicable to disposable tableware.

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1.8.2.8 Today, market penetration of recycled plastics remains low, due to, among other things, economic and technological, availability of recycled raw materials and a delay in implementing supportive regulation. However, the rising trend to reduce consumption of plastic products and/or increase demand for recycled plastic products may adversely affect demand for Carmel Olefins' products and undermine its profits. As of the report date, all of Carmel Olefins' products are recyclable. Carmel Olefins is studying market developments, including potential opportunities offered by these developments.

1.8.2.9 International publications¹⁹ indicate that demand for the various types of polyethylene is expected to grow at an annual rate of approx. 3.5% until 2027. The bulk of the growth in demand is expected in north-east Asia and other developing countries.

According to said publications, global polypropylene consumption is expected to grow at an annual rate of approx. 3.9% in these years. Growth is mainly expected in China and other developing countries.

This information regarding the rate of growth in demand for polypropylene and polyethylene until 2027 constitutes forward-looking information, and as such is uncertain and may not materialize, in whole or in part, or may materialize differently than expected. These assessments are based on information collected by the Company regarding global trends of consumers preference to using recycled products, local regulation and international treaties in the sector, the Company's recycled product operations and additional assessments of the Company as at the report date, which may change from time to time, and their materialization is uncertain and is not under the Company's control. These estimates may not materialize or may materialize in part, if the above global trends strengthen or weaken, if the local cooperation with these trends increases or decreases, according to regulatory developments in the sector, depending on the Company's ability to adjust its operations to these trends, and on changes that may occur in the tastes of consumers in the sector, and due to the other risk factors to which the Company is exposed, as outlined in Section 1.23 below.

1.8.2.10 Raw material prices constitute a key component of production costs in the polymers industry. Following technological developments that made commercial shale gas production viable in the United States, production costs for ethane gas, which is used in the production of ethylene, have gone down. This reduction in prices allows the manufacturers of ethylene and ethylene derivatives, such as polyethylene - which rely on cheap ethane - to increase their competitiveness, as compared to manufacturers which rely on naphtha to manufacture their products. This trend is expected to increase over the coming years, as the investments in projects in these fields have matured and started production; the trend is further expected to be influenced by prevalent market prices for naphtha.

For information concerning the raw materials used by Carmel Olefins and Ducor to produce their products, see also Section 1.8.20 below.

For information concerning polypropylene and polyethylene prices in the reporting period, see Section B, Chapter 1 to the Report of the Board of Directors.

¹⁹ Based on forecasts by S&P Global Commodity Insights (IHS).

- 1.8.3 **Restrictions, legislation, standards and constraints that apply to the operating segment** - for further details regarding constraints placed on the Company in this operating segment in terms of: Competition, environmental risks, essential services, and by virtue of other legal requirements, see Sections 1.17 and 1.18 below.
- 1.8.4 **Changes in the scope of activity in the operating segment and in its profitability in the reporting period** - for details regarding changes in the operating segment's volume of activity and profitability, see Chapter 2 Section B to the Report of the Board of Directors.
- 1.8.5 **Market developments in the operating segment or changes in customers' characteristics** - in the global environment, China's recovery from the economic crisis is experienced as a consequence of the Covid-19 pandemic is slow and reduces global growth accordingly. Furthermore, new facilities, which were added during the course of the year, mainly in China and in the USA, increased the global excess supply of polypropylene and polyethylene in the market, which is experiencing a recession. Manufacturers from across the world reduced output throughout the entire supply chain in order to balance out the excess supply.
- 1.8.6 **Technological changes that may have a material effect on the area of activity**
As stated in Section 1.8.1 above, Carmel Olefins, partly through Carmel Eco, works to increase its use of technologies that allow a circular economy of reusing resources and recycling raw materials.
- 1.8.7 **Critical success factors in the polymers segment and changes thereto**
The critical success factors in the manufacture of Carmel Olefins Products are the cost and availability of feedstock, Carmel Olefins' ability to operate the production facilities at full capacity over time with minimum malfunctions, and the utilization of efficient production facilities, advanced technologies, and capacity to produce new products according to customers' needs and market trends.
Critical success factors in the sale of Carmel Olefins Products are the demand for products - which are affected, among other things, by the economic conditions prevalent in Israel and around the world, the existence of a well-developed domestic market, high responsiveness to changes in various markets and transitioning between territories according to market trends, reliability of supply, the quality of the supplied products, in addition to playing a leading role in the market, providing customers with technical support, research and development capabilities enabling the introduction of innovative or customized products, as well as the existence of product stock in Carmel Olefins' and Ducor's facilities, as well as geographic proximity to domestic-market customers and to developed international markets, operational agility and ability to accommodate changing market needs and customer preferences according to the various trends, including environmental impacts and recycling, as outlined in Section 1.8.2 above.
- 1.8.8 **Changes in suppliers and raw materials for the segment**
As stated in Section 1.8.20 below, most of the raw materials required for Carmel Olefins activity are supplied by the Company. However, there are chemicals used to produce polyethylene and polypropylene, which are purchased from suppliers abroad. Some of the quantities of a chemical used in the production process of polyethylene were purchased from suppliers in Turkey. In light of the discontinuation of trade with Israel (see Section 1.7.14.1 above), Carmel Olefins identified alternative import markets.
- 1.8.9 **Principal entry and exit barriers to the Polymers Segment, and changes thereto**
The main entry barriers to polymer manufacturing are: (a) availability of raw materials at competitive prices; (b) the amount of capital required to construct new plants; (c) the relatively long time required to construct a new plant; and (d) the regulatory approvals required to construct and operate polymer production facilities; and (e) knowledge and experience, including R&D capabilities to customize products to customers' changing needs.

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This segment has no significant exit barriers. Any exit barriers in this area of activity are focused on Carmel Olefins' role in the creation of additional products and added value from the refining process and its products (naphtha, LPG and propylene), for which the Group would otherwise be required to find alternative uses or buyers. For further details regarding competition in Carmel Olefins' segment and risks in Carmel Olefins' operations, see Sections 1.8.18, and 1.23.3.2 below.

1.8.10 Substitutes for polymer products and changes thereto

Polymers are convenient and substitutes for wood, glass, aluminum, expensive plastics, etc. Furthermore, as the market penetration of electric and hybrid vehicles continues to increase (see Section 1.23.4 below), polymers may also replace some of the materials currently used in the automotive industry, including to reduce vehicles' weights. Carmel Olefins believes, based on studies carried out by professional entities, that the use of polymers in general and of polypropylene in particular is expected to continue to provide a substitute for these materials for many years.

On the other hand, if the recycling trend outlined in Section 1.23.3.5 below continues to develop, it may offer a partial substitute for non-recycled polymers.

Carmel Olefins' assessment regarding the expected use of polymers, as stated above, constitutes forward-looking information, as defined in the Securities Law, which is based mainly on assessments of professional bodies arising mainly from price differences between polymers and the products they substitute. These assessments are expected to materialize in whole or in part if polymers will no longer substitute these products, due to technological or regulatory changes, in which case the polymers market will grow at a rate that is different than currently expected, and therefore there is no certainty that the Company's assessment in relation to these factors will materialize.

1.8.11 Structure of competition in the polymers segment and changes thereto

See Section 1.8.18 below.

1.8.12 Polymers Segment - main products

1.8.12.1 Carmel Olefins mainly manufactures and markets polypropylene and low-density polyethylene, which serve as raw materials in the plastics industry. These products are sold on pallets, in bulk using road tankers, or in containers (for exports). Ducor manufactures polypropylene, which is used as a raw material in the plastics industry. The main markets are Israel, European Union countries, the UK, Brazil and Argentina.

As part of the Group's policy to develop and manufacture types of polypropylene, which have higher added value, Carmel Olefins and Ducor are attempting to phase out the manufacturing of commodity-type polypropylene with other types of polypropylene, that offer a higher added value and are sold at a higher price than commodities.

1.8.12.2 For data on the breakdown of the Company's revenues from externals by key product categories in the Polymers Segment, see Note 28C to the Consolidated Financial Statements; regarding trends and changes in this segment - see Chapter 2, Section B of the Report of the Board of Directors.

1.8.12.3 For information about trends and changes in supply and demand for the segment's key products, see Section 1.8.2 above.

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1.8.13 Revenue breakdown and profitability of products

For information regarding the distribution of the Company's revenues from external customers by its principal product groups in the Polymers Segment, which constitute 10% or more of the Group's total revenues, see Note 28C to the Consolidated Financial Statements. For information concerning total revenues in the polymer segment in 2022-2024, see Section 1.5 above.

1.8.14 New products

Carmel Olefins, Ducor and Carmel Eco are working on the development and expansion of a dedicated product line, whose products may be sold at prices higher than commodity prices. Carmel Olefins is working on diversifying its polyethylene and polypropylene products to niche and unique areas. Furthermore, Ducor is working on adapting the manufacturing of the product mix and obtaining the required certification to sell the products to the pharmaceutical market (medical market). Carmel Eco develops "white" recycled products with added economic and marketing value.

1.8.15 Customers

1.8.15.1 Carmel Olefins' and Ducor's customers are mostly plastics factories which purchase Carmel Olefins' and Ducor's products for use as raw materials in their production of various products.

1.8.15.2 Carmel Olefins and Ducor serve approx. 200 customers in Israel, and over 500 customers abroad. Most of these customers, both in Israel and abroad, have been regularly purchasing Olefins and Ducor products for decades.

1.8.15.3 Carmel Olefins' agreements with its domestic customers are usually master agreements for one-year periods and/or incidental transactions at the customers' request. Master agreements specify the annual or periodic sales quantities and a formula for calculating the price that the customer will pay for the purchased products, while maintaining flexibility for price changes. The agreements include volume-based discounts. Based on these master agreements, customers submit orders, usually on a daily basis. Occasional transactions are closed for a period of one month or more in the domestic and export markets, and volumes, periods and prices are fixed and may not be changed. Future occasional transactions are hedged in accordance with the Board of Directors' guidance. Customers submit orders based on occasional transactions, normally on a daily basis.

In transactions with customers overseas, selling prices are usually determined at arm's-length negotiations at market terms. Some of Carmel Olefins' and Ducor's sales are made under annual agreements, which offer volume-based discounts and are linked to prices posted on international publications (ICIS) or to monomer (the products' raw material) prices. Incidental transactions may carry a fixed price for the entire agreement period.

1.8.15.4 As of the reporting date, there is no customer which generates revenues for the Segment exceeding 10% of the Group's total consolidated sales turnover. Neither the Company, Carmel Olefins, nor Ducor are dependent on any one of Carmel Olefins' or Ducor's principal customers.

1.8.15.5 Carmel Olefins has agreements with a financing syndicate for the non-recourse sale of some trade receivables; see Section 6B to the Consolidated Financial Statements.

1.8.15.6 For a breakdown of sales for the Polymers Segment by geographic region out of Carmel Olefins' total revenues, see Section Note 28C to the Consolidated Financial Statements.

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1.8.16 Marketing and distribution

1.8.16.1 Sales in Israel are made by Carmel Olefins, directly, to its customers. Sales are based on customer orders received directly by Carmel Olefins employees, and products are supplied to customers from Carmel Olefins' warehouses in the Haifa Bay. Domestic sales are on an ex-works basis, and so delivery is made using trucks dispatched by the customer to Carmel Olefins' warehouses. Supply to customers in Israel is usually made immediately.

1.8.16.2 Carmel Olefins' international sales are carried out through international agents or distributors, and through Ducor, which also serves as a sales agent for Carmel Olefins Products in the Netherlands and adjacent countries.

In addition to acting as Carmel Olefins' agent, Ducor sells directly to its customers, according to orders from customers, which are received directly by Ducor, with most of the products being supplied to the customers' premises. In addition, certain sales are made through agents, which are divided by sales regions.

Carmel Olefins and Ducor are not highly-dependent on these marketing channels, as the polymers sold by Carmel Olefins and Ducor are actively sold by multiple parties (agents and distributors). Carmel Olefins also has direct contact with its customers, and agent commissions match the industry standard.

1.8.17 Order backlog

Sales in the segment are based mainly on occasional spot agreements, with purchased goods being supplied within a short period of time after the engagement date, and therefore information regarding order backlog is not relevant to the segment. The supply dates of Carmel Olefins Products to its customers varies from customer to customer and range from one business day (to customers in Israel) to approx. 45 business days (to customers abroad) from order placement. Supply dates are agreed upon between Carmel Olefins and Ducor and their customers, based on their assessment concerning production dates for the relevant product and available stock at the warehouse.

1.8.18 Competition

As mentioned above, Carmel Olefins is the sole producer of polypropylene and low-density polyethylene in Israel (as outlined in Section 1.18.2 above, Carmel Olefins was declared a monopoly in the low-density polyethylene market). Carmel Olefins' competitors in Israel and abroad operate in Israel through agents and local distributors. There are no import duties on importing polypropylene and polyethylene into Israel.

Imports to Israel are incidental, and come from a variety of sources, depending on the export prices in each of the main supply sources (Europe, the US, the Far East, and the Middle East).

In addition to competition on price and quality, the field is subject to competition on parameters such as the ability to customize products to customer's needs, compliance with changing regulations, responsiveness and high-quality service to the customers, etc.

As Israel's sole producer of polypropylene and polyethylene, Carmel Olefins enjoys a competitive advantage in Israel over importers of similar products; this is reflected in a high level of accessibility and close physical proximity to customers, close geographic proximity between stock in the facility and customers, and in Carmel Olefins' ability to provide customers with solutions customized to their needs, including customer service and hands-on technical assistance due to its proximity to these customers, including development and production of tailor-made products.

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In contrast with its advantages in the domestic market, Carmel Olefins faces relative disadvantages on international markets due to its limited production capacity and its distance from target markets; in facing these challenges, some of Carmel Olefins' operations are carried out through forward stocking locations in key target markets, and through its subsidiary Ducor, which is located in the Netherlands. Alongside the above, in view of Carmel Olefins' being a relatively small player in the international market, it is able to respond quickly to changes in the market and to act on opportunities it identifies in various geographic regions.

According to Company estimates, Carmel Olefins' multi-year average share of the domestic polypropylene market (including import of recycled polypropylene) is approx. 50%. Carmel Olefins' main competitors for this product are Reliance, Ineos, Sabic, Borouge, Braskem, LG. According to Company estimates, Carmel Olefins holds a share of approx. 33% of the Israeli market for all types of polyethylene (including low-density linear polyethylene) products, some of which are substitute products. Carmel Olefins' main competitors for this product are Reliance, Sabic, Braskem, Formosa, Hip, Dow, and Exxon.

Outside of Israel, Carmel Olefins and Ducor do not hold a significant share in any of those markets in which they operate.

As mentioned, overseas, Carmel Olefins has to cope with the disadvantage of remote markets by securing comparatively low-cost shipping options, and by selling to customers in countries (mainly Italy, Brazil, and the UK) where polymer production does not meet local consumption and which subsequently must import polymers. Ducor does not share or hold ownership in any refinery in its operating region and is thus at a competitive disadvantage. Furthermore, the trend towards using recycled input materials could lead to lower demand for virgin products manufactured by Carmel Olefins.

In recent years, since the Company started using natural gas, it increased the volume of ethane-rich gas, which it supplies to Carmel Olefins. Ethane-rich gases allow Carmel Olefins to elasticize its manufacturing costs - an ability to use gas instead of naphtha and vice versa, depending on the market environment and price levels, while improving its competitive edge over producers making exclusive use of naphtha as their raw material.

1.8.19

Production capacity

As aforesaid, Carmel Olefins' production facilities in Israel operate as a single concern and are mutually dependent on the full, continuous operation of each of the facilities and of the Company's and Gadiv's facilities.

Carmel Olefins operates three main groups of facilities: The monomer facilities group (the naphtha cracker facility and OCU facility which manufactures propylene); the polypropylene facilities group; and the polyethylene facilities group (hereinafter, jointly - "**Carmel Olefins Facilities**"). Production in Carmel Olefins Facilities is carried out at extreme temperatures (from minus approx. 165°C to 900°C) and extremely high pressure (up to approx. 1,500 atm). Production processes involve the use of catalysts and peroxides. All the Carmel Olefins Facilities operate as a single concern and are interconnected directly by a pipeline and receive shared services such as electricity, steam, water, storage and other services from a central service system, partially backed by the Company's service mechanism.

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The Carmel Olefins Polyethylene facilities' maximum name plate capacity is approx. 170,000 tons a year. As of the reporting date, the effective usage rate of the polyethylene facilities' maximum name plate capacity is approx. 90%. The Carmel Olefins Polypropylene facilities' maximum name plate capacity is approx. 450,000 tons a year. This production capacity is subject to availability of sufficient quantities of propylene and ethylene. As of the reporting date, the effective usage rate of the polypropylene facilities' maximum name plate capacity is approx. 80%, with monomer (feedstock) facilities operating at a corresponding capacity to match the needs of the polymer facilities.

Monomer facility products are manufactured in fixed proportions, such that operational flexibility for changing the ratio of products is limited. Consequently, significant changes to the polymer production mix, based on feedstock supplied primarily by the monomer facilities, are limited.

Since Carmel Olefins' facilities operate as a single group, a slowdown in production in one of Carmel Olefins' facilities may lead to a slowdown in production in all other facilities.

Thus, if operations slow down in one of the monomer facilities and Carmel Olefins' polymer production facilities will continue to operate at full capacity, feedstock stores would be depleted quickly and operations in the polymer facilities will slow down due to a shortage of feedstock.

If operations slow down in each of Carmel Olefins' polymer facilities and the monomer production facilities will continue operating at full capacity, feedstock/byproduct storage containers would quickly become full and the monomer facilities would be forced to slow down their operations. A slowdown in the monomer facilities would reduce their output, both of ethylene and of propylene, such that all polymer facilities would slow down operations.

On the Carmel Olefins Facilities' regular operation's dependence on the operation of the Bazan Group facilities in general, see Section 1.8.20.1 below.

Ducor's polypropylene facilities have a maximum name plate capacity of approx. 180,000 tons a year. In general, the effective utilization rate is approx. 85% of the maximum name plate capacity.

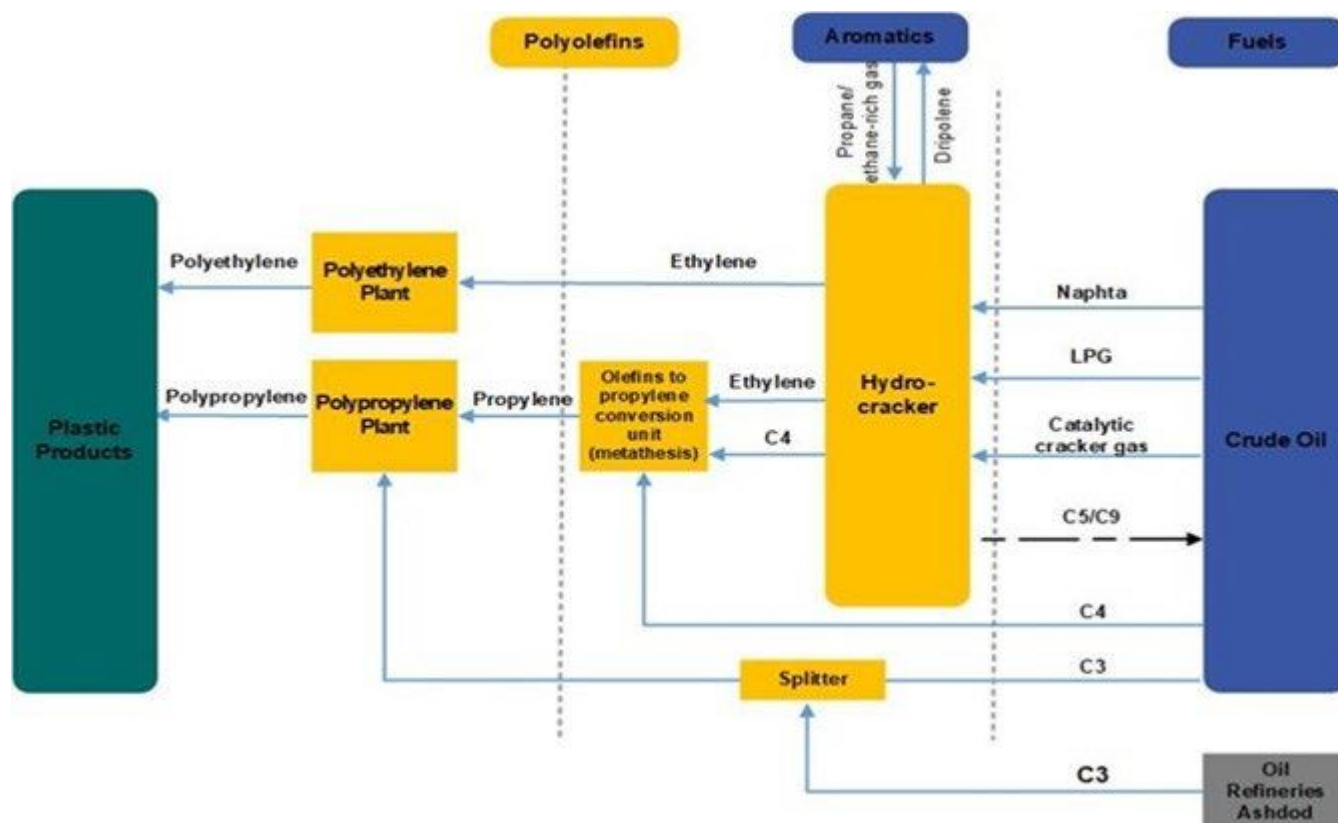
The facilities of Carmel Olefins and Ducor operate continuously without interruption, with the exception of planned downtime for routine maintenance or periodic servicing, and due to operational events and malfunctions (for information about the Company's expectations and preparations for handling such events, see Section 1.7.19 above), as stated in Section 1.7.19.8 above, during 2027-2028, the Company plans to conduct periodic maintenance work at all of Carmel Olefins' facilities.

1.8.20 Raw materials and suppliers

- 1.8.20.1 As outlined above, Carmel Olefins Facilities are downstream facilities to the Company's facilities, such that they are continuously fed, through a pipeline, with the bulk of their required feedstock, from the Company, and return feeds to the Company which are manufactured in Carmel Olefins Facilities or unutilized parts of the said raw materials and feedstock. Thus, Carmel Olefins Facilities are dependent on the normal operation of the Bazan Group's facilities; disruptions or shut-downs of the Bazan Group's facilities will undermine operations, or even lead to corresponding shut-downs, of Carmel Olefins facilities.

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1.8.20.2 The following is a flow chart of the production process:



1.8.20.3 The majority of feedstock in polymer production (ethylene and propylene) are produced in Carmel Olefins' monomer facilities.

1.8.20.4 The principal raw materials in the production of ethylene and propylene are naphtha, LPG and synergy gases (ethane-rich gas).

Carmel Olefins buys its principal raw materials from the Company. Carmel Olefins also buys from the Company propylene (including propylene sourced from Oil Refinery Ashdod²⁰) and butane C4. For information on the agreements between the Company and Carmel Olefins for the supply of Carmel Olefins' raw materials, see Note 7C to the Company's Separate Financial Statements as of December 31, 2024.

²⁰ According to the Company's agreement with Oil Refinery Ashdod for and on behalf of Carmel Olefins. Under the agreement, which was extended and amended on August 31, 2022, ORA undertook to supply the Company and the Company undertook to buy a minimum annual quantity of between 80,000 and 105,000 tons of propylene, with a certain amount of flexibility as agreed by the parties. At the same time, the Company undertook to sell to Oil Refinery Ashdod a monthly feed of propane at such quantities as stipulated in the agreement; however, Oil Refinery Ashdod has an option to request a smaller quantity of propane. The extended agreement period is for seven years starting on June 1, 2022. Each of the parties has an option to terminate the agreement with written notice of at least three years.

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- 1.8.20.5 Carmel Olefins produces its own ethylene (from naphtha, LPG and synergy gases).
More than half of the propylene used by Carmel Olefins is self-produced in its monomer facilities, which include the cracker facility (from naphtha and LPG) and the OCU facility (from ethylene and components of the butane-C4 feed). The remaining required propylene is produced by the Company and Oil Refinery Ashdod and purchased by Carmel Olefins from the Company.
- 1.8.20.6 Most of the raw materials required by the monomer facilities are supplied by the Company; therefore, Carmel Olefins is dependent on the Company.
In 2023 and 2024 raw materials purchased from the Company directly and/or indirectly accounted for approx. 85%, of Carmel Olefins' yearly total raw material purchases.
- 1.8.20.7 Propylene used by Ducor as raw material is manufactured by various suppliers, and received continuously through pipelines, and/or by barges and ships. Ducor has diverse sources of propylene in Western Europe; these provide Ducor with the bulk of its propylene requirements. Ducor is not dependent on any of its individual propylene suppliers. Changes in Ducor's ties with its suppliers may adversely affect its results.

1.9 Trade Segment

The Company's trade and shipping operations are carried out through its subsidiaries, ORL Trading and ORL Shipping.

The Company, through said subsidiaries, leases vessels for maritime shipping of crude oil and/or oil products and uses them to transport materials it purchases or sells; the Company also leases those tankers to various entities under one-way leases. In addition to leased vessels, the Company also has in place contracts for commercial management of vessels. As of the report date, the number of vessels (leased and under commercial management) is four, with a capacity of approx. 30,000-38,000 tons each, mostly under one-year leases. One of these tankers leased by the Company is an Israeli-controlled vessel, as this term is defined in the Shipping Law (Permit for Israeli Control of Foreign Vessel) 2005.

The trade activity may also include trade of crude oil and its products for purposes other than Group companies' manufacturing activities, and/or for the purpose of purchasing raw materials and selling products to third parties for Group companies.

The Company's trade activity is based primarily on opportunities that arise in the market, due to changes in the prices of crude oil and its products, and due to price differences between the various markets and between various types of oil and oil products. Due to the high volatility in the economic viability of such trade transactions, the scope of the Company's trade activity varies greatly between various reporting periods and within each reporting period. In recent years, no transactions of significant scope were conducted. For further details regarding the prices of crude oil and oil products and the factors that affect the supply of crude oil and its products, and factors and trends relating to consumption of oil products, see Sections 1.7.2.2.3 and 1.7.2.2.4 above.

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Most of the activity involving leasing vessels from various entities, leasing them to other parties and their commercial management is conducted with foreign customers and suppliers; part of this activity is used to serve the Company's activities. Furthermore, for details regarding this topic, see also Note 12C to the Consolidated Financial Statements. The trade activity is also conducted with foreign customers and suppliers, such as: oil companies and refineries, trading companies and more. It is noted that during the Reporting Period, in view of the effects of the Iron Swords War and the cessation or substantial reduction in the movement of ships to and from Israeli ports due to the effects of the War, the Group continued its trade activity thereby securing and contributing to the continuity of the Israeli energy sector's activity.

Part D - Additional Information about the Company

1.10 **Property, Plant, and Equipment**²¹

1.10.1 The facilities of the Company, Carmel Olefins and Gadiv, are located in a single compound in Haifa Bay (hereinafter in this Section 1.10: the “**Compound**”). The Company's facilities include initial distillation units (crude distillation), hydrogen and catalytic cracking facilities and catalytic reformer units (responsible for the fuel product refining and finishing processes), other production units (for hydrogen, isomert (which is used as a gasoline component), and asphalt production), sulfur treatment facilities, infrastructures (buildings, storage tanks, pipelines, etc.) and service facilities (power plant, effluents treatment, fire safety equipment).

Carmel Olefins' facilities include a group of monomer facilities (a cracking facility and the OCU plant), a group of polyethylene facilities and a group of polypropylene facilities.

Gadiv's facilities include facilities for BTX (benzene, toluene, and xylene) refining feedstock, and production plants for paraxylene, solvents and solids.

Ducor's facilities in the Netherlands house polypropylene production facilities.

Carmel Eco's facilities in Kibbutz Yas'ur house facilities for rinsing and palletizing plastic waste.

1.10.2 For details regarding the processes in the abovementioned facilities, see above regarding each of the areas of activity (Sections 1.7 and 1.8 above), and regarding the efficiency and capacity of the Group's facilities, see Section 1.7.19.7 above.

1.10.3 For details about the depreciated cost of property, plant and equipment as at December 31, 2024, and the various types of property, plant and equipment, including the accumulated depreciation thereof, see Note 11 to the Consolidated Financial Statements.

1.10.4 For details regarding the Asset Agreement signed on January 24, 2007 between the Company and the State, see Note 12B1 to the Consolidated Financial Statements.

1.10.5 On March 6, 2022, the Government resolution on the strategy to develop and promote the Haifa Bay was authorized. For further details regarding the government resolution, see Note 20C to the Consolidated Financial Statements.

1.10.6 Also in the context of the compound, it is noted that the Company filed a claim for monetary remedy for loss of profits and expenses incurred and which will be incurred by the Company due to the decision of the Accountant General at the Ministry of Finance, the Director General of the Israel Land Authority and the Director General of the Ministry of Energy (hereinafter in this subsection the “**Directors General**”) regarding the failure to grant permission to rezone the Company's land in the compound over an area of approx. 160 dunams and leasing it out. As part of the claim, the Company argues that the Director Generals' decision not to approve the designation change constitutes a breach of the provisions of the abovementioned Asset Agreement, which was signed between the Company and the state in 2007. The claimed amount, which stands at a total of approx. USD 41 million, is derived from loss of rental profits, which were expected to be received for a period of ten years with an option to extend by five further years, as well as from current municipal tax costs, which it may bear during the period. The legal proceeding is in advanced preliminary stages.

²¹ For a description of the Company's rights in assets, also see Note 12B to the Consolidated Financial Statements.

1.10.7 Municipal regime applicable to the compound area

The land of the petrochemical plants in Haifa Bay, including that of the Compound, is incorporated in the Haifa municipality. In accordance with the agreement signed in 2006 between the Group's plants and the Haifa municipality and other adjacent municipalities (hereinafter - the "**Municipalities Agreement**"), a joint municipality-owned corporation was established, which is owned by the local authorities whose boundaries are adjacent to the Bazan compound, which determines the services that are to be provided by the joint municipality-owned corporation. All capital rights and most voting rights therein are held by the councils and the rest of the voting rights by the plants. The Authorities Agreement refers to the provision of services in the Bazan compound, including the setting of rules, and also to various other issues, such as planning and development, business licensing, equitable applicability of the Haifa municipality bylaws, etc. In 2017, a demand was sent to Haifa Municipality and the joint municipal company to apply the mechanisms prescribed in the Municipalities Agreement regarding the provision of services by the municipal company as aforesaid, and since then the subject has been under negotiation between the Company and the local authorities, whose boundaries are adjacent to the Bazan compound. The Agreement also stipulates that Haifa Municipality, as the licensing authority in the plant area, will handle the business license application filed by the Company and will not add any further conditions to the business license beyond those established by the relevant government ministries for the Company's business license. The Agreement further stipulates that Haifa bylaws will apply to the plant area and will be applied equally to the other areas of Haifa. Pursuant to the Agreement, a joint planning and building committee comprising representatives of the local councils and the relevant government ministries operates in respect of the compound. Due to the increase in municipal taxes rates for 2025, subsequent to the Report date - as detailed in an immediate report dated February 10, 2025 (Ref. No.: 2025-01-009642), included herein by way of reference - the Company will seek to exhaust its legal rights.

For details regarding the settlement signed between the Company, Carmel Olefins and Gadiv and the Haifa Municipality, regarding the payment call the Municipality of Haifa made to the Company, to Carmel Olefins and to Gadiv in 2023 because of the open public areas Levy, see Note 20A1 to the Consolidated Financial Statements for 2023, published by the Company on March 14, 2024 (Ref. No.: 2024-01-022150), included herein by way of reference.

- 1.10.8 In 2014, the Haifa District Planning and Building Committee approved, with conditions, an outline plan for the land on which the facilities of the Group Companies are situated, regulating the planning of this compound, including provisions regarding future construction therein (hereinafter - the "**Outline Plan**"). On June 6, 2017, the National Planning and Building Committee decided to approve the Outline Plan with modifications set out in the plan. In March 2018, following the dismissal of several petitions filed against it, the Outline Plan was published in order to enter it into force. Appeals were filed with the Supreme Court against the District Court's decision to dismiss the petitions filed against approval of the plan. In July 2019, the Supreme Court issued a ruling on the appeals filed against the foregoing judgment of the Haifa District Court of Administrative Affairs, returning the plan to the National Council for establishment of further provisions in the plan.

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In view of the Supreme Court's ruling, on December 1, 2020, the National Council made a decision (hereinafter - the "**Decision**") setting out the definition of "a facility that has a considerable impact on the environment", which includes a facility, pipeline, tank or building in respect of which certain conditions in the field of hazardous substances, air quality and water pollution prevention are met. This definition, among other things, requires the construction of new production facilities that have a significant impact on the environment to be carried out with a detailed plan; the plan also stipulates, among other things, that additions and changes to existing facilities and replacement of an old facility with a new one will not require a detailed plan if the addition does not constitute or become a "source of risk" and/or constitute an "emission source" requiring a permit and does not increase emissions beyond 20% of the threshold quantity in the Environmental Protection Law (Emissions and Transfers to the Environment - Report and Register Requirement), 2012, and the replacement of an old facility with a new one will not require a plan provided that the new facility will be used for the same purpose in the production process and related phases. On January 4, 2021, the amended plan was published in the Official Gazette for validation.

In September 2023, the National Planning and Building Council approved NOP 75 for the Haifa Bay area, intended to develop the Haifa Bay, while rezoning the areas and clearing the petrochemical industries from them, following on the government resolution dated March 6, 2022 regarding the strategy for developing and promoting the Haifa Bay. On December 11, 2023, the plan was approved by the Ministerial Committee for Interior Affairs, Services, Planning and Local Government. It is noted that to the best of the Company's knowledge, the Accountant General is working to promote a PPP tender for the construction, operation and maintenance of an LPG storage facility, and also assesses the suitability of opening to tenders additional distillate storage infrastructures of significant volumes. For further details regarding NOP 75 and regarding the government resolution, see Note 20C to the Consolidated Financial Statements.

- 1.10.9 Ducor's facilities are located in an overall area of approx. 12.7 hectares at the Rotterdam Port, The Netherlands (hereinafter - "**Ducor Site**"), which are leased from the Rotterdam Port for a 25-year period ending in 2044, for annual lease payments, which are immaterial for the Company; (Ducor has two options, each of which allows it to extend the lease by 25 years).

Ducor is obligated to decontaminate the land at the Ducor Site for pollution caused by it, if any, in the period in which it leases the land. In the Company's opinion, based, among others, on the assessment of an expert, the Group is not expected to have material exposure due to the obligation to decontaminate the land. For further details, see Notes 12B3 and 17 to the Financial Statements.

The Company's assessment regarding this exposure is forward-looking information, as defined by the Securities Law. The Company's assessments are based, among other things, on the findings of an environmental protection expert. The Company's assessments may not materialize, inter alia, if errors are discovered in the environmental protection expert's findings and/or if the letter of compensation sent to the Company in this regard for the lease term preceding the acquisition of Ducor by the Company is not honored or if Dutch law is amended. Therefore, there can be no certainty that the Company's assessment regarding the exposure involved in the said obligation to decontaminate the land will materialize, and there is no certainty as to the how the Company handles them and the costs involved.

- 1.10.10 Carmel Eco's facilities are located in an area of approx. 0.23 hectare in kibbutz Yas'ur (under a lease agreement that was signed and extended from time to time) between Carmel Eco and kibbutz Yas'ur for a period ending December 31, 2026.

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1.11 R&D and Innovation in the Group

1.11.1 As a rule, the Group Companies usually purchase the know-how needed for their operations from external know-how suppliers, which are international companies specializing in developing and selling know-how for the refining and petrochemical industry, as described in Section 1.11 to this chapter.

The Companies also purchase the know-how needed to reduce the environmental emissions from their production plants from specialized know-how suppliers.

1.11.2 Innovation activity in the Group

1.11.2.1 The Group companies are committed to investments in innovation, including technologies in the Group's areas of activity, as well as in other areas on which the Group chose to focus strategically, which could generate alternative and complementary solutions to its core products or solutions to enhance the current core activity, and which will add value to the Group and contribute to its efforts to protect natural resources and the environment.

The innovation activity focuses on the following areas: Industry 4.0, including operational efficiency, hydrogen and alternative fuels, energy efficiency, green polymers and environmental technologies.

1.11.2.2 The Group's innovation activity is carried out under the Open Innovation model - through an innovation center which operates in the Bazan compound and serves as a platform for the Group's direct activity with startups, entrepreneurs, and researchers, creating an internal and external ecosystem, which enables the integration of new technologies in areas identified as strategic. The innovation activity constitutes a material component of the Group's transformation processes by creating new capabilities, reinforcing and "invigorating" core activities, digitizing and streamlining operations, creating new business opportunities and positioning the Group as the leading actor in the ecosystem.

1.11.2.3 The innovation activity includes operating activities involving the relevant actors in the ecosystem, such as: the Israel Innovation Authority, the Office of the Chief Scientist at the Ministry of Energy, energy communities, academic institutions, various accelerators, incubators, funds, and more, in order to maximize the exposure to innovative technologies.

1.11.2.4 The innovation activity focuses on synergy between operations providing synergy and added value to the Group's operations, which improve and streamline processes and/or whose joint activity with the Group Companies generates added value for the Group and/or potentially serves as a growth engine.

1.11.2.5 In 2020, the Group - through its innovation arm, together with EDF Renewables and in collaboration with Johnson Matthey - established an ESIL supported by the Israel Innovation Authority, which - to date - invested in 14 ventures.

1.11.2.6 In 2022, the Group's innovation center partnered with Quantum Hub, which works to create collaborations between the hub's partner companies and startups in the Israeli ecosystem and accordingly, the startups are assessed for the implementation of pilots and POCs using technologies relevant to the Group. The companies participating in the hub include Taavura, Hyundai, VDL, and Kia.

1.11.2.7 Dozens of the Company's employees work in the Group's innovation center and constitute the in-house innovation team. The innovation team assesses innovative technologies, provides professional assistance to the selected ventures and supports the pilots implemented in the Group. Start-up companies, which implement a pilot in the Group, have the option of using the Group's infrastructures and facilities to implement the technology they have developed with support provided by Group professionals, use of the Group companies' laboratories, and more, all under the Design Partnership model.

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- 1.11.2.8 In addition, the Group encourages inhouse innovation through initiating and encouraging innovative process initiatives and improving existing processes, bringing to the fore the needs of the various units, and executing an innovation enrichment and training program for the innovation team.
- 1.11.2.9 In its capacity as the largest hydrogen producer in Israel, the Group promotes innovation in the field of hydrogen for various uses as part of the global trend of developing and expanding the use of hydrogen as a "clean" energy source. As part of the Group's hydrogen activity, a hydrogen compression system for the transportation of hydrogen used in transport was constructed, and the first hydrogen fueling station in Israel was constructed at the Yagur Junction in partnership with Sonol; a hydrogen-powered truck was purchased and a hydrogen-powered bus was ordered. As part of the innovation activity, the Group assesses involvement in technology companies and initiatives in the field of hydrogen. The Group, together with the Nesher municipality, Sonol, the Technion, Israel Railways and other partners, are working to promote the development of the Hydrogen Valley in Israel.
- 1.11.3 **The development activity in the polymers area**
Carmel Olefins carries out R&D to customize existing products and develop special types of polypropylene- and polyethylene-based products as follows:
Updating existing products and tailoring them to the requirements of the Company's customers.
Developing special types of polypropylene - quality types for special industries, with which it is possible to achieve a high economic contribution to a product, price stability, such as a range of products for the automobile industry or groups of unique transparent and unbreakable polypropylene products suitable for various applications, such as storage boxes and suitcases.
Developing special types of polyethylene - special, high quality with Carmel Olefins' production technology for niche applications, such as ultra low-flow material suitable for large agricultural hothouses or a high-flow material for injection applications.
Development of polypropylene-based products with lower carbon footprint, containing a powder based on agricultural waste. The Group invests in a startup company manufacturing a green, perishable and recyclable biopolymer in order to create commercial applications for such products. Furthermore, Carmel Olefins conducts R&D activities with the aim of integrating the said products in its products in order to achieve higher added value. Further to the CIRCLE plastic recycling consortium, which was funded by the Israel Innovation Authority, and which was headed by Carmel Olefins, the latter was awarded the "Magnet Star" project, sponsored by the Israel Innovation Authority, to develop composite material based on recycled hay nets in cooperation with Shenkar College, which ended in the Reporting Period. In addition, Carmel Olefins was a partner in the SMART consortium, for the development of smart agro-materials for the protection of plants from insects, pathogens, and viruses (which ended in April 2023). In continuation of this consortium, Carmel Olefins was awarded the Magnet Star project for another two years, sponsored by the Israel Innovation Authority, to develop an anti-microbial material in cooperation with the Hebrew University of Jerusalem.

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In August 2023, the activity of a newly funded consortium started in the field of development of biodegradable polymers. The Israel Innovation Authority approved a multi-year plan for setting up generic technological infrastructure for the creation of a future sustainability operation that will prevent the accumulation of polymer waste in landfills and in the environment, prevent environmental pollution, including air pollution, soil contamination, and contamination of water reservoirs, and save on high costs of collecting, sorting, cleaning and processing plastic waste, in cases where the collection and processing of the waste are not possible or not financially worthwhile.

1.12 Intangible assets

1.12.1 The Company has no rights in material intangible assets in the Refining Segment.

1.12.2 Carmel Olefins has six registered trademarks in Israel: כרמל אולפינים בע"מ, Carmel Olefins Ltd., Carmel Olefins logo, Capilene®, Carmelstat® and Ipethene®. Carmel Olefins holds 11 patents in various stages of registration and assessment. As at the Reporting Date, the patents are immaterial to the operations of Carmel Olefins.

1.12.3 The companies acquire licenses to use advanced technological know-how in petrochemicals for their operations and pay external know-how suppliers a fixed or variable amount in royalties, depending on the volume of annual production at the facility under the license. The licenses to use know-how, under which the facilities were set up, are necessary for their operation and were granted to the specific facilities for which they were purchased. Under the know-how agreements, even if the agreements are terminated, the Companies will still be eligible to continue using the know-how for production purposes in the volume for which the license was granted and for which royalties were or are paid by them. The royalty amounts are not material to the Company.

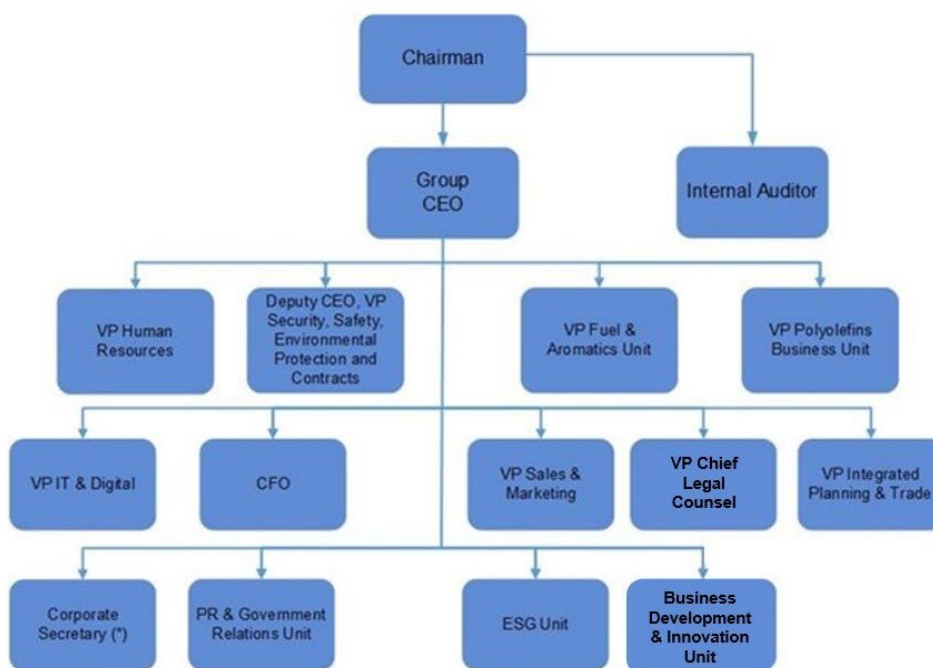
1.13 Human resources

The Company operates through two business units: The Fuels and Aromatics Business Unit and the Polyolefins Business Unit. In the reporting period, each business unit included the relevant generation units, maintenance and certain additional functions - including in the Fuels and Aromatics Unit, the Technology and Projects Unit (which includes, among other things, an energy unit in charge of optimizing the energy sources available to the Group and provides energy services to the business units) and in the Polyolefin Unit - the sales and marketing functions of its products as well.

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The headquarter services, including sales and marketing services, purchasing services, contracts with contractors and suppliers, warehouses, finance and information systems, legal department, safety, security and environmental protection, etc. are provided centrally to all business units by the Company headquarters (see also Section 1.2 above). The purpose of this organizational structure is to create a direct and clear link throughout the entire value chain of each of the Group's main product groups, taking advantage of the fact that all of the Group's operations (excluding Ducor's operations, which are located in the Netherlands and Carmel Eco, which is located in Kibbutz Yas'ur) are carried out at one site and enable a synergy that increases operating efficiency and reduces cost in many areas. In addition to the activity of the business units, a comprehensive optimization unit at the Company's headquarters determines the production function that optimizes the Group's entire production value chain (excluding Carmel Eco and Ducor). The crude oil and intermediate materials required for the Group's operations from various suppliers are purchased by the Combined Planning and Trade Unit. Sale of fuel and intermediate products on the local market and their exportation to an adjacent market, as well as the sale of aromatics products in Israel and abroad, is carried out by the marketing and sales unit. The Combined Planning and Trade Unit, which, as stated, is in charge of purchasing raw materials and intermediate products, is also responsible the exports of fuel products and intermediate products.

Organizational structure as at the report approval date:



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* Also reports to the Chairman of the Board of Directors

1.13.1 Number of employees, by business unit:

| | No. of employees as at | |
|--|------------------------|-------------------|
| | December 31, 2024 | December 31, 2023 |
| Fuels and Aromatics Business Unit | 660 | 655 |
| Polyolefin Business Unit | 463 | 468 |
| Company Headquarters and Management | 271 | 269 |
| Total | 1,394 | 1,392 |

As of December 31, 2024, Ducor employed 98 employees. As of December 31, 2023, Carmel Eco employs 37 employees.

In addition to the above, as at the reporting date, 59 temporary employees and 33 employees through temporary staffing agencies or freelancers are employed in the Group Companies, mostly in projects, construction and renovations.

The Company's management believes that the Company is not dependent on any particular employee. In general, labor relations at the Group are in good order.

1.13.2 Instruction and training

The Group provides professional training to operative and maintenance staff in their area of occupation. The Company also trains the relevant Group employees as part of internal compliance programs operated in the Group, providing its entire staff and relevant service provider with mandatory safety training, mandatory certification, as required by law, including on the subject of firefighting, and environmental protection, quality assurance and information security training. Professional employees participate in training in their fields of occupation for certification for their positions, refreshment, professional knowledge development and to increase knowledge (particularly prior to receiving new equipment).

Emergency drills, fire drills, focused safety training for operators and professional training are performed at the production facilities.

The Group implements a development process for managers from various management levels, using a range of tools, including courses, personal mentoring by senior directors in the Group, personal meetings with organizational consultants, individual professional guidance when starting a position and on the job, and in appropriate cases, team development activities.

1.13.3 Employment agreements

1.13.3.1 General

Most staff at the Group Companies are employed under special collective agreements signed between the Group Companies and the workers' unions. Some employees, mainly senior staff, are employed under personal employment contracts. Apart from their wages, all Group Companies' employees, whether employed under a collective or a personal contract, are also entitled to social benefits, including pension insurance in accordance with the provisions of the law on this matter and/or with the provisions of the various agreements.

As of the reporting date, of all employees of the Companies in Haifa Bay in Israel, 207 are engaged under personal employment contracts and 1,187 under the terms of the special collective agreements to which the Company, Carmel Olefins and Gadiv are party. The employment conditions of these groups of employees are as follows:

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1.13.3.2 Employees engaged under personal contracts

Most employees from department manager level upwards are employed under personal employment contracts.

The employment contracts set out the employee's salary, related benefits (such as vacation, sick leave and convalescence pay), social benefits (e.g., study fund and pension insurance), etc.

In the personal employment contracts, the employees undertake to maintain the confidentiality of the Company's business and to refrain from unauthorized use of information they receive as part of their duties.

The personal employment contracts of Group companies' employees include pension, insurance and social and other benefits, which are not outside what is generally accepted, except for the eligibility of a few of the employees, who are employed under personal employment contracts, to a severance bonus of up to 200%, the stipulation of a notice period of more than 30 days (mostly between 3-6 months) in some of the personal contracts, and the eligibility of some of the senior employees to choose an early pension track or an increased severance pay track, if they are dismissed.

1.13.3.3 Employees employed under collective agreements

For details, see Section 1.13.7 below.

1.13.4 Compensation for the Company's directors

The employment contracts of the senior officers include the right to annual bonuses subject to the Company's performance and the meeting of personal goals, under the Company's compensation policy. With regard to the employment terms of the five senior officers and the benefits paid to the Board of Directors, see Regulation 21 in Chapter D of the periodic report and Note 27B to the Consolidated Financial Statements.

1.13.5 Employee option plan

The Company has an employee and officers option plan under which options exercisable for Company shares are granted to the Group's employees and officers from time to time, particularly upon appointment of an officer. In the reporting year, the Company's Board of Directors adopted a new plan which allows options and RSUs to be granted to officers and other employees. For details regarding options allocated to officers and other employees in the Group, see Note 21B to the Consolidated Financial Statements and Section 21 in Part D of the periodic report.

1.13.6 Compensation policy

On August 27, 2024, the Company's general meeting approved - after the approval of its Compensation Committee and the Board of Directors - a revised compensation policy for the Company, which includes a reference to pay, related benefits and variable compensation components (such as bonuses and equity compensation), in effect for a period of three years from the date of its approval by the general meeting, or a longer period, if such is determined during the said period in accordance with the provisions of the Companies Law. For further details, see the general meeting summons report (Amendment) published by the Company on August 21, 2024 (Ref. No. 2024-01-086433), which is included herein by way of reference. For details regarding the compensation policy, which was in effect from January 1, 2021 until December 31, 2023, and was extended through April 30, 2024 under a resolution of the Company's Board, in accordance with the provisions of the Extension of Periods and Deferral of Dates Law (Temporary Ordinance - Iron Swords) (Administrative Procedures, Tenure Periods and Corporations), 2023, see the Company's immediate reports of March 8, 2021 (Reference: 2021-01-028836), April 6, 2021 (Reference: 2021-01-057504), May 29, 2022 (Reference: 2022-01-053712) and March 16, 2023 (Reference: 2023-01-023692), the details of which are included herein by way of reference.

1.13.7 Collective agreements

- 1.13.7.1 The Group Companies are party to special collective agreements regulating the work and employment terms of most of their employees not engaged under personal contracts and are not temporary workers.
- A new collective wage agreement was signed with the representatives of the employees of the Company and Gadiv in November 2021, and in December 2021 a new collective wage agreement was also signed with the representatives of Carmel Olefins' employees. The term of the agreements starts on the date on which the prior agreements expire (December 2017) and ends at the end of 2024.
- 1.13.7.2 The collective agreements applicable to the Company, Carmel Olefins and Gadiv set out the employment terms of the veteran (Generations A and B) and future generation staff. The agreements prescribe, among other things, the wages based on rank and type of employee, various wage increments (for seniority, shifts, etc.), social benefits, including pension rights, and bonuses for some employees for the years of employment above 20 years.
- 1.13.7.3 Most of Ducor's employees are employed on a full-time basis (100%). Approx. 60% of the employees are employees under collective agreements between Ducor and worker's unions in the Netherlands, which are renewed from time to time.

1.13.8 **Changes following the split and sale of ORA and the Company's privatization - special collective agreements of June 14, 2006**

As part of the ORA split and sale proceedings, the Company and the New Histadrut Workers' Union (hereinafter - the "**Histadrut**") entered into special collective agreements (hereinafter - the "**Special Collective Agreements**") aimed at regulating the rights of the Company's employees in the privatization process, including restrictions on their dismissal; terms for eligibility to early retirement; early retirement plans for pensioners of the pension fund and the related early retirement rights (which were in force until 2016); and rights to increased severance pay for employees not eligible to early retirement, which ended in 2016. Under the collective wage agreement signed in 2021, it was agreed with regard to long-serving employees to whom the early retirement agreement of June 14, 2006 applies, that the provisions of the retirement agreement will also apply during the term of the new collective wage agreement signed in 2021, and through December 31, 2024. Furthermore, according to the 2021 agreement, and to the extent that the employees' representatives will ask to do so, at the end of each calendar year the Company will assess the option of not repaying the proportionate share of the loan to the Company for Early Pension Haifa Ltd. (hereinafter - "**Haifa Early Pension**"), which it is entitled to in view of retirement of employees during that year as per the loan agreement. The decision as to the deferral of some or all of the loan repayment is subject to Company's management's sole discretion.

To assure its commitment to purchase early retirement rights under the early retirement agreement, the Company signed a loan agreement with HEP, a special-purpose company established for the loan agreement.

Under the loan agreement, the Company granted HEP a NIS 300 million loan to assure the pension rights of the employees eligible for early retirement. The loan will be repaid to the Company in full by time all the employees eligible to a pension or an early pension have retired. See also Note 18B2b to the Consolidated Financial Statements.

The employees undertook to maintain industrial peace for the period of the special collective agreements and with respect to the matters settled under them, without this undertaking derogating from their right to participate in any national level strike declared by the Histadrut regarding employees of the public sector or the entire economy.

As of the reporting date, 143 Company and Gadiv employees are or will be eligible for early retirement under the above agreements if the Company seeks to terminate their employment prior to their natural retirement date, under the circumstances prescribed therein.

1.14 **Taxation**

1.14.1 For details regarding the taxation laws applicable to the Group Companies and the main benefits thereunder, see Note 16 of the Consolidated Financial Statements.

1.14.2 For further details regarding legislation approved by the European Parliament in order to regulate carbon taxation adjustment mechanisms in Europe in respect of various products imported into EU countries, see Section 1.6.8.2 above.

1.14.3 For further details regarding the excise tax orders published by the Ministry of Finance and which include legislation initiatives that may impact the Group's activity, see Section 1.17.3.1.5 below.

1.15 **Working capital**

The Company's working capital as of December 31, 2024 consists of current assets totaling approx. USD 2,084 million, net of current liabilities totaling approx. USD 1,298 million. Out of the total current assets: A total of approx. USD 752 million reflects the balance of cash and cash equivalents, a total of approx. USD 593 million reflects the balance of trade receivables and a total of approx. USD 711 million reflects the balance of inventory. Out of the total current liabilities, a total of approx. USD 218 million reflects the balance of loans and credit (including current maturities), a total of approx. USD 866 million reflects the balance of trade payables and a total of approx. USD 195 million reflects the balance of other payables and credit balances.

As of December 31, 2024, the Company has a positive working capital of approx. US 786 million.

1.16 **Financing**²²

1.16.1 The Group Companies finance their operations by profit on a cash basis; working capital (in subsidiaries, including supplier credit from the Company); long-term and short-term bank loans (including credit facilities) and non-bank credit, mainly debentures. For details, see Notes 6, 13, 14 15 to the Consolidated Financial Statements.

1.16.2 In 2021, the Company's Board of Directors adopted a multi-year outline to reduce the financial debt and ensure the Group's liquidity and financial robustness. As of the Report date, the Company reduced approx. USD 300 million from its total debt compared to its level at the end of 2021; this was carried out concurrently with a debt improvement process, which started during 2023, in which the Company replaced existing short-term loans (at variable interest) with long-term loans, while improving the spread over the base interest. Noting the objectives achieved as of the report date, the Company's Board of Directors believes that the debt at its level as of December 31, 2024 is reasonable, and the Company will seek to maintain it in its current scope, while continuing to pursue the performance targets.

1.16.3 For details about long-term credit agreements between the Company and financing parties (mainly banks), including the syndication agreement and its amendments (hereinafter - the "**Syndication Agreement**"), including during the reporting period, see Note 13B to the Consolidated Financial Statements.

1.16.4 For details regarding debentures issued by the Company to the public, including in the reporting period, see Note 14 to the Consolidated Financial Statements and Chapter 9 to the Report of the Board of Directors.

1.16.5 For details about collateral provided by the Company to banks and others that provided finance to the subsidiaries (Carmel Olefins, Gadiv and Ducor), see Note 13B2 to the Consolidated Financial Statements.

1.16.6 **Credit rating**

For details regarding the rating of the Company's Debentures in the reporting year and afterwards, their rating history, see Chapter 9, Section B of the Report of the Board of Directors.

²² A report regarding the liabilities, by repayment date, under to Section 9D of the Securities Regulations (Periodic and Immediate Reports) Regulation, 1970, is attached by way of reference to the digital report (Form T126) submitted shortly after publication of this report.

1.16.7 Financial covenants and restriction on creating liens

For details regarding restrictions and liabilities undertaken by the Group Companies regarding creation of liens (negative liens) and details regarding the financial covenants applicable to the Company, under their financing agreements with banks and deeds of trust for the debentures issued by the Company, see Notes 13 and 14 to the Consolidated Financial Statements.

1.16.8 Short-term borrowings

In addition to the working capital financing channels set out in Section 1.16 above, the Group Companies finance their ongoing requirements with short-term bank credit (overdraft and on-call loans). The volume of its short-term finance is adjusted from time to time to the variable needs of the Group Companies.

For details on the Group Companies' secured short-term credit facilities; the actual utilization of the credit facilities as of the reporting date and immediately prior to publication; and the financial covenants applicable to the Group Companies' secured credit facilities and compliance therewith, see Note 13 to the Consolidated Financial Statements.

1.16.9 Long-term loans

For details regarding the outstanding long-term credit received by the Group Companies, as at December 31, 2024, including long-term bank loans received and debentures issued, see Notes 13 and 14 to the Consolidated Financial Statements.

1.16.10 Raising additional resources

During the Reporting Period, the Company published a new shelf prospectus, which is effective through November 11, 2026 (with an option to extend by one further year subject to the approval of the Israel Securities Authority).

The Company will review raising further financial resources in the forthcoming years, taking into consideration its ongoing operating needs, the market situation, business opportunities, business developments and any other need, all according to the Company's resolutions.

1.17 Environmental risks and management thereof

1.17.1 General

1.17.1.1 The Bazan Group is engaged in the distillation and production of petroleum products, some of which are hazardous substances and/or substances with a carbon footprint; therefore, as part of its day-to-day activities, Bazan has in place a multidimensional interface with the environment: In the air, the soil and in water sources/groundwater.

1.17.1.2 Consequently, the Group is exposed to environmental risks, i.e., a potential to damage the environment, which it monitors and mitigates, while investing substantial resources, as set out below in this section. These risks may be divided into a number of key groups as follows:

- 1.17.1.2.1** Risks associated with the emission of gases that can potentially pollute the air and constitute a danger to public health;
- 1.17.1.2.2** Risks associated with soil and groundwater contamination;
- 1.17.1.2.3** Risks associated with the handling of hazardous substances;
- 1.17.1.2.4** Risks that are indirectly linked/ related to the risks listed above.

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- 1.17.1.3 In managing these risks, Bazan is subject to comprehensive environmental regulation, which is becoming increasingly stricter, and whose main objective is to maintain the following in the Group's facilities: (1) Air quality; (2) quality of effluents discharged to water sources/the sea (upon removal of effluents - treated effluents); (3) preventing soil and groundwater contamination by petroleum products, raw materials and by-products, and treatment as needed; (4) handling hazardous substances, etc.
- As detailed below, this regulation is diverse and is reflected, among other things, in legislation; in the terms and conditions of the Group's business license; in emission permits, discharge permits regarding discharge to the sea, poisons permits, and continuous and tight monitoring by the Ministry of Environmental Protection and the environmental unit with respect to the following: Production, storage, transport, usage and removal of products produced by the Group Companies, their components and byproducts.
- 1.17.1.4 This regulation may have a material effect on the Group, both in terms of the costs accrued to implement it (including the ongoing operation of the Group's facilities, their adaptation to regulatory requirements, and steps taken to decontaminate land and/or water sources), and in terms of the potential consequences and restrictions on the continuous operation of the Group's facilities, since failure to identify non-compliance or failure to fully comply with the requirements of this legislation may trigger the issuance of orders instructing the Group to shut down some or all of its facilities, and may expose Group companies and executives to administrative and/or criminal sanctions and/or lawsuits. For the Group's segment-specific risks, see also Section 1.23.3.4 below.
- 1.17.1.4.1 Based on the Company's policy and as part of its long-term outlook, the Group Companies invest considerable financial and administrative resources to comply with all regulatory provisions applicable to them. In the meantime, the Company's environmental risk management policy is included in the Company's risk management procedure, along with a management system covering all environmental aspects of Group companies as detailed below. The Company's Deputy CEO and VP Environment, Health and Safety, Procurement and Engagements is in charge of the Company's environmental risk management policy, which was approved by the Company's Board. The Company's Audit Committee receives regular reports and conducts discussions on an as needed basis on aspects of environmental risk management, and, in addition, the Company's Board appointed a dedicated Environment, Safety and ESG Committee, which discusses environmental aspects and monitors this area. For details regarding the Company's risk management policy, including with respect to environmental and climate risks, which were identified and mapped as key risks, see Section 1.23 below.
- 1.17.1.4.2 In addition, Group companies have in place an internal environmental and safety compliance plan, which includes operational procedures in these areas; also, internal environmental audits were conducted by the Company's Chief Internal Auditor (the latest of which was conducted in 2023). Since its privatization in 2007 through the end of 2024, the Company invested approx. USD 680 million in environmental, safety, and security aspects and in enhancing its operating reliability, in addition to operating expenses in these areas.

1.17.2 **Regulation of the area of environmental protection²³ and its consequences for the Group**

1.17.2.1 The Companies, which own industrial plants, are subject to various environmental protection laws.

The environmental protection laws and standards relevant to the primary operations of the Group Companies are:

- (1) Air quality;
- (2) Quality of effluents and wastewater;
- (3) Solid or hazardous waste;
- (4) Hazardous substances;
- (5) Prevention of soil and groundwater pollution by fuel and other hazardous substances.

The main laws applicable to the Group are: The Clean Air Law, 2008 (hereinafter - the "**Clean Air Law**"); the Prevention of Hazards Law, 1961 (hereinafter - the "**Prevention of Hazards Law**"); the Hazardous Substances Law, 1993 (hereinafter - the "**Hazardous Substances Law**"); the Business Licensing Law, 1968; the Prevention of Sea Pollution from Land-Based Sources Law, 1988; and the Water Law, 1959. In addition to these statutory provisions (including secondary legislation thereunder), the Group Companies are also subject to provisions included in permits and licenses granted to them, which are required for them to operate in their operating segments.

These legislative arrangements are complex and detailed, and therefore Bazan does not elaborate on them in the description provided below, unless a certain matter has a material effect on the Group and practical consequences on the way it operates. These legislative arrangements will be described in the relevant environmental risk chapter, such that readers will be able to better understand the risk, the impact on the Group of the regulation that regulates it, and the regulatory protection required in connection therewith.

1.17.2.2 The Company operates an environmental protection center that allows citizens to contact the Company with environmental questions and complaints and receive answers and comments. An environmental protection vehicle that enables reaching the site of complaints of hazards and investigating the complaint in real time is operated under it.

1.17.2.3 As part of their operating activity, the Group Companies take ongoing measures to comply with the laws and provisions applicable to their operations. As at the reporting date, the Group Companies comply with the provisions of the environmental permits and environmental laws, apart from exceptions regarding which they are acting with the Ministry of Environmental Protection to adjust the provisions and/or revise the timetables for implementation thereof. In addition this legislation is subject to ongoing changes, even more so in recent years, there has been a continuous stiffening of environmental requirements, including through new environmental legislation, interpretation given to laws in this area and enforcement of environmental standards and other provisions applicable to companies in the Group's operating segments, especially companies whose plants are located in Haifa Bay.

²³ Only with regard to aspects that are relevant to the Company and/or its business environment.

1.17.2.4 Investments in environmental protection

The Company invests heavily in environmental, safety, and security aspects and in enhancing operating reliability. The Company's investments in this area, include: Best-of-class technologies and treatment systems to reduce emissions, such as burners to reduce emissions of nitrogen oxides from the Group's plants; expansion of the Mercaptan exhaustion capacity; upgrading the furnaces protection; upgrading of sealers in pumps and storage tanks and covering tank roofs; projects to reduce non-specific emissions; purchase and operation of odor treatment systems; projects to reduce air emissions and odor hazards from the refinery's bitumen filling facility; use of a wastewater reclamation facility which performs supplementary biological treatment of the procedural effluents from the Group's facilities; retrograding of the wastewater treatment facility in the Bazan compound; oxidization facilities at all of the Group's plants on the Bazan compound to reduce non-specific emissions of non-methane volatile organic compounds; projects to reduce benzene emissions from the Bazan compound; identification and ongoing treatment of non-specific emissions from equipment components - including replacing thousands of equipment components with zero-emission or high integrity ones; installing a filter to reduce particulate emissions and operation of an air monitoring system along the plant's fence (the first in Israel to be authorized by the Lab Authorization Authority certified under ISO 17025).

1.17.2.5 **Environmental permits**

Following are the main environmental permits granted to the Group Companies as part of their operations:

| Validity | Licensing authority | Recipient | License type |
|--|--------------------------------------|--------------------------|--|
| January 28, 2031 (as per the permit) * Shall be in effect until the consolidated permit is issued | Ministry of Environmental Protection | The Company | Emission permit |
| February 7, 2031 (as per the permit) * Shall be in effect until the consolidated permit is issued | Ministry of Environmental Protection | Carmel Olefins | Emission permit |
| February 7, 2031 (as per the permit) * Shall be in effect until the consolidated permit is issued | Ministry of Environmental Protection | Gadiv | Emission permit |
| September 30, 2025 | Ministry of Environmental Protection | The Company | Permit to pump into the sea |
| March 31, 2026 | Ministry of Environmental Protection | Carmel Olefins | Permit to pump into the sea |
| July 30, 2024 | Ministry of Environmental Protection | The Company | Emergency permit to discharge effluents to the sea ²⁴ |
| October 17, 2025 | Ministry of Environmental Protection | ORL Trading Ltd. | Toxin permit |
| Shall be in effect until the consolidated permit is issued* | Ministry of Environmental Protection | Carmel Olefins | Toxin permit |
| Shall be in effect until the consolidated permit is issued* | Ministry of Environmental Protection | Gadiv | Toxin permit |
| Shall be in effect until the consolidated permit is issued* | Ministry of Environmental Protection | The Company | Toxin permit |
| The permits are granted from time to time at the request of the Companies | Ministry of Environmental Protection | Carmel Olefins and Gadiv | Hazardous waste removal (various permits) |

The permits are granted to the Group Companies subject to compliance with their provisions and conditions. Immediately prior to the expiry date of the various licenses, the Group Companies take steps to renew all the environmental permits required for their operation so as to maintain licensing continuity.

* This is a sweeping extension until the consolidated permit is obtained; at this stage, dates were set for submitting the applications for a consolidated emission permit starting in 2029.

²⁴ For details about an emergency flow permit to the former Haifa Chemicals site, which was valid until July 30, 2024, see Section 1.17.3.2.1 below.

1.17.3 **Environmental risks**

1.17.3.1 **Air quality risks**

1.17.3.1.1 According to data published by the Ministry of Environmental Protection in the past decade, as of 2012, the main pollutant emissions from Bazan Group's compound have been reduced by between 53% and 96%.

1.17.3.1.2 **Clean Air Law, 2008**

The Clean Air Law, 2008 (hereinafter, in this Section: the "**Law**") regulates treatment of the air pollution problem in Israel comprehensively. The Law requires plants emitting substances to obtain an emission permit for their operation. The Law also sets out criminal and administrative sanctions that may be imposed on any party violating its provisions and causing extreme or unreasonable air pollution. The issues covered by the law include:

- (1) Establishment of maximum air pollutant levels;
- (2) Systematic publication of monitoring data in the media and publication of air quality forecasts. Giving the Minister of Environmental Protection the option of ordering the establishment and operation of monitoring systems for various factors;
- (3) Authority for local councils to take necessary action to reduce the pollution levels in their jurisdiction and authority for the Minister of Environmental Protection to order the polluted councils to prepare and implement a pollution reduction plan in their jurisdiction;
- (4) Obligation to obtain an emission permit for any person who installs, owns, operates or uses an emission source that requires a permit and criteria for its provision. The emissions permit will be issued for a period of seven years;

On October 17, 2021, a law memorandum for the amendment of Section 31 to the Law was published, that prescribes an arrangement whereby the Minister of Environmental Protection is required to set an emission levy that will be applied to owners of emission sources that require permits, that is to say, approx. 180 Israeli plants that are required to meet strict conditions under emission permits in accordance with the Law. Despite attempts made in connection with this matter, such an emissions levy has not yet been imposed.

In 2016, all Group Companies received emission permits from the Ministry of Environmental Protection, which were valid for seven years. The emission permits set out provisions regarding maximum emissions from every emission source in the Group Companies' facilities, odor prevention, control and warning systems, monitoring, sampling, follow-up and reporting, dates for submission and implementation of plans for improvement of the Company's environmental performance and other provisions. If a measurement exceeds the values set out in the emission permit, the Companies take measures to ensure compliance with the provisions of the emission permits. The Group companies filed applications for new emission permits in May 2022, in the lead-up for their renewal in 2023. On January 29, 2024, the Company received a new emission permit; Carmel Olefins and Gadiv received new emission permits. which came into force on February 8, 2024. Considering the increase of the Group's environmental investments in recent years and noting the additional investments that will be required by the Company and subsidiaries in their plants to comply with the provisions of the emission permits, the Company estimates that the investments by the Group companies will not be materially higher than their investments in environmental protection in recent years. However, at this stage, the Company is unable to estimate the exact amount of the investment that will be required following renewal of the emission permits.

The Company's assessment regarding the amounts which the Group Companies are expected to invest to comply with the provisions of the new emission permits and the Companies' ability to comply with these provisions on those dates, constitutes forward-looking information, and as such, it is uncertain and may not materialize, in whole or in part, or may materialize differently than expected. The Company's assessment is based, inter alia, on assessment of the type of investments required to comply with the provisions of the permits and the cost of their implementation, which is affected by outside entities, including know-how, equipment and service providers and the Company's assessment regarding revision of the emission permits. The Company's assessment may not materialize or may materialize in part, inter alia, if the alternative technologies which the Company intends to apply in order to comply with the emission permits are not approved by the Ministry of Environmental Protection or if the type of investments required by the Company changes and/or if the estimated costs of making them changes.

1.17.3.1.3 The Climate Bill, 2024 (hereinafter - the "Climate Bill")

On June 28, 2022, the first reading of the Climate Bill was approved; the purpose of the Bill is to prevent and reduce greenhouse gas emissions and damage caused by the climate crisis in Israel, as part of the implementation of Israel's international commitments in accordance with the Climate Convention,²⁵ to take steps to address the climate crisis by setting targets for reducing greenhouse gas emissions and preparation for the effects arising from climate change, by preparing national plans for in preparation for the effects, taking into account the vital interests of the State of Israel, including retaining the competitiveness in the Israeli economy, compliance with Israel's commitments in trade agreements, and the implementation and guarantee of the regular supply of infrastructure and services for the benefit the public.

In February 2023, an amended memorandum to the Climate Law Memorandum was distributed, which was very much the same as the previous memorandum, however it stated a goal of a reduction of 50 percent in greenhouse gas emissions by 2030 compared with the base year (2015 in the current memorandum). The Bill has not yet been approved by the Ministerial Committee for Legislative Affairs.

The bill passed the first reading in April 2024 and on June 4, 2024 it was discussed by the Knesset's Internal Affairs and Environment Committee ahead of the second and third readings in the Knesset. The Climate Law stipulates targets for the reduction of greenhouse-gas emissions, including a 50% reduction by 2030 and net zero emissions by 2050. The law provides a long-term legal framework for implementing climate policies, with inter-ministerial cooperation, establishment of government task forces, and requirements regarding regular reporting on and control over the achievement of targets. Furthermore, the law includes preparations for dealing with climate change in areas such as water, energy and agriculture, in order to adapt the infrastructure to changing conditions. The current wording of the law allows changing the targets pertaining to the reduction of greenhouse-gas emissions. Consequently, it is possible to change the state's targets "in accordance with the needs of the economy"; in addition, there is no deadline and schedules are flexible.

²⁵ The United Nations Framework Convention on Climate Change, which was signed in Rio de Janeiro on June 12, 1992, including agreements to which Israel is a party.

1.17.3.1.4 The Liquefied Petroleum Gas Law, 2020 (hereinafter in this Section - the “**LPG Law**”) - In 2021, the LPG Law went into effect; it aimed, among other things, at strengthening the powers of the Gas Safety Administration, the compliance function and forming new regulation in the LPG segment.

1.17.3.1.5 On August 2, 2021, the Government approved the economic plan for 2022-2021, and in November 2021, the Knesset approved that plan. In September and October 2021, the Ministry of Finance published the excise tax orders derived from the economic plan. The said economic plan and excise tax orders include legislation initiatives that may impact the Group’s activity, in particular:

- (a) The imposition of excise tax on certain materials manufactured and sold by Group companies as from January 18, 2022. These excise tax orders came into force after the approval of the Knesset’s Finance Committee. However, the Group’s management is of the opinion that the said excise tax orders, as they are presently worded, will not have a material effect on the Group’s operating results.
- (b) On January 15, 2024, the government approved (as part of a draft resolution on the basis of which the government approved the state budget for 2024; hereinafter - the “**New Government Resolution**”), a proposal for pricing the emissions of local pollutants and GHG, which is expected to be reflected by amending the Fuel Excise Tax Ordinance (Levy of Excise Tax), 2004, which is levied on fuel producers, and The Customs Tariff and Exemption Tariff Ordinance on Goods, 2017, which is levied on importers of fuel (hereinafter jointly - the “**carbon tax**”).

According to the New Government Resolution, the Carbon Tax reflects an increase in the rates of excise tax and purchase tax in a graduated outline, applicable from 2025 through to the beginning of 2030, the date on which the said tax rates will fully internalize the external cost arising from the consumption of the fuels.

The New Government Resolution stipulates that the tax rates that will be revised in the Excise Tax Ordinances will be published on the Israel Tax Authority’s website as a direct carbon tax.

According to the government resolution, the taxes that will be collected will increase the state's revenues and they will not be directed directly to incentives to reduce emissions and develop new technologies or to protect the local industry. However, as complementary measures, the government resolution includes several other statements, whose implementation is expected to facilitate the achievement of those goals, and which may impact the economic effects of the carbon tax in its new format on the Company and/or delay the date on which it will be imposed, including regarding budgetary support to fuel consuming plants, support to achieve the increase in efficiency required for the said tax, exemptions such those available under the European Emissions Trading System, potential delay or limitations in levying the tax on natural gas due to the impact of electricity prices, etc.

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In the Reporting Period, the carbon tax, which came into effect on January 1, 2025, was approved. Further to the above and in accordance with the new Government Resolution, the Ministry of Economy and Industry published two Director General Directives (Directives 4.79 and 4.80). The first directive deals with a track aimed at assisting the industry to adapt to the increase in excise tax ("carbon tax"); the track aims to support industrial plants, which consume fuels (including natural gas), in adapting to the "carbon tax"; the other directive aims to provide a supplementary incentive to the said track; this is available to enterprises, which will capture part of the carbon generated, thereby reducing carbon emissions to the atmosphere. Following the above, a dedicated team was set up in the Company, which is composed of representatives of various units (environment, energy, finance and legal), which is also supported by external legal advisors specializing in excise tax, in order to collect all required data, assess the type and scope of support, which the Group can apply to, the conditions, which the Company must comply with under these tracks and the steps that will need to be taken in the future, and in order to handle the submission of applications on behalf of the Company.

The abovementioned potential effect of the tax on the Company (according to the natural gas consumption forecast, taking into account, among other things, the renovation plan for the Group's facilities) is expected to gradually increase the Company's natural gas purchase cost by up to approx. USD 23 million in 2030, compared to the cost in 2024. As described above, Israeli industrial companies approached the government - through the Manufacturers Association of Israel - with a request to set up a mechanism for support in adapting to the new tax, and the Bazan Group submitted an application according to the Ministry of Economy and Industry's policy (Director General Directive 4.79).

The foregoing regarding the possible effect of the carbon tax on the Company constitutes forward-looking information, and as such is uncertain and may not materialize, in whole or in part, or may materialize differently than expected. This information is based on the Company's assessments regarding its purchases of natural gas in the years in questions for the purpose of operating its facilities, the implementation of the newly approved government resolution to the letter, and its validity throughout the entire said period. These implications may not materialize, materialize in part or in a manner that is materially different than that expected, as a result of factors beyond the Company's control, including changes in the scope of consumption of the Company's products, the quantities of natural gas that the Company will actually need to purchase in the said years, as a function, among other things, of energetic efficiency projects and actual refurbishments of the Group's facilities, delays in the implementation of the said government resolutions, or other regulatory changes which unknown at this time.

Furthermore, on March 14, 2022, the government approved an update to the national program for preventing and reducing air pollution in Israel; as part of the said update, various targets were set for reducing emission of air pollutants in Israel by 2030, while listing the steps required to reduce air pollution in Israel, promote suitable technologies and monitor and report the implementation of the resolution.

The materialization of all the above resolutions may impact the Company's operations and its business results.

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1.17.3.2 Soil/groundwater/water sources contamination

1.17.3.2.1 Effluent quality

Industrial effluents generated during the manufacturing operations of the Group Companies is treated by them and then transferred by them to a third party (as set out below). In exceptional cases, after treatment of the industrial effluent, it is pumped into the Kishon River.

There is an effluents treatment facility on Carmel Olefins' premises operated by a third party specializing in the field under an agreement between it and the Company.

The Group Companies' policy is to avoid discharging effluents into the Kishon River.

The quality of the effluents pumped by the Group companies, if any, is regulated under the provisions of the permit to pump into the sea. The plants constantly monitor the quality of the effluents before pumping them into the Kishon River. Under the pumping permit issued to the Group Companies, the effluents pumped into the Kishon River must comply with the wastewater standard established by the committee headed by Dr. Yossi Inbar, Deputy Director General of the Ministry of Environmental Protection (hereinafter - the "**Inbar Committee**"), which are outlined in the People's Health Regulations (Standards of Effluent Quality Supplied by Effluent Treatment Facilities), 2010.

In addition, a permit for emergency pumping was granted until July 30, 2024 for the former Haifa Chemicals site, due to the fact that runoff water from the site contains concentrations of substances that do not comply with Inbar values - as discovered after the site was transferred to Bazan at the end of 2021.

In view of the requirements in the emergency permit and its expiry, the Company is preparing to construct a project for runoff water treatment, in the event that there is no decrease in the values of the substances as well as storage of runoff water. The Company is negotiating with the former tenant of the land regarding indemnification of the Company for expenses and costs it incurred when evacuating the leased property, including those arising from the requirements of the emergency permit and the failure of the runoff to comply with the said values, and assesses the potential ways to exhaust its legal rights in this context.

1.17.3.2.2 Suspected fuel seepage into soil and groundwater

1.17.3.2.3 In the petrochemical compound there are approx. 60 monitoring drillings that are periodically monitored throughout the year, a process that has continued for more than a decade, in coordination with the Water Authority, including an annual plan provided to the Water Authority every year.

1.17.3.2.4 From time to time, the Company is required to check claims concerning seepage of fuels and other pollutants into the soil and groundwater in the plant area. In 2005, after groundwater pollution was found in the upper Section of the groundwater and a fuel pocket, the Company started drilling monitor bores in the shallow layer of groundwater underneath one of its facilities. The Company also drilled several extraction wells to contain the pollution, extract the polluted layer and remove it from the groundwater. From time to time, the Company drills extraction wells on its premises to extract a layer polluted with fuels, if any, and remove it from the groundwater.

1.17.3.2.5 Based on a survey conducted by an external expert, the results of which were sent to the Company on January 21, 2007, the Company believes it is unlikely that the groundwater in the aquifer in the area of its plant, which flows in a general south-westerly direction, will contribute to pollution of the groundwater to the west and south of its plant area. Based on this survey, the Company believes that the contamination of groundwater in the plant area is not expected to spread into adjacent areas where it could pollute water sources used for drinking or irrigation.

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1.17.3.2.6 According to the Ministry of Environmental Protection's position expressed to the Company on January 1, 2007 in the guidelines for a survey of the environmental impact, the plants in the petrochemical site were required to conduct a soil survey according to these guidelines, which stipulate that the "Ministry of Environmental Protection will add supplementary requirements as necessary and based on the survey findings, including requirements to repair faults and rehabilitate any pollution which may be found"; the survey is designed to detail the extent and location of such pollution.

In July 2007, the Company received the results of the above hydrogeological survey indicating that there is no risk to the groundwater sources in the areas outside the plants' boundaries as a result of the plant's operations. However, several sites were found to contain polluted soil.

The surveyor's recommendation, which to the best of the Company's knowledge is also acceptable to the Ministry of Environmental Protection, is to perform a risk assessment using RBCA method or a similar method upon completion of processing the ground survey results, and to act according to its results.

In 2014, the Ministry of Environmental Protection decided to delay further performance of the survey until approval of its general provisions on the subject. In 2018, timetables were set for conducting the survey, which was completed at the end of January 2021, with another layer of soil gas raised by the Ministry completed at a later stage. A soil risk survey (including a soil gas survey) in accordance with IRBCA guidelines was conducted and submitted to the Ministry in June 2022. On January 22, 2023, the requirements of the Ministry of Environmental Protection were received, which include land restoration in certain areas and risk management. The requirements in this matter were included in the poison licenses of the Group companies. On November 1, 2023, the ministry's remarks on the investigation of the contamination and remediation of the soil in the petrochemical compound were received, according to which the ministry will not require any actual remediation actions as long as the site is active. A risk management plan was filed as required on August 30, 2023. Further to the submitted risk management plan, the ministry required the execution of two intrastructural sampling in six buildings twice a year, until two consecutive normal results are received; the ministry also required the adding of a small number of substances to the hygiene monitoring process. The requirements are complied with and it appears they are not expected to have a material effect on the Company.

The Company's assessment of the effect of its operations on groundwater and the water sources in its vicinity and the possible effect of the results of the various tests and reviews that it conducts in this area, and the ministry's requirements regarding land rehabilitation and/or management of the related risks and the costs of the treatment that will be required is forward-looking information, and as such is uncertain and may not materialize, in whole or in part, or may materialize in a way that is different than expected. The Company's assessment is based, inter alia, on information presently in its possession and the opinion of its advisors in the sector, which require further examination and clarification with respect to the scope of the treatment and the investments that will be required. The Company's assessment may not materialize or may materialize in part, inter alia if the survey which it conducts indicate different conclusions or their interpretation by the Ministry leads to different conclusions and to guidelines dealing with land rehabilitation on such a scale or as it collects and accumulates more information and professional analyses thereof, and due to the other risk factors to which the Company is exposed, as outlined in Section 1.23 below.

1.17.3.3 Risks associated with the handling of hazardous substances

1.17.3.3.1 Toxins

The Group Companies each have a toxin permit under the Hazardous Substances Law making provisions regarding the quantities of hazardous substances each is permitted to hold and the manner of storing and treating them. The permit also includes requirements with respect to identifying facilities which are likely be damaged in an earthquake of a defined strength and pose a risk, and reinforcement requirements for the identified facilities, based on a reinforcement plan submitted to the Ministry of Environmental Protection for review, and discussions with the Ministry are underway following the comments on the plan. The costs involved in reinforcing the facilities are not material for the Group Companies.

Under the provisions of the law, toxic waste is removed to authorized waste disposal sites, and solid waste, such as polluted soil, is removed to landfills, including export, under specific permits obtained from the Ministry of Environmental Protection or general permits published by it. The Company is dependent on third parties, which are the only sites authorized to receive hazardous substances from the Group's plants; if those sites fail to receive the hazardous substances under certain circumstances, the production activity will be adversely affected.

1.17.3.4 Related/indirect risks

1.17.3.4.1 The Group Companies may also become subject to claims alleging bodily injury or property damage due to exposure to hazardous substances or environmental pollution. For details regarding such claims, see Note 20A to the Consolidated Financial Statements.

1.17.3.4.2 Additionally, given that existing and potential investors, as well as other stakeholders, take into consideration ESG (Environmental, Social and Governance) considerations - including climate and environmental aspects - as part of their investment and business policies in recent years, the Company's conduct in this field affects its ability to obtain credit, work with global insurers, its ability to attract investor to its securities, as well as its business engagements. This includes providing credit under the condition that the Company complies with ESG standards or avoiding capital investments in the Company due to activity in the field of fossil fuels; something that may affect the finance costs of the Group and the potential raising of capital in the future. The applicability of regulations is also felt on the part of the Company's customers, who are required to meet sustainability reporting standards and to collect a considerable amount of data throughout the supply chain, including from the Company and sometimes as a condition for the business engagement.

1.17.3.5 Provisions applicable to Ducor

1.17.3.5.1 Ducor is subject regulations concerning air, soil and noise pollution hazards from its facilities. It has a permit from 1995 pursuant to the Environmental Control Act (hereinafter in the subsegment - the "ECA permit"). Since October 31, 2007, Ducor must also comply with the requirements of the EU's Integrated Pollution Prevention and Control Directive (IPPC) which, according to tests, it does.

Under the terms of the ECA permit, Ducor must also comply with stringent requirements relating to the noise from its industrial operations and storage of hazardous substances. As of the reporting date, Ducor complies with such requirements.

In addition to the above, Ducor is also subject to the SEVESO Regulations, and complies with the relevant requirements.

Ducor has a wastewater pumping permit prescribing various restrictions concerning the composition of the effluents.

- 1.17.3.5.2 Ducor has an exposure in connection with contamination of the land on which its plant is located and in connection with groundwater contamination in the area of the plant, which originates, according to an environmental advisor, before the plant commenced operations (partly in respect of the period of development and preparation of the area in which Ducor's plant is located by the Port of Rotterdam Authority, and partly in respect of industrial activity that preceded Ducor's activity), and therefore, it should not be attributed to Ducor. This exposure was discovered during the completion of the agreement for the purchase of the holdings in Ducor in 2008. In the opinion of the advisor, the contamination is not high enough for the competent authority to require remediation of the soil, and Carmel Olefins was provided with an indemnification letter in this regard for the lease term preceding its purchase of Ducor.
- 1.17.3.5.3 As from 2025, Ducor is expected to be subject to the sustainability reporting regulations, which came into force in Europe in 2024 under the Green Deal policy, and which is gradually implemented in European Union countries. This regulation requires companies in Europe and around the world to present data on sustainability and environmental impacts in accordance with defined criteria, including addressing climate aspects, dealing with environmental impacts, and having in place ESG strategies.
- 1.17.4 **Administrative or legal proceedings related to environmental protection**
- 1.17.4.1 For details of the warnings, summons to hearings, hearings, notices regarding intent to impose monetary sanctions, indictments, orders and investigations received by the Company, Carmel Olefins and Gadiv for alleged violations of the emission permits and/or poisons permits and/or personal orders and/or the Ministry of Environmental Protection procedures issued for the Companies, see Note 20A to the Consolidated Financial Statements.
- 1.17.4.2 For details regarding legal claims and motions for certification of the claims as class actions and a derivative action, see Note 20A to the Consolidated Financial Statements.

The Company's assessment, including by way of reference, on the expected impact of the foregoing warnings, requirements and claims on Group Companies is forward-looking information, as defined by the Securities Law, and as such is uncertain and may not materialize, in whole or in part, or may materialize in a way that is different than expected. The Company's assessment is based, inter alia, on assessment of the measures required to comply with the requirements and the cost of their implementation, which is affected by external factors, including know-how, equipment and service providers and steps taken or expected to be taken by the Ministry of Environmental Protection, as well as its experience with managing the said procedures and the opinion of its representatives on the said procedures. The Company's assessments may not materialize or may materialize partially, inter alia, if the type of investments required and/or the estimated cost of their implementation changes and/or if the Ministry of Environmental Protection takes different measures than expected and/or makes precedent judicial decisions that are stricter for the company or companies of its kind in the sector in general or on specific matters concerning the Company, and due to the other risk factors to which the Company is exposed, as outlined in Section 1.23 below.

1.17.5 **Legislation, standards and new regulation**

1.17.5.1 **Draft hazardous substances Regulations (Hazardous Waste), 2021 (hereinafter, in this Section - the “Draft Regulations”)**

1.17.5.2 **The Climate Bill, 2024 (hereinafter - the “Climate Bill”)**

The bill passed the first reading in April 2024 and on June 4, 2024 it was discussed by the Knesset's Internal Affairs and Environment Committee ahead of the second and third readings in the Knesset. The Climate Law stipulates targets for the reduction of greenhouse-gas emissions, including a 50% reduction by 2030 and zero net emissions by 2050. The law provides a long-term legal framework for implementing climate policies, with inter-ministerial cooperation, establishment of government task forces, and requirements regarding regular reporting on and control over the achievement of targets. Furthermore, the law includes preparations for dealing with climate change in areas such as water, energy and agriculture, in order to adapt the infrastructure to changing conditions. The current wording of the law allows changing the targets pertaining to the reduction of greenhouse-gas emissions. Consequently, it is possible to change the state's targets “in accordance with the needs of the economy”; in addition, there is no deadline and schedules are flexible. Company's management is of the opinion that the passing of the bill into law shall not have a material effect on the Company.

This legislation is part of an overall global trend of adopting climate and sustainability regulations, mainly in Europe, which affects companies which operate globally.

1.17.5.3 **Industrial Chemical Registration Memorandum of Law, 2020 (hereinafter - “Industrial Chemical Registration Memorandum of Law”)**

In October 1, 2020, the Industrial Chemical Registration Memorandum of Law was published with the aim of preparing a register of chemicals manufactured in and imported to Israel. At this early stage, it is difficult to estimate how entry into force of the proposed law will affect the Company. However, from the Company's experience a similar mechanism in other countries led to a change in competition in the chemical sector, due to additional investments required in those markets by the manufacturers and importers, which led to withdrawal of players from those markets.

1.17.5.4 **Additional conditions in toxin permits for PFAS compounds**

During 2024, the Ministry of Environmental Protection regulated the use of fire extinguishing foams containing PFASs on a fuel farm. In November 2024, the Ministry of Environmental Protection published additional terms and conditions for toxin permits for PFAS compounds, after discussion of public comments. The main requirements under these conditions are the replacement or reduced use of substances containing PFAS compounds, a PFAS emissions environmental management plan, a storage regulation plan, maintenance and control of handling PFAS compounds, management of hazardous waste containing PFAS, and sampling and monitoring of PFAS compounds in industrial wastewater. These conditions were added to the Group Companies' toxin permits in December 2024, and the companies are studying the conditions and preparing to implement them. At this stage, the Company estimates that the expenses required for compliance with the above terms and conditions are immaterial.

1.17.6 **Quality management standards**

As at the reporting date, the Company and its subsidiaries are certified under the following management standards relevant to their areas of activity: (1) Quality Management Standard ISO 9001; (2) Environmental Management Standard ISO 14001; (3) Occupational Health and Safety Management Standard ISO 45001; (4) Information Security Management Standard ISO 27001; and (5) Energy Management Standard ISO 50001.

1.17.6.1 The standards indicate the quality of process management in Bazan Group according to ISO standards, both in general and in areas in which the Company pays close attention and which it considers strategic management goals: safety, environmental protection, product quality, energy management and saving, and information security.

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- 1.17.6.2 As at 2017, the Company has been awarded the Platinum Award of the Standards Institute of Israel, which is awarded to organizations that are committed to quality and excellence, and holds five marks of quality and more, indicating that the process management systems and products comply with the criteria of international standards.

1.18 **Restrictions on and Regulation of the Company's activity**

In addition to the above environmental protection laws, as detailed in Section 1.17 above, various price control, business licensing, competition and safety laws, standards and orders are applicable to the operations of the Group Companies, and with respect to the Company, also provisions originating from its privatization procedure. The relevant laws applicable mostly to the operations of the Group Companies are as follows.

1.18.1 **Government price control**

The maximum price for fuel products sold by the Company is not controlled. Control over the maximum ex-refinery prices will reapply if the refinery fails to uphold the reporting obligations applicable to it with respect to refined product quantities and prices or if its share of one refinery exceeds 50% of the local market consumption of the product and is less than 15% at another refinery.

The Commodities and Services Price Control Ordinance (Maximum Ex-Refinery LPG Price), 2000 prescribes that the LPG price control regime is in accordance with Section G of the Price Control Law (Profit Reporting), and if it becomes clear that a refinery sold LPG at a higher price than the import price of the month preceding the month of the sale (as defined in the order), or that a refinery supplied LPG to different consumers at different prices simultaneously, Section F of the Price Control Law (Application to Raise Prices) will apply. During 2021, the Company applied to the Price Committee to revise the provisions of the order; following this request, a hearing was held and on January 3, 2024 amendments to the orders were published in the Regulations Compilation, according to which some of the Company's claims were allowed and the calculation of the price was revised. Furthermore, provisions were set regarding the applicability of the order to automotive LPG. The amendments will come into effect as from February 1, 2024.

The prices of the storage, pumping and distribution infrastructure services provided and consumed by the Company (excluding the infrastructure services purchased from EAPC and excluding some of the infrastructure services provided by the Company) are prescribed in the Commodities and Services Price Control Ordinance (Fuel Industry Infrastructure Tariffs), 1995. This Ordinance sets a range of price-controlled services and defines service standards for these services, setting out the obligations and rights of infrastructure service providers and recipients, including guidelines regarding service quality, liability for the quality of the fuel products and providing services on an equal basis.

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From time to time, the maximum rates for infrastructure services paid in the fuel industry in Israel were revised, so the infrastructure prices paid by the Company increased. The Company takes measures for optimal efficiency of the use of infrastructures services that it receives, which are subject to price control. In 2023, the Company was sent a summary of the meeting of the inter-ministerial Price Committee of the Ministry of Energy and Ministry of Finance dated July 14, 2022, to assess the prices of infrastructure operations in the fuel market as set out in the Commodities and Services Price Control Ordinance (Fuel Industry Infrastructure Tariffs), 2014 (hereinafter in this subsection - the "Ordinance"). In accordance with the Ordinance, which was signed on January 27, 2025 and published in the Official Gazette on February 2, 2025, infrastructure prices paid by the Company will increase. In the opinion of the Company, the signed Ordinance is expected to increase the amounts paid by the Company in respect of its use of oil infrastructures by an annual estimated total of approx. USD 5.5 million (depending on the representative exchange rate and the scope of infrastructure use). Subsequent to the report date, the Company filed a petition with the High Court of Justice in connection with the signed ordinance.

The abovementioned information regarding the effects of the implementation of the Ordinance on the Company's operating results constitutes forward-looking information, as defined in the Securities Law, and as such is uncertain and may not materialize, in whole or in part, or may materialize differently than expected. This information is based on Company's assessments as to the use of the infrastructure and the expected scope and nature of the activity, which may change as a result of various factors, including the potential courses of action and alternatives for the use of the relevant infrastructures. These effects may not materialize, may materialize only in part or in a manner that is materially different than expected, as a result of factors that are beyond the Company's control, such as the USD exchange rate and use of infrastructures arising from customer orders and the source of raw materials.

1.18.2 Regulation of monopolies

In 1988, the Competition Commissioner declared the Company a monopoly in the Fuel Distillation Services Segment. For many years now, the Company no longer provides fuel distillation services, but sells refined products, so the conditions prescribed in the declaration are irrelevant to the Company's operating activity. Nonetheless, considering the amendment to the Economic Competition Law, which became effective at the beginning of 2019 and significantly expanded the definition of a monopolist, the Company believes that, in the foreseeable future, it is likely to continue to be a monopoly over a considerable number of the refined products which it sells.

Carmel Olefins was declared a monopoly in the supply of low-density ethylene and polyethylene.

Gadiv was declared a monopoly in the benzene,²⁶ toluene and xylene segment. Since the vast majority of Gadiv's products are sold outside Israel, these provisions have no significant impact on its business.

²⁶ Gadiv does not sell benzene in Israel.

Under the Economic Competition Law, its provisions regulating the operations of monopolies are applicable to the Group Companies, including the Company, with respect to products over which any of them has a monopoly, including the prohibition on unreasonable refusal to supply the asset or service in the monopoly, the prohibition to abuse the monopoly status in the market to reduce competition in business or harm the public, prohibition on charging exorbitant prices on the Company's products included in the monopoly, etc.

1.18.3 The Competition Commissioner's resolutions regarding rules applicable to the Company following its privatization and split from ORA

In his ruling of September 27, 2006, authorizing the purchase of ORA by Paz, the former Competition Commissioner stated that full separation must be maintained between ORA's operations and the operations of any other refinery in Israel, and that no arrangement may be implemented concerning joint purchase of raw materials, cooperation in the sale or marketing of products or the use of production, storage, pumping or dispensing infrastructure, or port or unloading infrastructure, without the prior consent of the Commissioner, other than the transfer of feedstock where needed to provide an immediate solution for a production malfunction.

In the ruling, it was clarified that the feedstock agreement signed between ORA and the Company under the split transaction did not require the Commissioner's consent.

The ruling also set out provisions requiring ORA to supply customers in the LPG market equally and without discrimination. In view of Paz's split from Oil Refinery Ashdod, the Company believes that any potential settlement between the parties will be subject to the Economic Competition Law and competition laws, rather than the said specific conditions.

1.18.4 Natural Gas Market Law

The Natural Gas Market Law stipulates that an Oil Refiner or entity related to an Oil Refiner may sell or market natural gas under the following conditions:

- (1) The sale or marketing of natural gas will not be conditional on purchasing another service or product from it or others, or refraining from purchasing a service, product or natural gas from others;
- (2) (a) It will not operate or manage gas stations providing refueling with natural gas and will not hold the right to sell or market natural gas exclusively to them or means of control of them if the quantity of such gas stations exceeds twenty, or 25% of the quantity of such gas stations in Israel, whichever is higher, either solely or together with others who are Oil Refiners or entities connected to an Oil Refiner, as the case may be;
(b) When counting the gas stations in subsection (a), all the stations which an Oil Refiner, or entity connected to it, operates, manages, or in which it holds the right to sell or market natural gas or holds means of control, as set out in that subsection, must be taken into account;
- (3) It complies with further condition, if prescribed by the Minister of National Infrastructures, with the Minister of Finance's consent and the Knesset Economic Affairs Committee's approval.

1.18.5 Law for Economic Competition and Minimizing Market Concentration

In the Reporting Year, the Reduction of Market Concentration Committee resolved - by virtue of the Law for Economic Competition and Minimizing Market Concentration, 2013 (hereinafter - the “**Market Concentration Law**”) - that the Group, which is no longer part of the Idan Ofer Group, is now defined as a concentration-promoting entity in and of itself, following the sale of control in the Company. The Group is considered a concentration-promoting entity since the scope of its activity exceeds half of the activity in the field of LPG production and fuel refining; furthermore, the Group is defined as a significant non-financial corporation due to the Group's sales turnover which totaled NIS 6.664 billion in 2022. In addition, the controlling shareholders of the Company, Mr. David Federman, Mr. Adi Federman, Mr. Alex Passal and Mr. Yaakov Gutenstein, were added to the lists of concentrated entities.

Furthermore, the meaning of the Company’s being a “concentrated entity” is that the provision of licenses or concessions to infrastructures require the regulator to take into consideration aggregate concentration considerations and to consult the Reduction of Market Concentration Committee as to the impact of the allocation of a concession or a license on the aggregate concentration. This may also impact the requirement to separate significant non-financial corporations from significant financial corporations as defined in the Market Concentration Law.

An additional dimension of the Market Concentration Law is a restriction on companies with a pyramid structure to two tiers of reporting companies (termed “**tier subsidiary**” in the law). As at the Reporting Date, the Company, which is controlled by IPE (which is a reporting companies), is considered a second-tier subsidiary.

1.18.6 Licenses

The Companies hold the following main licenses which are required for their operations and set out the terms of their operations:

| Expiration of license | Licensing authority | License holder | Type of license |
|------------------------------|---|-----------------------|---|
| May 29, 2025 | Haifa Municipality ⁽¹⁾ | The Company | Business license |
| June 30, 2025 | Haifa Municipality ⁽¹⁾ | Carmel Olefins | Business license |
| August 23, 2025 | Haifa Municipality ⁽¹⁾ | Gadiv | Business license |
| August 17, 2025 | Haifa Municipality ⁽¹⁾ | The Company | Business permit to transport gas and fuel |
| August 17, 2025 | Haifa Municipality ⁽¹⁾ | Gadiv | Business permit to transport fuel |
| December 31, 2025 | Ministry of Finance - Israel Tax Authority | The Company | License to manufacture and operate a fuel storage site |
| December 31, 2025 | Ministry of Finance - Israel Tax Authority | Gadiv | License to produce fuel and approval of a production site |
| November 30, 2027 | Ministry of Energy | The Company | Gas supplier license |
| May 9, 2031 | Ministry of Energy - Israeli Electricity Authority | The Company | Electricity generation license |

- (1) The business licenses are subject to conditions issued by the “approving entities”, including the Ministry of Environmental Protection, Fire Department, Ministry of Economy and Industry, as the case may be. The Company takes steps to renew all the licenses required for its operation proximate to their expiry date. Subject to continuing to comply with the terms of the licenses issued for the Company, it does not foresee any grounds for non-renewal of these licenses.

The Company's assessment regarding renewal of the licenses required for its operations is forward-looking information as defined in the Securities Law and depends, inter alia, on the decisions of third parties with authority under the law. Therefore, this assessment may not materialize, or the terms of the licenses may change, so that it may be difficult for the Company to manage its business affairs.

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For details on environmental protection and hazardous substance permits, see Section 1.17.2.5 above.

1.18.7 Other regulatory provisions that apply to the Company:

- (1) Essential enterprise - The Bazan Group's plants have been declared essential enterprises under the Emergency Work Service Law, 1967, which regulates their operations in emergencies. An essential enterprise is an enterprise declared by the authorized government ministries as performing operations which are essential for essential supplies and services. The Law authorizes the Minister of Economy and Industry to require Company employees and persons who are not Company employees to present themselves for work at the Company's plant in an emergency.
- (2) Work on rest days - They have a special permit to engage employees on weekly rest days under the provisions of the Hours of Work and Rest Law, 1951, which is valid until September 30, 2025 and with respect to Carmel Olefins, until December 31, 2026.
- (3) Standards - Israel has official standards with respect to most of the refined products sold by the Company. There are Israeli standards for some other refined products or provisions with respect to their quality in orders enacted under the Vehicle Operation (Motors and Fuel) Law, 1961, and occasionally, the specifications under which the Company supplies its products are determined by agreement between the Company and the customer.
- (4) LPG - The State Economy Arrangements (Legislative Amendments) (Sale of Gas by Refineries and Gas Suppliers), 2009 impose on the Company various provisions to regulate the supply of LPG by the Company to the various gas suppliers in general and during an LPG shortage.

1.18.8 Protection of essential state interests by the Company - Provisions of the Government Companies Law and the Essential Interests Ordinance

Section H2 of the Government Companies Law, 1975 authorizes the Prime Minister and Minister of Finance to declare in an order that the State has essential interests concerning a company under privatization and to make provisions in the order to protect the vital interests of the State. Under the law, the Government Companies Ordinance (Declaration of Essential State Interests in Bazan Ltd.), 2007 (hereinafter, in this Section - the "Ordinance" or the "Interests Ordinance").

1.18.9 The main provisions of the Interests Ordinance:

1.18.9.1 General

The Company's activity is subject to the provisions of the Interests Ordinance, which sets out the State's essential interests concerning the Company:

- (1) Maintaining the nature of the Company as an Israeli company whose business and administration center is in Israel;
- (2) Preventing exposure or disclosure of confidential information, for state security reasons;
- (3) Promoting competition and preventing concentration in the fuel industry;
- (4) Preventing the formation of situations in which the Company is influenced by hostile entities or entities that may harm state security or foreign relations;
- (5) Ensuring continuity of crude oil refining activities, and of production and sale of refined products in Israel.

In order to secure the fulfilment of said interests, the order sets out various restrictions and obligations, the main points of which are as follows.

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1.18.9.2 Restrictions on holding of control or means of control

- (1) Prohibition on acquiring or holding control of the Company without the prior written consent of the Prime Minister and the Minister of Finance (hereinafter, in this Section - the “**Ministers**”);
- (2) Prohibition on holding 24% or more of a certain type of means of control in the Company without the Ministers' prior written consent and on increasing holdings beyond that set out in the approval;
- (3) Restrictions on the identity of a controlling shareholder or any holder of 5% or more of the means of control of the Company, with respect to prohibited cross-company holdings (at a rate that exceeds 5%) in the Company and a company holding one of the following: ORA; storage, pumping, or distribution infrastructures; port infrastructures; companies involved in natural gas; and entities registered or owning operations in an enemy country; the Company applied to the Ministers to increase the permitted cross-holding rate under the order to 10%. On February 10, 2022, former Director General of the Ministry of Finance announced that the Ministry has formulated a position whereby the Interests Ordinance should be amended such that institutional entities would be allowed to have cross-company holdings of up to 7.5% in the Company's shares and in the shares of Oil Refinery Ashdod provided that a director who serves in the Board of Directors of ORA shall not serve in the Company's Board of Directors.

On September 25, 2024, the Ministry of Regional Cooperation published a draft for public comment of the Government Companies Ordinance (Declaration of Essential State Interests in Bazan Ltd.) (Amendment), 2024. According to the amendment, institutional entities would be allowed to have cross-company holdings of up to 7.5% in the Company's shares and in the shares of Oil Refinery Ashdod provided that a director who serves in the Board of Directors of ORA shall not serve in the Company's Board of Directors. The deadline for submission of comments by the public was October 31, 2024. In order to approve the ordinance, the approval of the Ministerial Committee on Privatization is required, which - as of the Report date - has not yet been obtained.

- (4) Requiring the Company to issue an immediate report any holding of control or means of control without receiving prior consent, in percentages that require consent under the order, including due to exercising a lien on means of control or any other right granted;
- (5) Requiring any person holding control or means of control without approval to sell their holdings, and the Company will have no authority to exercise any right under non-compliant holdings.

1.18.9.3 The control permit by virtue of the Interests Ordinance²⁷

1.18.9.3.1 Under the said provisions, until September 2022, Israel Corporation Ltd., IPE, and PCH benefited from control permits to control and hold a means of control in the Company, granted to each of them by the ministers, by virtue of the Interests Ordinance.²⁸

1.18.9.3.2 As stated in Section 1.3.2 above and to the best of the Company's knowledge, upon exercising the right of first refusal under the control agreement between IPE, PCH and Israel Corporation, and during September 2022, the old control permits granted to IPE, PCH and Israel Corporation to control and hold means of control in the Company will expire.

²⁷ The particulars in this Section are to the best of the Company's knowledge.

²⁸ The permits granted to them on June 27, 2007, May 7, 2009, June 7, 2009, which were amended from time to time, including on February 2, 2017 and August 30, 2017, respectively.

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- 1.18.9.3.3 As the same time a new permit to control and hold means of control in the Company will become effective pursuant to Interests Ordinance given to IPE, PCH, and the Individual Controlling Shareholders of IPE: David Federman, Adi Federman, Yaakov Gutenstein, and Alex Passal (hereinafter - the **"Individual Permit Holders"** and jointly with IPE and PCH - hereinafter - the **"Permit Holder"**), which regulates, inter alia, the acquisition of the Company's share from Israel Corporation by IPE and PCH.
- 1.18.9.3.4 Under the control permit, the permit holder may be the sole controlling shareholder of the Company and hold 24% or more of the means of control.
- 1.18.9.3.5 The control permit is subject to compliance with its requirements, terms and conditions, and undertakings by IPE, PCH, and the Individual Permit Holders in IPE.
- 1.18.9.3.6 Additionally, the Permit is subject to the fact that the Permit Holder will hold the means of control in the Company for the Permit Holder and not for any other party, and that IPE and PCH only, under the control of the Individual Permit Holders alone, will exercise the control and means of control in the Company, at the sole and absolute discretion of IPE and PCH.²⁹
- 1.18.9.3.7 To complete the picture, it should be noted that, to the best of the Company's knowledge, on October 23, 2022, Mssrs. Michael Bobrov, Ohad Schwartz, and Adar Schwartz, the partners of the Individual Permit Holders in Green Alaska Ltd. (hereinafter - the **"Permit Applicants"**), filed a request to receive a control permit in the Company. As reported by IPE on January 21, 2024 (Ref. No.: 2024-01-008823), on January 18, 2024, the Government Companies Authority informed the Permit Applicants that the Government Companies Authority is considering to recommend ministers not to give the Permit Applicants a control permit in Bazan, which constitutes an essential infrastructure, whose activity has strategic significant for the State of Israel. In its notice, the Government Companies Authority notes that the notice is based, among other things, on the opinion of security agencies, as to the identity of the financing party, that provided financing to the Permit Applicants in their bid to join the control core in IPE and in Bazan, and in view of the affiliations arising from the set of agreements and the business affiliations between the Permit Applicants and the financing party. As stated in Section 1.18.9.3.6 above, as long as such a permit is not granted, IPE and PCH are under the control of the Individual Permit Holders alone, they will exercise the control and means of control in the Company, at their sole and absolute discretion. On August 7, 2024, IPE announced (Ref. No.: 2024-01-080433) it received a written notice from the Government Companies Authority, whereby the Authority announces that it stopped dealing with the application by Mr. Michael Bobrov, Mr. Ohad Schwartz and Mr. Adar Schwartz for a control permit in Bazan Ltd. in accordance with the Government Companies Ordinance (Declaration of Essential Interests for the State in Bazan Ltd.), 2007.

²⁹ And based on the declaration of the Permit Holder, that it is unaware of any legal impediment to its ability to exercise the control and means of control, including receivership, bankruptcy, or liquidation, or an agreement or arrangement with any third party.

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1.18.9.3.8 In addition, and as stated in the Company's reports dated February 16, 2025 and February 23, 2025 (Ref. Nos. 2025-01-010777 and 2025-01-012111), Mr. Adi Federman, through companies under his control, contracted on February 13, 2025 with Green Oil Ltd. and Green Alaska Ltd. -which prior to the contract was jointly held by the permit applicants and the Individual Permit Holders (and upon completion of the transaction, will remain under Mr. Boborov's exclusive control) - in a contingent agreement for the purchase of part of Alaska shares in IPE and its entire rights in the convertible loan it provided to IPE, with the Individual Permit Holders exiting Green Alaska. A contingent agreement was also signed between the Individual Permit Holders themselves, among other things, regarding the manner of voting on the Company's Board of Directors; for further details regarding the IPE's notice as to abovementioned agreements signed between IPE's shareholders, see the Company's reports of February 16, 2025 and February 23, 2025 (Ref. Nos.: 2025-01-010777 and 2025-01-012111, respectively), the details of which are included herein by way of reference.

1.18.9.4 Center of business and ongoing management

Following are the key restrictions placed by the Interests Ordinance regarding the management of the Company:

- (1) The Company will always be incorporated and registered in Israel with its operating activity and business center in Israel.
- (2) The majority of the Company directors, including the Chairman of the Board, will be Israeli citizens and residents and have security clearance and security compatibility for their position, as determined by the General Security Service, unless the General Security Service approves deviation from such in writing and in advance, under such conditions as may be prescribed.
- (3) The following appointed Company officers will be Israeli citizens or residents and have security clearance and security compatibility for their position, as determined by the General Security Service: the CEO, acting CEO, VPs of Engineering, Operations and Information Systems, General Counsel, Deputy General Counsel, Acting General Counsel, Internal Auditor, Chief Security Officer and staff, Chief Essential Computer Systems Officer and staff, other officer, senior officers and service providers, including consultants who receive security classified information or work in operations with security entities, as determined in coordination with the Company's Chief Security Officer and CEO.

1.18.9.5 In that context, it should be noted that the Company and Carmel Olefins are also subject to The Regulation of Security in Public Bodies Law, 1998, which sets out special provisions regarding security arrangements in their facilities. The law requires the Company to appoint a security officer and an essential computer systems officer, grants the security officer various powers to perform security activity at the Company, and requires the Company to following the police's instructions with respect to physical security measures and the General Security Services' provisions with respect to information security actions. The provisions of the law regarding actions to protect essential computer systems also apply to Carmel Olefins.

1.18.9.6 Changes in the Company's structure

Under the Interests Ordinance, the following actions require prior written ministerial consent, following consultation with the Minister of National Infrastructures: Voluntary liquidation of the Company; a settlement or arrangement between the Company and its creditors or shareholders; a merger of the Company with another company; a split of the Company, other than a split relating only to the transferring Company assets not used in refining crude oil, manufacturing fuel products and supplying them in Israel.

1.18.9.7 **Additional restrictions on the Company's operations under the Interests Ordinance**

- (1) The Company is subject to various restrictions in the field of distillates in the gas stations. Thus, inter alia, the Company will not be entitled to hold rights in gas stations that constitute 20% or more of all of gas stations in Israel, unless the terms and conditions of the Interests Ordinance have been met; the Company will not purchase rights in fuel pumping stations from any single entity during a period of three years, if such represents more than 7.5% of all of the gas stations in Israel; the Company will not purchase control of 5% or more of the means of control of a company whose business is selling distillates at gas stations, if the Competition Commissioner determines that such operations are nationwide, unless the Ministers establish, in consultation with the Competition Commissioner, that this will promote competition in the fuel industry.
- (2) The Company will not hold control or be the owner, holder or operator, directly or indirectly, including through an investee or a company in which it holds 5% or more of the means of control, of port infrastructure for importation or exportation of refined products in Israel without fulfillment of the terms and conditions provided in the Interests Ordinance.
- (3) The Company will not have a monopoly, as defined in Section 26 of the Economic Competition Law, whether declared or not, in the dispensing, pumping or storage of refined products in Israel, including through an investee or a company in which it holds 5% or more of the means of control, unless the conditions set out in the Interests Ordinance are fulfilled.
- (4) The Company will not hold control of 5% or more of the means of control of ORA or Pi Giliot or one of its terminals.

1.19 **Insurance**

The Group Companies maintain insurance coverage for the various risks related to the nature of their business. As at the report date, the material insurance policies of the Group Companies, which they purchase jointly, are as follows:

- 1.19.1 **Property and loss of income insurance** - the policy covers direct physical damage and consequential damage with an overall liability limit of up to USD 1.75 billion per event and period, when the maximum indemnity period for consequential damage is 30 months. The policy sets out lower coverage limits for certain risks and it is subject to the deductibles as customary in the industry.
- 1.19.2 **Terrorism and hostilities insurance policy** - in addition to the rights granted under the Property Tax and Compensation Fund Law, 1961, the Group Companies have purchased a policy granting certain coverage against consequential damage resulting from terror acts and war. As of the report date, the coverage is USD 250 million for an indemnity period of 30 months, subject to deductibles, as is customary in the industry.
- 1.19.3 **Liability insurance** - the Group Companies have purchased statutory liability insurance coverage for direct physical or consequential third party damage from actions and the supply of products by the Company; third party bodily harm resulting from actions and the supply of products by the Company; bodily harm to Company employees; accidental pollution; ongoing environmental pollution resulting from events which occurred as from 1999 (other than in relation to the Kishon River) and the Company's liability with respect to chartered vessels; the volume of the Company's coverage and deductibles are set out in the policies and vary according to the coverages.
- 1.19.4 **Marine cargo insurance** - the policy provides coverage of up to USD 300 million for loss or damage to international cargo shipments and the inventory of the Group Companies stored outside the Company's premises.

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- 1.19.5 **Directors and officers liability policy** - the Company holds an ongoing policy for the liability of directors and officers in the Company and the companies which it holds directly or indirectly, with a liability limit of USD 220 million (the liability limit includes indemnity for the Company's own liability in the amount of USD 180 million), which also covers claims regarding securities. In addition, the Company has a runoff policy with a liability limit of USD 190 million for seven years (starting from September 15, 2022) to cover claims filed in the insurance period for acts that occurred up to the day the insurance was purchased.
- 1.19.6 **Ducor maintains insurance coverage for various risks** related to the nature of its business. As at the date of this report, Ducor's material insurance policies are a property and loss of income policy with lower liability limits than those of the Company.
- 1.19.7 **Credit insurance** - the Group Companies maintain ongoing customer credit insurance policies to reduce exposure to the risk in providing credit, which include deductibles.
- 1.19.8 It is noted that the insurance coverage under each of these policies is subject to the terms and exceptions set out in each such policy. Although the Company is insured for coverage for various damages which may be incurred in connection with its operations, not all possible risks are covered or can be fully covered under its various policies. Therefore, the insurance payouts, if any, will not necessarily cover the full extent of the damages and/or all the possible losses. As customary, in case of property damage, if not reinstated, the coverage amount will be at the indemnity value calculated according to the provisions of the policy.
- In addition, there is no certainty that it will be possible to purchase appropriate policies in the future under reasonable commercial terms and conditions, if any. In addition, there are certain insurance coverages that the Company may decide to avoid for various reasons, such as due to cost effectiveness. It is noted that the decision on the type and scope of insurance is made taking into account, among other things, the cost of the insurance, quality and scope of the proposed coverage, relevant legal requirements, and the ability to obtain appropriate coverage in the insurance market.
- 1.20 **Material agreements**
- The Group Companies have entered into agreements that are material for their operations. For details regarding the material agreements to which the Company or its consolidated companies are party, see Note 20B of the Consolidated Financial Statements.
- 1.21 **Legal proceedings**
- 1.21.1 There are various lawsuits pending against the Company and its consolidated companies, including motions to certify claims against it and its past and present officers as class actions, and motions to certify derivative actions in the name of the Company.
- For details regarding the material legal proceedings to which the Company and/or its consolidated companies are party, see Note 20A of the Consolidated Financial Statements.
- 1.22 **Business strategy and objectives**
- 1.22.1 Bazan Group adopted a vision whereby it will serve as an essential bridge to the future of the transportation energy sector in Israel and lead a transformation in the refining and polymer activities, which will be focused on sustainability and innovation, along with an assessment of opportunities to create additional substantial relevant sources of income.

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- 1.22.2 The Company's management, under the direction and supervision of the Board, regularly assesses its plans and strategic objectives and its compliance therewith, as well as external factors, which affect the Group's activity, which recently included changes in the markets in light of the Russia-Ukraine War, the Iron Sword War and its effects, regulatory changes as well as the Government Resolution regarding the government's strategy for the Haifa Bay and the implementation of the negotiations pertaining to this strategy (for further details regarding this Government Resolution, see Note 20C to the Consolidated Financial Statements).
- 1.22.3 As of the Report date, the Company's strategy focuses on strengthening and improving the existing production function in the refining and polymers activity while focusing on improving efficiency and implementing advanced tools and technologies, reinforcing relationships with customers and increasing the ability to respond to changes in market demand; examining and developing significant new activities; and continuing to establish capabilities in future fields, including green fuels, green polymers and hydrogen, while maintaining its position as a market leader in Israel. The Company executes the above while ensuring safety, being committed to the principles of sustainability and ESG and maintaining the level of financial debt at the structure and composition prescribed by the Board, taking into account the Company's solvency and the average duration of its debt as well as ensuring the Group's liquidity and financial robustness (see also Section 1.1.1 above).
- 1.23 **Risk factors**
- 1.23.1 **Risk management process in the Group**
- The Group's operations, across all segments, involve risk factors which may have a material adverse effect on the Group's business activity. Bazan Group's corporate risk management process is a strategic process that, inter alia, plays an important role in the reinforcement of corporate governance, and the implementation of advanced management and control tools. The Group views having in place an effective risk management process as an important component of all steps and measures it takes in order to maintain a sustainable business activity that will allow it to fulfill its strategic and business targets.
- 1.23.1.1 The Group's management adopted an orderly risk management policy, which is based on an international risk management model (COSO ERM³⁰); and implemented an orderly risk management process in order to mitigate the risks to which it is exposed, while putting in place procedures that define the areas of responsibility and powers of various parties in the Group, and establishing mechanisms to identify, control, report and monitor risks.
- 1.23.1.2 As part of the risk management process, the Group works continuously to reinforce the commitment to risk management among its managers and employees, such that it continues to form an integral part of its business activity, thereby improving the performance of the various units, enabling the achievement of its strategic and business goals, and maintaining an effective corporate governance policy.
- 1.23.1.3 The Group appointed Mr. Guy Liberman (CFO) as the Group's Chief Risk Officer, who works in collaboration with other members of management, the CEO and representatives thereof to map, identify and prioritize the Group's risks, formulate plans to address and mitigate those risks and to monitor their development.
- 1.23.1.4 Reports regarding the monitoring and development of risks, and the steps to mitigate them are communicated at the relevant frequency to the risk management forum headed by the Group's Chief Risk Officer, the risk management steering committee headed by the CEO, the Board of Directors' Audit Committee and the Company's Board of Directors.

³⁰ The Committee of Sponsoring Organizations of the Treadway Commission

1.23.1.5 Every 3-5 years, the Company conducts a comprehensive risk survey, which identifies the risks, risk factors and their potential effects. The survey is approved by the Group's Audit Committee and Board of Directors, followed by the Company formulating mitigation plans and key risk indicators (KRIs) for all identified key risks. The last survey was completed in 2024, in which the main key risks were identified and mapped, which include, among other things, Government Resolution 1231 for the advancement and development of the Haifa Bay, adverse effect on the Group's activity due to geopolitical conditions, regulatory changes, and environmental, climate, cyber, financing and liquidity risks. Furthermore, the Group established an orderly process for interim periods between risk surveys to validate the risk map and update the risks, where new risks were identified, which are relevant for the Group's activity.

1.23.2 **Macro risks**

1.23.2.1 **Economic slowdown - the global economic crisis** - the demand for fuel products is affected by various factors, as described in Section 1.7.2.2.4 above. A market slowdown or recession, including due to purely non-economic factors (geopolitical events, such as a war between the Russia and Ukraine or other events, like the spread of the Covid-19 virus) may substantially impair the refining margins, due to a reduction in fuel product purchases and surplus refining capacity. In general, the crude oil market has been characterized by substantial fluctuations.

In the Polymers Segment, a market slowdown or recession, excess production capacity, and other purely non-economic events as stipulated above, could be manifested in a significant decrease in demand for polymers and polymer margins. As a result, the Group's profits and scope of operations may be impaired.

Furthermore, the materialization of the risk may tighten the requirements of credit providers and make it difficult to raise new credit required for business development, investments, working capital and debt refinancing and/or lead to significantly higher borrowing costs.

For details on the risks to the Company following from the Russia-Ukraine war, see Section 1.23.3.1 below.

1.23.2.2 **An economic slowdown or a recession in the domestic market** - the demand for the Group's products is affected by various factors, as set out in Section 1.7.2.2.4 above. Economic slowdown or recession in Israel may substantially impair the Group's profits, due to a decrease in purchases of its products or taking the credit risks into consideration. This situation could affect the volume of orders received by the Group Companies from the domestic market, the level of prices paid to the Companies for the sale of their products and the level of the Group's operations as a whole. In addition, a slowdown or recession may also expose the Group to increased credit risks of its customers. In terms of customer credit risk. It should be noted that Group companies use, among other things, credit insurance (see Section 1.19.7 above) for the various customers.

1.23.2.3 **Wars, armed conflicts and terrorism** – the security, political and economic conditions in Israel directly affect the Group's business. Over the past several decades, several armed conflicts have taken place between Israel and activist organizations in neighboring countries and between Israel and Palestinian elements in the West Bank and the Gaza Strip. For details regarding the implications of the Iron Swords War on the Company's activity and financial results, see Chapter 10 to the Report of the Board of Directors.

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Any escalation of events with Israel's neighboring countries and hostile entities in the Middle East (or any) could give rise to renewed hostilities, which may force the Group to shut down its facilities in whole or in part, due to a lack of available raw material, which may not reach Israel during the hostilities and/or as a result of physical damage to its facilities or the infrastructures serving the Group and/or adapting the Group's activity to said events as outlined in the guidelines of the guiding parties. Terror attacks originating in Israel directed at the Group's assets may force it to suspend its activities or shut down its facilities.

It is noted that the Company's insurance policies provide limited coverage for war and terrorism damage (see Section 1.19.2 above). In addition, the Real Estate Tax Authority grants limited compensation, usually for actual losses resulting from war events; however, the said compensation does not cover loss of income due to said damage, which may be covered by the Company's insurance policies.

In addition to the above, it is noted that the operations of the Group Companies are dependent on the importation of crude oil from various countries. As of immediately prior to the approval of the report, certain countries, mainly in the Middle East, prohibit doing business with Israel or Israeli companies. A state of armed conflict, which will lead to negative public opinion with regard to Israel or expansion of the boycott imposed on Israel to other countries that trade with it may harm the Company's ability to purchase crude oil or other inputs and its ability to transport them to ports in Israel.

In addition, geopolitical developments could also give rise to a reduction or cessation of flights to and from Israel, and affect Israel's position in the world, and consequently also the Company's ability to sell its products in certain markets due to its status as an Israeli company, which may bring about a decrease in demand for the Company's products. Moreover, geopolitical developments may prevent the arrival of experts to Israel, the performance of refurbishment work and/or the provision of support services regarding malfunctions; they may also have an adverse effect on Group products' supply chain.

1.23.2.4 **Climate changes and occurrence of a natural disaster, including earthquakes** - Extreme weather events and natural disasters may cause physical harm to people or property of the Group or third parties, harm to the environment, and a shutdown of the damaged facility and other production facilities which operate in combination with or near the facility affected by the event. An increase in the frequency of extreme weather events worldwide and other climatic influences may also affect the availability of natural resources, the ability and cost to transport them, which may impair the Group's production capacity and negatively impact its business operations and profits.

Since the production facilities of most Group Companies are located at a single site, a natural disaster could lead to substantial damage that causes suspension of all of the Group's operations and facilities in Israel, while dealing with business continuity difficulties. It should be noted that the Group also insures itself against such risks (see Section 1.19 above), subject to the significant deductibles that the Group may have to pay to activate these policies. Also, the compensations paid by the insurers under these policies may not cover and/or fully cover the damages which the Group may incur due a natural disaster.

According to the provisions of the law, the Company is subject to the direction and oversight of regulators and emergency forces, and it follows their guidelines. See also Section 1.17.2 above.

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- 1.23.2.5 **Exposure to exchange rate fluctuations** - the functional currency of the Company and most of its subsidiaries is the US dollar. The exposure of the Group Companies is measured by the USD exchange rate fluctuations compared to the other currencies with which they operate. The Group is exposed to the risk of foreign currency exchange rate fluctuations for sales, current expenses and investments denominated in currencies other than the US dollar. The Group is also exposed to currency risk with respect to NIS-denominated debentures and/or bank loans. For further details regarding currency risks, see Note 29D1 to the Consolidated Financial Statements.
- 1.23.2.6 **Exposure to interest rate fluctuations** – the Group has USD-denominated loans and liabilities (including as a result of cross-currency interest rate swaps) bearing variable interest rates based on SOFR plus a margin. An increase in the interest rates may cause an increase in the Group's finance costs, both in terms of the effect on loans, which bear variable interest, and in terms of the interest environment when raising fixed interest loans. For further details regarding interest rate risk, see Note 29D2 to the Consolidated Financial Statements.
- 1.23.2.7 **General strikes and lock-outs** - general strikes in the Israeli economy and in particular closure of the ports and/or lock-outs at fuel pumping infrastructure companies and/or strikes at the Group Companies' plants (where the majority of employees are unionized and employed under special collective agreements), which could also be part of public sector strikes, may prevent the continuous activity of the Group companies' facilities, receiving of raw materials and the possibility of exporting the Company's and subsidiaries' products, and to hurt their ability to manufacture their products and supply orders on time, thereby harming their ability to meet their obligations to their customers; this could impair the Group's profits and the reputation that the Group Companies have created. Moreover, delays in arrival of imported products could cause a partial, or even complete stoppage of the production process and incur significant costs for the Group.
- 1.23.2.8 **Cyber and information security risks** – in recent years, there is a marked increase in risks related to cyber-attacks or insertion of hostile code into systems, the number of actual events and their severity may be identified. Following the War which broke out in October 2023, the State of Israel experienced an increase in the number of cyber-attacks and threats in the cybernetic sphere, and so did the Bazan Group. Generally speaking, as a possible result of such actions, the ongoing activities and operation of the Group's facilities may be materially harmed, which rely on the Group's IT systems, including its operations, production and finance processes and many HQ processes, business information may be damaged or leaked and the reputation of Group companies may be damaged significantly, and the Group's businesses as a whole may be adversely affected to a significant extent by the occurrence of such incidents.

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In fact, in almost all its operating segments, the Group uses sensitive information systems and communication infrastructure that support, among other things, many operating, production, financial, and head office processes (hereinafter - the “**Systems**”). The Systems are critically important to the operation of the Group’s business and they fulfill a vital function in its ability to operate successfully. Hacking, interference with, damage to, or collapse of the Systems may impair the Group’s business. The systems are backed up and in some cases networks are segregated; however, if some or all of the systems are damaged, this could result in substantial damage to the Company's data and to the applications and infrastructures supporting the Company's processes; such backup and network segregation help to minimize the attack surface (if any). To identify and assess these material risks, the Company performs annual cyber risk surveys using standard methodologies of NIST and Rimon software of the Cyber Directorate and other activities such as penetration testing, compliance with information security standards, and internal audits - both through external experts and in-house functions. The Company has in place detailed procedures regarding the management of cyber risks, in accordance with the information security and cyber security policy, under which procedures, methodologies, controls and various work processes were established both for prevention and for protection purposes and in order to raise awareness of cyber risks and information security. As part of cyber risk management, resources are allocated by the Company's management, and a Chief Information Security Officer was appointed (CISO), who reports to the CEO and the VP Environment, Health and Safety, Procurement and Engagements. Risk procedures and surveys provide the Company with tools to reduce or neutralize the residual risk to which the Company is exposed in this area, and also incorporate a set of scenarios and responses to address cyber-attacks, report to the relevant state authorities, other relevant entities in the Company’s business environment, and to report and disclose the occurrence of a material cyber event to its investors. The Company's Board of Directors appointed a Security Committee as the organ in charge of cyber and information security; in this capacity, the said committee receives regular reports and holds discussions as needed on cyber and information security aspects, including during the reporting period; among other things, the committee was presented with a security and cyber status plan for 2025, and this was subsequently brought before the Board of Directors.

In addition, in accordance with the Regulation of Security in Public Bodies Law, the Company is subject to the direction and oversight of the Israel National Cyber Directorate and operates according to its guidelines. In this context, the Company implements a protection policy incorporating information security systems in the world, in a configuration that integrates effective security with the Company's operational requirements, including physical and logical security circuits to protect databases, computer systems, production facilities, transmission infrastructure to and from the Group's facilities, to prevent and reduce possible malicious or inadvertent use of the Company's data by an external or internal party, and interference in the Group’s operation and management processes.

Due to the constant development and sophistication of cyber risks, the Company works nonstop to improve and raise the level of cyber protection and information security in several areas, including corporate governance, risk management, secure architecture, monitoring tools, and reporting and managing a cyber event. It should also be noted that the Company’s property insurance policy includes some coverage for physical damage to property due to cyber-attacks. However, the relevant policies set out significant deductibles and the compensations paid by the insurers under these policies may not cover or fully cover the damages which the Group may incur due to such physical damage. For further details regarding insurance policies see Section 1.19 above.

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1.23.3 **Industry-specific risks**

1.23.3.1 **War between Russia and Ukraine** - For details regarding the impact of the war in Ukraine on the Group's business activity, see Note 1C to the Consolidated Financial Statements. If it is impossible to buy certain raw materials and intermediate products (such as HVGO) because of the War or the sanctions against Russia, this may have a material adverse effect on the Company, because of a shortage in suitable raw materials and intermediate products for its activity or because of the need to buy alternative and less suitable products. Additionally, there is also a risk that notwithstanding the numerous measures taken by the Company to comply with all the rules arising from the sanctions imposed on Russia, secondary sanctions will be imposed on the Company and/or its reputation will be harmed and/or certain banks will not seek to perform transactions with the Company. Materialization of one of the above risks may have a material adverse effect on the Company.

1.23.3.2 **Exposure to raw material and product prices fluctuations** – the Group's operations in the purchase of raw materials and intermediate products, sale of refined products in the domestic and international markets, sale of polymer products and aromatics areas; and the need for the Group to hold an inventory of oil and petroleum products (including a basic inventory which the Company does not hedge) in significant quantities and an inventory of polymers and aromatics products at all times; expose the Group Companies to market risks due to price fluctuations in raw materials and the products manufactured from them (for further details regarding crude oil price fluctuations, see Section 1.7.2.2.1 above). The Group's policy is to protect itself against such exposure (other than with respect to the Company's above basic inventory) by using the appropriate derivatives for protection purpose (for details, see Note 29D3 to the Consolidated Financial Statements). It is not possible to fully hedge price fluctuation risks. In the above hedging transactions, the Company is exposed to a cash flow risk of the gap between the payment date under the hedging transaction and the date of payment for the sale of its products. In the event of a significant increase in crude oil prices, the Group will be required to increase its working capital in order to purchase the entire volumes of crude oil and intermediate products required for its operating activities, at the expense of reducing liquid cash balances and/or increasing financing channels. In the event of a significant crude oil price decrease, the Group could record an accounting loss with respect to the impairment of its unhedged crude oil inventory, which will be reflected in erosion of its accounting equity.

1.23.3.3 **Erosion of refining and petrochemical margins and impairment of financial resilience** – the Company is exposed to the risk of erosion of refining and polymers margins, which may arise due to a similar global trend. If crude oil prices increase without a parallel increase in the oil and petrochemical product prices, if the demand for products remains fixed or decreases, or if there is an increase in energy costs or operating costs of production plants in the Group's area of activity, the refining and/or polymers margins, which are the basis of the Group's profit, may erode. Based on the possibilities, the Company and Carmel Olefins make polymer and refining margin hedging transactions. There are no sophisticated markets for polymer products and therefore, the operating margin hedging options in these areas are limited. For further details regarding the margin hedging policy, see Note 29D(3) to the Consolidated Financial Statements. With respect to hedging the refining margin, it is noted that if prior to implementation of the hedging transaction, the future margin is higher than the hedged margin, the Company will be required to provide collateral. Therefore, the longer the term of the hedging transaction, the higher the cash flow and consequential exposure throughout the hedging transaction term is likely to be, which may be caused from an increase in margins against the hedged margin.

If this risk materializes over time, it could, as a result of the financial and business impairment, harm the Group's financial strength and ability to raise and maintain the sources of finance in the volume required. Furthermore, the Company has undertakings towards some of its creditors to comply with financial covenants in connection with its financial results, which may lead to non-compliance with the financial covenants applicable to it and expose it to demands for early repayment of the credit it received.

- 1.23.3.4 **Environmental, health and safety regulation and standards** – companies operating in the Group's operating segments are subject to comprehensive regulation with respect to storage, manufacture, transportation, use and removal of their products, their components and by-products. The Company's production facilities are subject to environmental standards with respect to air pollution, groundwater and/or seawater pollution, soil contamination, effluent removal, use and treatment of hazardous substances, and the method of waste removal and decontamination of existing environmental pollution. Over the years and more so in recent years, there has been a continuous stiffening of environmental requirements, including through new environmental legislation, interpretation given to laws in this area and enforcement of environmental standards and other provisions applicable to companies in the Group's operating segments, especially companies whose plants are located in Haifa Bay. Further stiffening of such regulation and/or interpretation and/or enforcement which may be imposed upon the Group's operating segments or the Group Companies specifically, could give rise to higher expenses and investments over and above its existing investment plans and may even impair its operating results.

As industrial companies, the Group Companies must comply with all regulatory occupational safety and hygiene provisions and requirements set by the State. Failure to identify or comply with these requirements in full may expose the Group Companies to administrative and/or criminal sanctions and/or lawsuits.

The Group Companies have various environmental permits and licenses that define the terms for managing the Companies' operations and impose many stringent provision on them from all environmental aspects of their operations. The construction of new facilities or expansion of existing facilities requires obtaining permits and new or additional licenses and the Company may require further permits in future, including under the Clean Air Law. The terms of the permits and licenses may be modified by the relevant regulators. Any breach of the terms of the licenses, permits or other regulatory provisions may give rise to the imposition of fines, criminal or administrative sanctions, cancellation of licenses and restrictions on the operation of facilities, including closure. Failure to grant new permits required by the Group Companies, or aggravation, revocation or revision of the permits, licenses or their terms may impair the Group's financial position and operating results.

As at the report date, several bills, in various stages, dealing with more stringent regulation and enforcement of environmental issues are under discussion. For further details regarding the environmental protection and regulation issues applicable to this segment, including the possible impact of future legislation, see Section 1.17 above.

1.23.3.5 Transition to fuel product substitutes, recycled plastic and reducing the use of plastic – the Company's products are used mainly for land, air and sea transportation and for industry. Innovations and inventions in the engine and motor vehicle segments, including hybrid vehicles, electric vehicles or vehicles powered by alternative fuels (biofuels and synthetic fuels), restrictions on the use of gasoline or diesel engines, if imposed in Israel or in the Company's key export markets, changes in consumers' preferences, or many consumers switching to using substitutes for the Company's products, such as ethanol-based fuels, biodiesel or natural gas and hydrogen-powered fuel cells, and enactment of laws and the granting of subsidies that encourage the reduction of the use of fossil fuel and transition to renewable energies may reduce the demand for the Company's products. Furthermore, A change in Israeli passenger preferences to increased use of public transport may also bring about a decline in the demand for transportation fuels and may also impair the Company's business results. For further details regarding alternatives to petroleum products, see Section 1.7.10 above.

In recent years, there has been a growing awareness of plastic waste pollution and to the need to reduce the use of plastic and to recycle it; more and more producers of consumer products are announcing their intention to dramatically decrease their use of plastic in general, and non-recycled plastic in particular. If no solution is found for treating plastic waste or to mitigate the environmental impact of such waste, and if the Company does not integrate such solutions into its activity, the demand for its products may be adversely affected or the growth in consumption of its products may decrease, which may have an adverse effect on its profits. It should be noted that the part of the Company's strategic plan is aimed, among other things to address this trend.

Trends of limiting the use of oil and plastic products are also supported by regulatory developments, legislation and taxation in terms of climate change and greenhouse gas emissions, such as the imposition of a designated tax by the EU on all non-recyclable plastic packaging manufactured or imported into its territory. The higher the tax, the more significant the incentive to reduce the use of plastics as stated above, and to reduce emissions. These regulatory changes, if they materialize, are likely to limit the Company's ability to operate in specific markets or increase the costs of products and operations for the Company, which may impair its business results.

1.23.3.6 Reintroduction of price control of the Company's products – there is currently no control over the maximum prices for some of the Company's products, and in the sale of its products it competes in an open market under competitive conditions. However, the Price Control Ordinance sets out terms which, if fulfilled, would result in the reintroduction of control over refined fuel product prices. If such control is reintroduced and/or price control is instituted with respect to products not under control as at the reporting date, this may cause market distortion resulting in impairment of the Company's business and financial results.

- 1.23.3.7 **Dependence on infrastructure companies** - to perform the Company's operations, the refining companies in Israel are dependent on receiving services from the infrastructure companies, EAPC, Energy Infrastructures, Israel Ports Company and INGL. EAPC, Energy Infrastructures and Israel Ports Company, which own essential infrastructure for the unloading, transportation, storage and dispensing of crude oil and petroleum products, some of which are outdated and the volume of services which may be provided through them is limited; and INGL that has a monopoly in terms of the infrastructure used for transmission of natural gas from the receipt points in the gas reservoirs to the Group's facilities at the Haifa compound. The refining companies are also dependent on receiving regular port services to allow unloading crude oil and intermediate products and loading refined products for export. If the Company fails to receive these services from one or more of these companies or if the quality of the services provided fails to meet the Company's requirements, the operating results may be materially impaired. An increase in the infrastructure service prices the infrastructure charged companies, most of which are government controlled, may impair the Company's business and financial results (see Sections 1.19 and 1.18.1 above); in addition, the Company is dependent on companies treating and removing hazardous substances which cannot be treated within Bazan's compound and in companies producing natural gas.
- 1.23.3.8 **Exposure for unexpected events and malfunctions at the production facilities, including accidents** – the production facilities in the Group's operating segments constantly operate under difficult physical and chemical conditions and some of them were constructed many years ago. The facilities are occasionally exposed to events; malfunctions, including in the operating and data processing systems, also due to deliberate sabotage; and accidents that may cause physical harm to persons and property of the Company or third parties, environmental harm, or a shut-down of the faulty facility and other production facilities operating together with or near the facility where the event or malfunction occurred, while dealing with business continuity difficulties.
- The production operations of the Group Companies are controlled by advanced operating systems and a malfunction in these systems may impair their ability to carry them out.
- The Group insures itself against such risks (see Section 1.19 above); however, the relevant policies set significant deductibles and it is quite possible that the compensations paid by the insurers under these policies may not cover or fully cover the damages which the Group may incur due such event or malfunction.
- 1.23.3.9 **Synergy and mutual dependence among the production facilities** - the production facilities of the Group Companies in Israel operate as a single concern and there is a certain mutual dependence among them. Damage and a shutdown at one or more of the production facilities may bring about a reduction and even suspension of operations of other facilities that depend on the damaged facility for their continued operation.
- 1.23.3.10 **Increased competition in the Israeli fuel market and the Company's main target markets abroad** – there are two refineries operating in the Israeli market (the Company's refinery and Ashdod Refinery) competing with one another; There are also several fuel product importers operating in the market, which are dependent on storage and distribution terminals owned by infrastructure companies and offer these products on the domestic market. Intensification of competition may impair the scope of the Company's operations and profitability. Intensification of competition in the key export markets in which the Company operates, due to the introduction of new competitors and/or enhancement of the competitive edge of existing competitors, such as the use of storage infrastructures, cutting logistic costs, etc., may impair the volume of the Company's operations and its profits in these markets.

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1.23.3.11 **Changes in investment trends due to ESG considerations** - During 2024 we witnessed further development of the global trend of increased awareness of sustainability and non-financial considerations among key stakeholders, including customers, financing entities and lenders, employees, consumers and regulators. This is reflected, among other things, in substantial changes to European regulations with an emphasis on sustainability reporting, transparency and data accessibility. The commencement of the implementation of regulations by EU countries subjects many companies to reporting requirements and affects the value chain. The Company is preparing for the reporting regulations both in Europe, through Ducor, and with respect to future requirements in Israel in order to satisfy the regulatory requirements in each of the territories in which it operates. This trend may have various consequences, including provision of credit subject to compliance with ESG standards, powerful capital market entities implementing a policy of refusing to provide credit to or to invest in the Company that has activity in the field of fossil fuel; effects on finance costs; difficulty in recruitment of employees, insurers avoiding providing insurance policies for the Group, etc. In addition, the applicability of various ESG regulations is also felt on the part of the Company's customers, who are required to meet ESG reporting standards and to collect a considerable amount of data throughout the supply chain, including from the Company and sometimes as a condition for the business engagement. These trends may adversely affect the Group's business and financial position, including a decrease in the value of its assets, increase in borrowing costs and decrease in its share price.

1.23.4 **Company-specific risks**

1.23.4.1.1 **Liability for non-compliance with environmental, health and safety laws and regulations and limitations on future development or ongoing activity on these aspects** - the Group Companies may bear significant liability (including heavy fines) and/or may receive orders instructing them to shut down some or all of their facilities due to deviations and/or breaches of environmental protection, health and safety laws and regulations. Other environmental laws define the responsibility for decontaminating pollution and therefore, may expose the Company to land and/or waterway cleaning and purification expenses. The Group's insurance policies provide only partial coverage. For details regarding suspected fuel seepage into soil and groundwater, see Section 1.17.3.2.4 above.

The Group Companies may also become subject to claims alleging bodily injury or property damage due to exposure to hazardous substances or environmental pollution. For details regarding such claims, see Note 20A to the Consolidated Financial Statements.

Possible future provisions regarding the condition of the environment in the areas where the Group operates and/or health data of the population in the adjacent areas and/or the link between them, and actions taken by regulatory or other parties in this matter or changes to court rulings on these issues, may delay and/or disrupt further development of the Group Companies or their operating activity and/or impose material financial obligations on them. All this in addition to the risk arising from changes in investment trends due to ESG considerations and due to stricter requirements on the part of the value chain regarding reporting aspects of sustainability and non-financial data as described in Section 1.23.3.11 above.

1.23.4.2 **Disruption or short supply of natural gas** - under the emission permit issued to the Group Companies, the maximum emission standards from their facilities are at appropriate levels for use of natural gas. Furthermore, Bazan Group uses natural gas as a raw material in the production of hydrogen needed for manufacturing processes. The use of natural gas also leads to increased efficiency in the Group Companies' energy consumption and reduced maintenance costs and may also contribute to lower energy costs and other costs.

In 2023, the commercial operation of the gas supply by Energean has started; the latter is committed to supply to the Company natural gas on a firm basis (see Section 1.7.20.16 above), which increased the redundancy of natural gas supply sources. It should be noted that the gas is supplied through the INGL transmission system, which has no redundancy.

If the supply of natural gas is disrupted (whether due to a malfunction in the active fields or due to a fault in the transmission pipeline or due to regulatory provisions, inter alia during wartime or an armed conflict), the Group's activity and business results may be materially impaired. In addition, in such a case, the Group Companies may be required to reduce their operations, because of environmental restrictions imposed on them. Since the Group's facilities are regarded as a strategic asset for the State of Israel and such restrictions may trigger a crisis in the supply of transportation fuels, the Company believes that in such a case, the regulators will take action to prevent a crisis or to mitigate its ramifications.

1.23.4.3 **Delays and/or difficulties in the planning and building processes and renewal of business licenses** - building permits for the Group Companies compound are issued by the Joint Planning and Construction Committee for the Bazan Compound. In 2020, the National Planning and Building Council adopted a decision regarding the definition of a facility that has a significant impact on the environment. For the decision, the criteria prescribed, and the implications on future building permits that will be required in the Bazan compound and further details regarding this issue and the approval of NOP 75, see Section 1.10.8 above.

Moreover, from time to time, the Company and its subsidiaries have been experiencing difficulties in renewing the business licenses required by them for their operations and the provision of temporary permits for short periods only, difficulties which may become even greater once NOP 75 is approved, as stated above. The approval procedure for NOP 75 as well as such delays or difficulties may harm the Company's ability to maintain the facilities required for its operational, regulatory and business needs and/or operating its facilities continuously.

1.23.4.4 **Possible loss of know-how resulting from changes in the human capital employed in the Group** – the Companies employ skilled, professional staff with extensive know-how, who usually spend many years in its service. As the employee population ages and as employment patterns in Israel, in the industry, and in the Group are changing, including higher awareness of the climate and environmental impact of various activities among potential employees, the Group may find itself potentially losing knowledge and experience, as its employees leave their positions, and the Group may have difficulties recruiting new employees and managers with suitable knowledge and experience. Moreover, the Government Resolution on shutting down the Company's activity may make it difficult to recruit employees and managers into the Company, because of the difficulty of providing certainty on the employment horizon and promotion prospects in the Company. The Group is dealing with this risk by investing in preserving know-how, building professional redundancy and recruiting additional staff in key professions.

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- 1.23.4.5 **Significant restrictions on the implementation of the strategic plan** - in order to prepare optimally for the business, technological and other challenges expected in the medium to long-term in the energy market and to maximize business opportunities in its operating segments and related areas of activity, the strategic plan for the Group companies was revised across all areas of activity. The Company is of the opinion that the strategic plan addresses the changes expected to take place in its areas of activity; however, there is no certainty that the Company's assessments as to changes in the market will materialize in accordance with its forecasts at the time it formulated the strategic plan. Furthermore, the implementation of the strategic plan involves extensive business and organizational moves, and in some cases obtaining various regulatory permits, and there is no certainty that the Company will be able to implement the required changes or obtain the regulatory approvals at all or on the required dates if any. It is noted that as of the Report date, the Company is in the process of assessing and evaluating its current strategic plan, with the support of external consultants.
- 1.23.4.6 **Review of the future of Group Companies' facilities in the Haifa Bay** – as noted in Section 1.10.5 above, on March 6, 2022, a government resolution was passed, to terminate the Haifa Bay petrochemical plants' operations when conditions allow it. Subsequently, on September 18, 2023, the National Planning and Building Council approved NOP 75 for the Haifa Bay area, intended to develop the Haifa Bay, while rezoning the areas and clearing the petrochemical industries from them, including the Group's operations. The Ministers Committee for Internal Affairs approved NOP 75 in December 2023. The uncertainty regarding the future of the Group companies' activities and/or binding unilateral decisions by a competent authority according to which it is decided to close or substantially decrease the Group Companies' activities on a date scheduled in such decisions, without providing an appropriate solution for all relevant issues, may have a materially adverse effect on aspects of the Group's operations, including its ability to take measures to adjust its facilities to new markets and technologies, realize strategic plans, raise and restructure credit, and retain and recruit human resources, as early as on the decision making date, regardless of the target date for this process.
- 1.23.4.7 **Confirmation and implementation of the plan to prohibit the importation to Israel of vehicles fueled by gasoline and diesel in 2030**³¹ – the "Energy Market Objectives for 2030" policy paper published by the Ministry of Energy and Infrastructures sets out the energy market objectives in the transportation fuel and industry segments, whereby the objective in the transportation segment is to reduce the consumption of petroleum distillates for land transportation, based on a shift to using electric vehicles and vehicles fueled by compressed natural gas (CNG). In the industrial segment, the objective is to stop the use of fuel oil, LPG and diesel and replace them with cleaner, more efficient energy sources.
- The document further stipulates that if specific terms are met, it will be possible to supply the needs of the economy through one refinery as from 2035 and that the Ministry will lead the process of preparing the economy for a situation where one refinery in Israel will close as from 2035.

³¹ See the following link:
[chrome-extension://efaidnbmninnibpcajpcglclefindmkaj/https://www.gov.il/blobfolder/news/plan_2030/he/2030summary.pdf](https://www.gov.il/blobfolder/news/plan_2030/he/2030summary.pdf)

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If the plan to prohibit the importation to Israel of gasoline and diesel-fueled vehicles as from the beginning of 2030 is approved and implemented on the date proposed in the draft, the demand in Israel for the land transportation fuels manufactured by the Company is liable to significantly decline in the subsequent years. In this context, it is noted that in February 2025, the Ministry of Energy and Infrastructures published an outline for zero greenhouse gas emissions in the Israeli energy sector in Israel by 2050,³² which presents a comprehensive strategy for transitioning to a clean energy economy, with a focus on solar energy, storage, hydrogen, and nuclear energy as key solutions. As part of this outline, it was stressed that the Iron Swords War further emphasized the high importance of energy independence and the need to boost the ability to independently provide the necessary quantity of energy for civilian needs, even under threat to energy infrastructure - such as seaports, natural gas rigs, transmission and distribution grids, power plants, etc.". It was also written that "ensuring that demand is met through existing local supply or sufficient reserves, which is derived, among other things, from local production and storage capacity. Therefore, the installed capacity as required, both in fossil and renewable energies, will have to be determined accordingly. The imported quantities will need to be sufficient in order to provide a significant share of the demand for energy, but not one that Israel can rely on to supply the critical needs of the local economy."

³² See the following link: <https://www.gov.il/he/pages/energy-2050>

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1.23.5 The following table shows the Company's risk factors by nature and effect on the Company's business, in the opinion of the Company's management. It is noted that the Company's assessments below concerning the extent to which a risk factor affects the Company reflects the level of impact of such risk factor presuming materialization of the risk factor, and this will not be interpreted as an assessment nor will it give any weight to the chances of the manifestation of such risk factor:

| Section | Risk factor | Major impact | Moderate impact | Minor impact |
|------------|--|--------------|-----------------|--------------|
| | Macro risks | | | |
| 1.23.2.1 | Economic slowdown - global economic financial crisis | V | | |
| 1.23.2.2 | Economic slowdown in the domestic market | | V | |
| 1.23.2.3 | Wars, armed conflicts and acts of terror | V | | |
| 1.23.2.4 | Climate changes and natural disasters, including earthquakes | V | | |
| 1.23.2.5 | Exposure to currency exchange rate fluctuations | | | V |
| 1.23.2.6 | Exposure to interest rate fluctuations | | V | |
| 1.23.2.7 | Strikes and closures in the economy | | V | |
| 1.23.2.8 | Cyber attacks | V | | |
| | Industry-specific risks | | | |
| 1.23.3.1 | Russia-Ukraine war | V | | |
| 1.23.3.1 | Exposure to raw material and product price changes | V | | |
| 1.23.3.2 | Erosion of refining and petrochemical margins and impairment of financial resilience | V | | |
| 1.23.3.4 | Environmental, health and safety regulations and standards | V | | |
| 1.23.3.5 | Transition to petroleum products substitutes and plastic recycling and reducing the use of plastic | | V | |
| 1.23.3.6 | Reintroduction of price regulation for the Company's products | | | V |
| 1.23.3.7 | Dependence on utility companies | V | | |
| 1.23.3.8 | Exposure for unexpected production facility events or malfunctions, including accidents | V | | |
| 1.23.3.9 | Synergy and mutual dependence between the production facilities | | V | |
| 1.23.3.10 | Increased competition in the fuel sector and in the Company's key target markets abroad | | V | |
| 1.23.3.11 | Changes in investment trends due to ESG considerations | | V | |
| | Company-specific risks | | | |
| 1.23.4.1.1 | Liability for non-compliance with environmental, health and safety laws and regulations and limitations on future development or operating activity from these aspects | V | | |
| 1.23.4.2 | Disruptions in natural gas supply | V | | |
| 1.23.4.3 | Delays and/or difficulties in planning and building processes and renewal of business licenses | V | | |
| 1.23.4.4 | Possible loss of know-how resulting from changes in the human capital employed in the Company | | | V |
| 1.23.4.5 | Significant restrictions on the implementation of the strategic plan | | V | |
| 1.23.4.6 | Examination of the future of the Operator of Group Companies in Haifa Bay | V | | |
| 1.23.4.7 | Confirmation and implementation of the plan to prohibit the importation to Israel of vehicles fueled by gasoline and diesel in 2030 | V | | |

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Report of the Board of Directors on the State of the Company's Affairs
for the Period Ended December 31, 2024

The Board of Directors hereby respectfully presents the Report of the Board of Directors on the State of the Company's Affairs for the year ended December 31, 2024 (hereinafter - the "Reporting Period"). The report is presented under the assumption that the entire Periodic Report, including the Description of the Corporation's Business for the reporting period, are also available to the reader.

Chapter 1 - Description of the Group and its Business Environment

A. Bazan Group's Operating Segments

Bazan Ltd. (hereinafter - the "Company" or "Bazan") and its subsidiaries (hereinafter - "Bazan Group" or the "Group") are industrial companies involved in two primary operating segments: the Refining Segment (through the Company and Gadiv) and the Polymers Segment (mostly through Carmel Olefins and Ducor). In addition, Group companies engage in operations that are not material: primarily the Trade Segment (through Trading and Shipping).

The Carmel Olefins and Gadiv plants in Israel are downstream facilities of the Company and 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 across multiple segments, increasing operating efficiency.

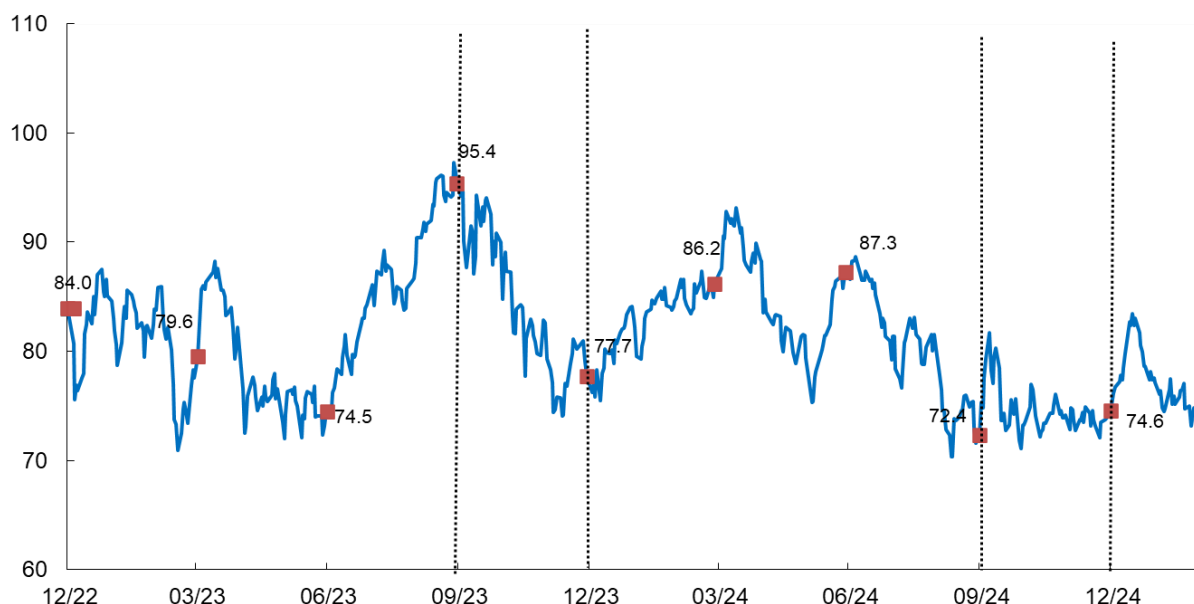
B. Bazan Group's business environment and profitability

Refining Segment (the Company and Gadiv)

Price of crude oil*

Crude oil price

Brent crude¹ prices in 2023-2024 (USD per barrel)



Source: Refinitiv (LSEG)
Dated Brent¹

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Bazan Ltd.

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

B. Bazan Group's business environment and profitability - cont.

Refining Segment (the Company and Gadiv) - cont.

Crude oil price - cont.

Average price of Brent crude (USD per barrel)

| 2024 | 2023 | Change | 10-12.2024 | 10-12.2023 | Change |
|-------------|-------------|---------------|-------------------|-------------------|---------------|
| 80.5 | 82.5 | -2% | 74.6 | 84.1 | -11% |

During the Reporting Period, the Brent price was characterized by a mixed trend, reaching levels of USD 70 to USD 93 per barrel; the Brent price was impacted, among other things, by the following factors:

- On the supply side: OPEC+'s announcements regarding the 1.6 million barrels per day cut in oil production through the end of 2025 instead of the end of 2024, and regarding the extension of the voluntary cuts in oil production of 2.2 million barrels per day through the end of the first quarter of 2025 after several deferrals during 2024. On the other hand, there was an increase in crude oil exports by Saudi Arabia (despite production limits imposed by OPEC+) and by the United States.
- On the demand side: Demand by China was low despite a recovery plan introduced by the Chinese government. On the other hand, the decisions made the Federal Reserve in the second half of 2024 to cut interest rates by 1 basis point amid a slowdown in the annual inflation rate in the US.
- Subsequent to the Report Date, the Brent traded at USD 71-83 per barrel; its price is impacted, among other things, by the extended sanctions over Russian oil, Trump's new administration (inaugurated on January 20, 2025), which raised fears regarding imposition of customs duty on goods and energy products imported into the US from Canada, Mexico and China, as well as OPEC+'s announcement regarding an increase in output of approx. 120 thousand barrels per day as of April.
- Immediately prior to the report approval date, the Brent price was fixed at approx. USD 71 per barrel.
- In the reporting period and the fourth quarter of 2024, the front month Brent Crude Futures (ICE) was in average backwardation of approx. USD 0.4 per barrel and approx. USD 0.6 per barrel backwardation, respectively, compared with average backwardation of approx. USD 0.4 per barrel and approx. USD 0.6 per barrel in the corresponding periods last year, respectively.

* There may be discrepancies between the information published herein and its derivatives and financial information published by the Company.

Bazan Ltd.

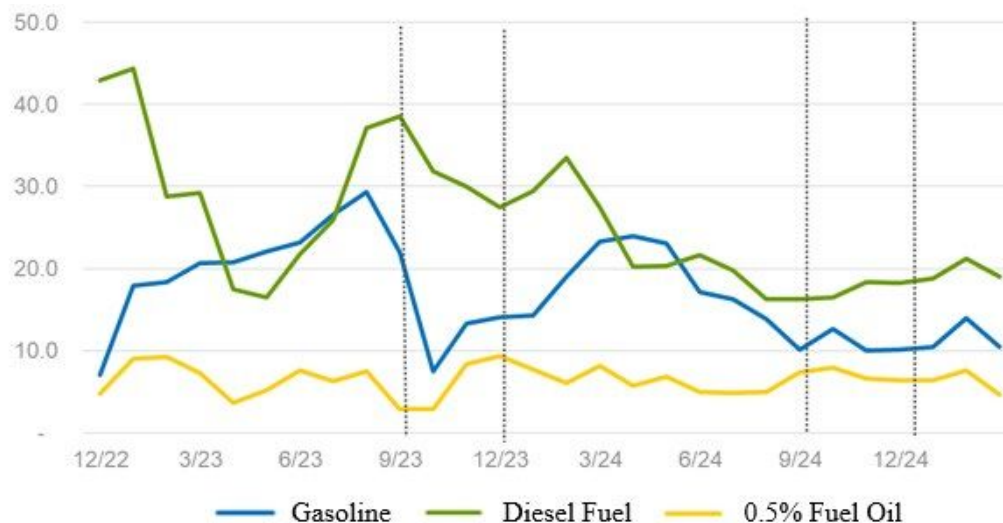
Chapter 1 - Description of the Group and its Business Environment - cont.

B. Bazan Group's business environment and profitability - cont.

Refining Segment (the Company and Gadiv) - cont.

Refining margins*

Monthly average⁽¹⁾ of Mediterranean transport diesel fuel,⁽²⁾ gasoline,⁽³⁾ and fuel oil 0.5% ⁽⁴⁾ Compared to Brent crude ⁽⁵⁾ (USD per barrel) in 2023-2024



Source: Refinitiv (LSEG)

- (1) Average in March through shortly prior to the report publication date.
- (2) ULSD CIF Med
- (3) Prem Unl CIF Med
- (4) % Fuel Oil 0.5 CIF Med
- (5) Brent (Dated)

Average transport diesel fuel, gasoline and 0.5% fuel oil margins compared to Brent crude oil (USD per barrel)

| | 2024 | 2023 | Difference | 10-12.2024 | 10-12.2023 | Difference |
|---------------|------|------|------------|------------|------------|------------|
| Diesel fuel | 21.5 | 29.3 | -7.8 | 17.6 | 29.9 | -12.3 |
| Gasoline | 16.1 | 19.6 | -3.5 | 11.0 | 11.5 | -0.5 |
| 0.5% fuel oil | 6.5 | 6.6 | -0.1 | 7.0 | 6.8 | 0.2 |

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Bazan Ltd.

Chapter 1 - Description of the Group and its Business Environment - cont.

B. Bazan Group's business environment and profitability - cont.

Refining Segment (the Company and Gadiv) - cont.

Refining margins - cont. During the Reporting Period, there was a decline in the diesel fuel and gasoline margins, although the margins remained higher than the multi-year average (2018-2023), and were affected, among other things, by the following factors: Ukraine's attacks on Russian refineries, which led to a decline in refining volume, a decrease in the supply of diesel fuel shipped from the east via the Red Sea due to the Houthis' attacks, combined with an increase in freight tariffs due to longer shipping routes between Asia and Europe. In addition, during part of the Reporting Period, Russia was banned from exporting gasoline; the ban was almost fully lifted at the beginning of December.

On the other hand, consumption by China declined amid the transition to use of liquefied natural gas by trucks, alongside an increase in the use of electric vehicles. In addition, gasoline production in Africa is expected to rise against the backdrop of the operation of the Dangote refinery in Nigeria.

Immediately prior to the report approval date, the diesel fuel and gasoline margins were approx. USD 17 and approx. USD 12 per barrel, respectively.

* There may be discrepancies between the information published herein and its derivatives and financial information published by the Company.

Domestic market consumption of distillates (thousand tons) (1)

| | 10-12.2024* | 7-9.2024 | 4-6.2024 | 1-3.2024 | 10-12.2023 | 7-9.2023 | 4-6.2023 | 1-3.2023 |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Transportation fuels ⁽²⁾ | 1,825 | 2,019 | 1,858 | 1,758 | 1,674 | 2,174 | 2,058 | 1,995 |
| Other distillates | 621 | 584 | 587 | 654 | 567 | 631 | 592 | 662 |
| Total | 2,446 | 2,603 | 2,445 | 2,412 | 2,241 | 2,805 | 2,650 | 2,657 |

Source: Ministry of National Infrastructures, Energy and Water Resources.

* Operation Northern Arrows, as of September 19, 2024.

Due to the outbreak of fighting in October 2023, there was a sharp decrease in distillate consumption in the fourth quarter of 2023. Since then, there has been a moderate trend of recovery and resumption of normal activity up until Operation Northern Arrows, which affected the consumption of transportation fuels in the fourth quarter of 2024.

- (1) The overall consumption of distillates in the domestic market (transportation fuels, other distillates for industry and heating) has declined in the Reporting Period by approx. 4% compared to the corresponding period last year, and in the fourth quarter of 2024 it increased by approx. 9%, compared to the corresponding period last year.
- (2) The consumption of transportation fuels (gasoline, diesel fuel and Kerosene) has declined in the Reporting Period by approx. 6% compared to the corresponding period last year, and in the fourth quarter of 2024 it increased by approx. 9%, compared to the corresponding period last year.

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Bazan Ltd.

Chapter 1 - Description of the Group and its Business Environment - cont.

C. Bazan Group's business environment and profitability - cont.

Refining Segment (the Company and Gadiv) - cont.

Refining volume

Utilization of crude oil refining facilities, crude oil refining volume and HVGO processing in the Refining Segment (in thousands of tons):⁽¹⁾

| | 2024 | 2023 | 10-12.2024 | 10-12.2023 |
|--|--------------------|--------------------|--------------|--------------------|
| Utilization of crude oil refining facilities | 76% ⁽²⁾ | 87% ⁽³⁾ | 85% | 81% ⁽³⁾ |
| | 7% | 2% | | 6% |
| Volume of crude oil refining | 7,486 | 8,581 | 2,101 | 2,018 |
| Volume of processed heavy vacuum gasoil | 1,319 | 762 | 325 | 255 |
| Total | 8,805 | 9,343 | 2,426 | 2,273 |

- (1) Crude oil refining volume, and accordingly the utilization of the refining facilities, and the volume of processed heavy vacuum diesel are affected by optimization considerations, seeking to maximize the Group's profitability starting from the crude oil purchase phase to the production of petroleum products, polymers and aromatics.
- (2) The decline in the refining volume, and accordingly the utilization of the refining facilities compared to the corresponding period last year stemmed mainly from the shutdown of the main crude refining facility (CDU 4) and ancillary facilities during the reporting period for periodic maintenance work. For details, see Chapter 10B below.
- Had it not been for the abovementioned periodic maintenance work, the estimated utilization rates of the refining facilities would have been approx. 83% in the Reporting Period.
- (3) In the fourth quarter of 2023, due to the Iron Swords War, there were changes in the demand volume and mix that dictated changes in how the Company's facilities are operated and in the refining optimization. Has it not been for the War, the utilization of the crude oil refining facilities in the corresponding period last year and in the corresponding quarter last year would have been estimated at approx. 89% and approx. 87%, respectively.

Bazan Ltd.

Chapter 1 - Description of the Group and its Business Environment - cont.

B. Bazan Group's business environment and profitability - cont.

Breakdown of the Company's output by main product groups in the Refining Segment (thousand tons):

| | 2024 | % of total | 2023 | % of total | 10-12.2024 | % of total | 10-12.2023 | % of total |
|--------------------------------------|--------------|-------------|--------------|-------------|--------------------|-------------|--------------------|-------------|
| Diesel fuel | 3,292 | 38% | 3,646 | 40% | 960 | 40% | 912 | 41% |
| Kerosene | 664 | 8% | 723 | 8% | 169 | 7% | 118 | 5% |
| Gasoline | 1,639 | 19% | 1,550 | 17% | 408 | 17% | 384 | 18% |
| 0.5% fuel oil | 1,309 | 15% | 1,068 | 12% | 369 | 16% | 383 | 17% |
| Raw materials for polymer production | 414 | 5% | 499 | 5% | 133 | 6% | 99 | 5% |
| Aromatics products | 375 | 4% | 435 | 5% | 85 | 4% | 105 | 5% |
| 1% fuel oil | 171 | 2% | 419 | 5% | | | | |
| Other ⁽¹⁾ | 727 | 9% | 773 | 8% | 250 ⁽²⁾ | 10% | 210 ⁽²⁾ | 9% |
| Total | 8,591 | 100% | 9,113 | 100% | 2,374 | 100% | 2,211 | 100% |

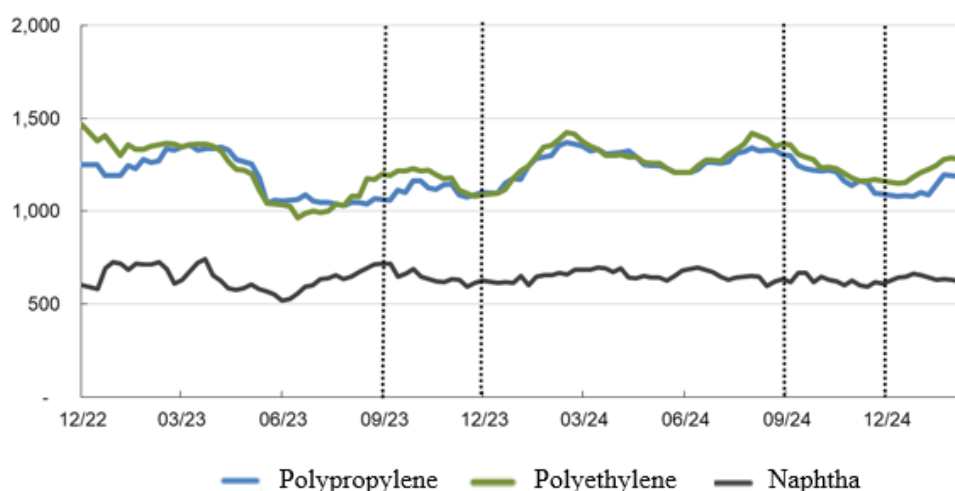
(1) Primarily includes: LPG, bitumen, and from time to time - naphtha.

(2) Includes 1% fuel oil

Polymers Segment (Carmel Olefins and Ducor)

Polymer and naphtha prices*

Polymer⁽¹⁾ and naphtha⁽²⁾ prices in 2023-2024 (USD per ton)



Source: ICIS

(1) Polyethylene - LDPE NWE Spot , polypropylene - PP FD NWE Spot

(2) Naphtha CIF NWE

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Bazan Ltd.

Chapter 1 - Description of the Group and its Business Environment - cont.

Bazan Group's business environment and profitability - cont.

Average polymer and naphtha prices (USD per ton)

| | 2024 | 2023 | Change | 10-12.2024 | 10-12.2023 | Change |
|---------------|-------------|-------------|---------------|-------------------|-------------------|---------------|
| Naphtha | 646 | 644 | 0% | 626 | 635 | -1% |
| Polypropylene | 1,254 | 1,167 | 7% | 1,180 | 1,120 | 5% |
| Polyethylene | 1,279 | 1,199 | 7% | 1,219 | 1,170 | 4% |

- In the Reporting Period and in the fourth quarter of 2024 there was an increase in polymer (polypropylene and polyethylene) prices compared to the corresponding periods last year, in view of a decrease in the exportation of polymers from Asia, mainly China, due to an increase in marine freight prices on the back of vessel shortage due to the Houthis' threats to target freight vessels in the Red Sea.

* There may be discrepancies between the information published herein and its derivatives and financial information published by the Company.

Bazan Ltd.

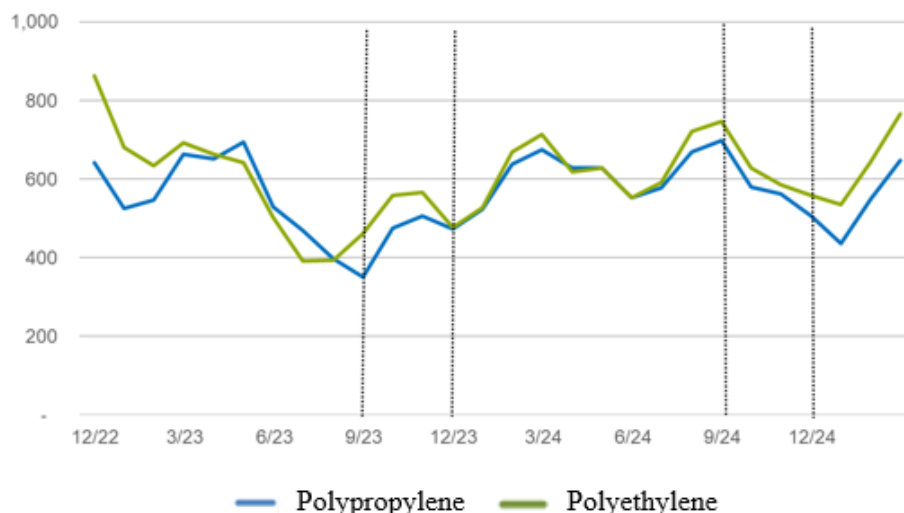
Chapter 1 - Description of the Company and its Business Environment - cont.

B. Bazan Group's business environment and profitability - cont.

Polymers Segment (Carmel Olefins and Ducor) - cont.

Margins*

Average monthly⁽¹⁾ difference between the polymer and naphtha margins in 2023-2024 (USD/ton)



Source: ICIS

(1) Average in March through shortly prior to the report publication date.

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

| | 2024 | 2023 | Difference | 10-12.2024 | 10-12.2023 | Difference |
|---------------|------|------|------------|------------|------------|------------|
| Polypropylene | 608 | 523 | 85 | 554 | 485 | 69 |
| Polyethylene | 633 | 555 | 78 | 593 | 535 | 58 |

- In the Reporting Period and in the fourth quarter of 2024, there was an increase in the difference between the average price of polymers (polypropylene and polyethylene) and the average price of naphtha compared with the corresponding periods last year, which is mostly due to an increase in polymer prices, as detailed above.
- Immediately prior to the report approval date, the polypropylene and polyethylene margins was approx. USD 647 and approx. USD 767 per ton, respectively.

Polymer output volume (thousand tons)

| | 2024 | 2023 | 10-12.2024 | 10-12.2023 |
|----------|------|------|------------|------------|
| Polymers | 639 | 604 | 156 | 138 |

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Bazan Ltd.

Chapter 2 - Bazan Group Results of Operations for the Year and for the Fourth Quarter

A. Bazan Group's results of operations

Selected figures from the consolidated statements of income are reported after adjustment for accounting effects for the year and for the fourth quarter ended December 31, 2024 (USD million)

To also present the financial-based operating results of the Refining Segment, in order to provide the reader of the Report with related information regarding the cash based operating profit; to enable better analysis for comparison with various benchmark indices (which are calculated on an assumption that there are no inventory balances and based on the absence of hedging transactions in respect thereof); and to enable better understanding of the business performance over time and compared to comparable companies; the accounting effects in the Refining Segment are adjusted for the Fuels unit only (excluding the Aromatics unit).

Consequently, the term "adjusted consolidated EBITDA" refers to the adjusted EBITDA in the Refining Segment for the Fuels unit only, together with the reported EBITDA in the Group's other operating segments.

| | 2024 | 2023 | Change | 10-12.2024 | 10-12.2023 | Change |
|--|------------|------------|--------------|------------|------------|--------------|
| Revenue | 7,542 | 8,324 | (9)% | 1,793 | 2,065 | (13)% |
| Reported EBITDA | 403 | 753 | (46)% | 101 | 114 | (11)% |
| Depreciation | (171) | (162) | 6% | (47) | (42) | 12% |
| Other expenses, net ⁽¹⁾ | (8) | (18) | (56)% | (5) | (4) | 25% |
| Operating profit | 224 | 573 | (61)% | 49 | 68 | (28)% |
| Finance expenses, net ⁽²⁾ | (85) | (83) | 2% | (24) | (31) | (23)% |
| Income tax ⁽³⁾ | (26) | (82) | (68)% | (7) | (7) | 0% |
| Net income | 113 | 408 | (72)% | 18 | 30 | (40)% |
| Adjustments in the Refining Segment ^(*) | (7) | (26) | | 5 | (17) | |
| Adjusted EBITDA | 396 | 727 | (46)% | 106 | 97 | 9% |
| Adjusted operating income | 217 | 547 | (60)% | 54 | 51 | 6% |
| Adjusted net income | 106 | 382 | (72)% | 23 | 13 | 75% |

(*) For details about the adjustment components, see Sections B3 and C3 below.

(1) Including amortization of excess cost. For details regarding the composition of the other expenses, net line item, see Note 25 to the Financial Statements.

(2) Principal changes in net finance expenses, based on financial analysis (in USD millions):

| | 2024 vs. 2023 | 10-12.2024 compared to 10-12.2023 |
|---|---------------|-----------------------------------|
| Net finance expenses during the corresponding period last year | 83 | 31 |
| Interest on borrowings, net (*) | — | (1) |
| Financing for working capital items, net (*) | 3 | — |
| Exchange rate differences | 2 | (3) |
| Other | (3) | (3) |
| Total change | 2 | (7) |
| Net finance expenses in the Reporting Period | 85 | 24 |

(*) It should be noted that the Group is exposed to changes in the variable USD interest, as set out in Note 30D to the Financial Statements.

For further details regarding finance expenses, see Note 26 to the Financial Statements.

(3) The increase in the Reporting Period arises mainly from a decrease in income before tax compared with the corresponding period last year.

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Bazan Ltd.

Chapter 2 - Bazan Group Results of Operations for the Year and for the Fourth Quarter - cont.

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

| | 2024 | 2023 | Change | 10-12.2024 | 10-12.2023 | Change |
|-----------------------|------------|------------|--------------|------------|------------|----------|
| Refining Segment | 363 | 719 | (356) | 101 | 100 | 1 |
| Polymers Segment | 9 | (17) | 26 | (2) | (14) | 12 |
| Other and adjustments | 24 | 25 | (1) | 7 | 11 | (4) |
| Total | 396 | 727 | (331) | 106 | 97 | 9 |

| | Refining Segment | Polymers Segment | Other (other segments and adjustments) | Consolidated |
|------|------------------|------------------|--|--------------------|
| 2020 | (23) | 122 | 22 | 121 |
| 2021 | 199 | 301 | 11 | 511 |
| 2022 | 724 | 32 | 20 | 776 |
| 2023 | 719 | (17) | 25 | 727 |
| 2024 | 363 | 9 | 24 | 396 ⁽¹⁾ |

(1) For details, see Section B2 below.

Refining margin (USD per barrel)

| | Adjusted refining margin ⁽¹⁾ | Adjusted pro forma refining margin | Realized hedges of refining margins | Total | Benchmark margin* |
|------|---|------------------------------------|-------------------------------------|-------|-------------------|
| 2020 | 3.4 | | | 3.4 | |
| 2021 | 7.0 | 0.3 | | 7.3 | 4.1 |
| 2022 | 13.9 | 0.6 | 5.9 | 20.4 | 19.2 |
| 2023 | 14.9 | | 0.9 ⁽³⁾ | 15.8 | 12.9 |
| 2024 | 10.2 ⁽²⁾ | | 0.4 ⁽³⁾ | 10.6 | 7.9 |

(1) For details regarding the adjustment components, see Section B3 below.

(2) The pro forma margin for the Reporting Period, net of the effect of the termination of the inventory availability agreement, is estimated at approx. USD 9.6 per barrel. For details, see Section B2 below.

(3) For details regarding the realization of futures entered into in order to hedge the refining margin, see Section B3 below.

Benchmark margin*

Calculated according to a fixed formula in which the margin is defined as the financial difference between the proceeds from the product mix and the cost of crude oil and HVGO (hereinafter, jointly - the "crudes basket"), taking into account the variable costs involved in the refining process, which is typical of Bazan's facilities. The said financial difference, divided by the normative refining amount, constitutes the margin in terms of USD per barrel.

- The crudes basket has characteristics that are similar to a typical basket of Bazan, for which a global market quote is available.
- The product mix represents the outputs of the crudes basket in the formula. These products are sold in domestically and abroad, and a global market quote is available for them.
- Variable costs involved in the refining process mainly include energy expenses; the energy is provided through the purchase of natural gas in accordance with Bazan's purchase contract as well as through the use of own-produced combustion gases.
- Global market quotes for the crudes basket and products are determined according to quotes of Platts (member of the S&P group), which change every business day on which the said quotes are published.

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Bazan Ltd.

Chapter 2 - Bazan Group Results of Operations for the Year and for the Fourth Quarter - cont.

- The benchmark margin is a theoretical margin calculated under the assumption of regular and full operation of the refinery and, accordingly, does not reflect periodic maintenance work, ongoing malfunctions, short-term optimization considerations, realization of derivatives hedging the refining margin, certain inventory effects, etc.
- According to the above and for additional reasons, there may be substantial differences between the benchmark margin and the Company's actual adjusted refining margin.
- As from March 11, 2024, the crudes basket does not include condensate.

* Calculated by (<https://www.fgenergy.com>) (Energy Market Consultants) EMC and published on the LSEG (Refinitiv) platform.

B. Analysis of the results for the year

1. Turnover of sales to external customers, by operating segment*

| | Sales turnover in USD millions | | Breakdown of sales | | Average prices of the product mix - USD per ton | |
|-------------------------|-----------------------------------|--------------|--------------------|-------------|---|-------|
| | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 |
| Refining ⁽¹⁾ | 6,727 | 7,515 | 89% | 90% | 758 | 807 |
| Polymers ⁽²⁾ | 806 | 781 | 11% | 10% | 1,280 | 1,243 |
| Other | 9 | 28 | 0% | 0% | | |
| Total | 7,542 | 8,324 | 100% | 100% | | |

- (1) The decrease in the turnover of the Refining Segment during the reporting period compared with the corresponding period last year resulted from a decrease in distillates price (which is based on the Brent price) and the decrease in the sold quantity.
- (2) The increase in the sales turnover of the Polymers Segment in the reporting period compared to the corresponding period last year arose mainly from an increase in polymer prices.
- (*) It is noted that in the refining and petrochemical industry, the main factor affecting the operating results is not the sales turnover, but rather the refining and petrochemical margins, which is the difference between the revenue from the sale of a mix of products and the cost of the energy and raw materials required for their production. In addition, the results are affected by the utilization of production facilities.

Bazan Ltd.

Chapter 2 - Bazan Group Results of Operations for the Year and for the Fourth Quarter - cont.

2. Consolidated Adjusted EBITDA in the operating segments

Following is a breakdown of the main reasons for the changes in consolidated adjusted EBITDA for the operating segments in the Reporting Period compared to the corresponding period last year.

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

| Increase (decrease) | Refining | Polymers | Other and adjustments | Consolidated |
|--|-------------------|-------------|-----------------------|--------------|
| Adjusted EBITDA in 2023 | 719 | (17) | 25 | 727 |
| Margin/contribution ⁽¹⁾ | (360) | 36 | (1) | (325) |
| Sales volume | 7 | 1 | — | 8 |
| Operating expenses ⁽²⁾ | 11 ⁽³⁾ | (5) | — | 6 |
| Estimated loss of income due to periodic maintenance work ⁽⁴⁾ | (49) | (6) | — | (55) |
| Gain on termination of the inventory availability agreement ⁽⁵⁾ | 35 | — | — | 35 |
| Total change | (356) | 26 | (1) | (331) |
| Adjusted EBITDA in 2024 | 363 | 9 | 24 | 396 |

- (1) For analyzing the EBITDA, the change in marketing and selling expenses (transportation, storage and etc.) were included in the contribution analysis.
- (2) Includes fixed production, general and administrative.
- (3) The change arises mainly from capitalization of payroll expenses to property, plant & equipment in respect of the periodic maintenance work carried out in the Reporting Period, as detailed below.
- (4) During the reporting period, periodic maintenance work was carried out in the main crude refining facility (CDU 4) and in ancillary facilities.
For details, see Chapter 10B below.
- (5) Upon termination of the inventory availability agreement, the Company recognized an income of approx. USD 35 million with respect to termination of hedging transactions regarding the inventory realized during the fourth quarter of 2024. For further details, see Note 29D3b and 20B4 to the Financial Statements.

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Bazan Ltd.

Chapter 2 - Bazan Group Results of Operations for the Year and for the Fourth Quarter - cont.

B. Analysis of the results for the year - cont.

3. Adjustment components in the Refining Segment

Breakdown of adjustment components in the Refining Segment (with respect to the Fuels Unit) and their effect on EBITDA (in USD millions):

| | 2024 | 2023 |
|--|---------------------------|---------------------------|
| Refining Segment reported EBITDA | 370 | 745 |
| Effects of timing differences ⁽¹⁾ | 26 | — |
| Effect of adjusting value of inventory to market value, net ⁽²⁾ | (18) | (6) |
| Effects of changes in fair value of derivatives ⁽³⁾ | (15) ⁽⁴⁾ | (20) |
| Total adjustments | (7) | (26) |
| Refining Segment adjusted EBITDA | 363 | 719 |
| Adjusted refining margin - USD per barrel | 10.2⁽⁴⁾ | 14.9⁽⁶⁾ |
| Adjusted pro forma refining margin - USD per barrel | 9.6⁽⁵⁾ | |
| Benchmark margin - USD per barrel | 7.9 | 12.9 |

- (1) Expenses (income) arising from changes in the value of unhedged inventory, including changes in accounting provision for impairment thereof, at the end of the Reporting Period, if any. 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 inventory availability transaction (which was terminated in the fourth quarter of 2024).
As at the report publication date, the volume of the Company's inventory that is not hedged by contracts is approx. 730 thousand tons. Subsequent to the Reporting Period, the Company and another party entered into an inventory availability agreement, which will come into effect on April 1, 2025.
Accordingly, the scope of inventory unprotected by contracts, as of its effective date, shall be approx. 525 thousand tons. For details, see Note 20B4 to the Consolidated Financial Statements.
- (2) Expenses (income) arising from changes in the adjustment of the balance of hedged inventory to market value.
- (3) Expenses (income) arising from revaluation 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 at disposal.
- (4) In the Reporting Period, the Company recognized in its adjusted EBITDA a loss in respect of realizing refining margin hedges totaling approx. USD 10 million. In its adjusted EBITDA, the Company recognized a loss with respect of realizing refining margin hedges totaling approx. USD 25 million (approx. USD 0.4 per barrel). Therefore, the net effect on the adjusted EBITDA amounts to a reduction approx. USD 15 million.
- (5) The pro forma margin for the Reporting Period, net of the effect of the income from termination of the inventory availability agreement. For details, see Section 2B above.
- (6) During the corresponding period last year, the Company recognized an adjusted EBITDA for a loss in realizing refining margin hedges totaling approx. USD 64 million (approx. USD 0.9 per barrel).

4. Net income

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

| | |
|---------------------------------|------------|
| Net income for 2023 | 408 |
| Change in reported EBITDA | (350) |
| Change in depreciation expenses | (9) |
| Change in finance expenses, net | (2) |
| Change in tax expenses | 56 |
| Other | 10 |
| Net income for 2024 | 113 |

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Chapter 2 - Bazan Group Results of Operations for the Year and for the Fourth Quarter - cont.

C. Analysis of fourth quarter results

1. Turnover of sales to external customers, by operating segment*

| | Sales turnover In USD millions | | Breakdown of sales | | Average prices of the product mix - USD per ton | |
|-------------------------|-----------------------------------|--------------|--------------------|----------------|---|------------|
| | 10- 12.2024 | 10-12.2023 | 10- 12.2024 | 10- 12.2023 | 10- 12.2024 | 10-12.2023 |
| Refining ⁽¹⁾ | 1,590 | 1,890 | 89% | 92% | 679 | 838 |
| Polymers ⁽²⁾ | 201 | 172 | 11% | 8% | 1,275 | 1,185 |
| Other | 2 | 3 | 0% | 0% | | |
| Total | 1,793 | 2,065 | 100% | 100% | | |

- (1) The decrease in the sales turnover of the Refining Segment in the fourth quarter of 2024 compared to the corresponding quarter last year arose from a decline in distillate prices (based on Brent prices) offset by an increase in quantities sold.
- (2) The increase in the sales turnover of the Polymers Segment during the fourth quarter of 2024 compared to the corresponding quarter last year resulted from an increase in polymer prices as well as an increase in the quantity sold.

(*) It is noted that in the refining and petrochemical industry, the main factor affecting the operating results is not the sales turnover, but rather the refining and petrochemical margins, which is the difference between the revenue from the sale of a mix of products and the cost of the energy and raw materials required for their production. In addition, the results are affected by the utilization of production facilities.

2. Consolidated Adjusted EBITDA in the operating segments

Breakdown of the main causes for the decrease in the consolidated adjusted EBITDA for the operating segments in the fourth quarter compared to the corresponding quarter last year.

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

| Increase (decrease) | Refining | Polymers | Other and adjustments | Consolidated |
|--|------------|-------------|--------------------------|--------------|
| Adjusted EBITDA in October- December 2023 | 100 | (14) | 11 | 97 |
| Margin/contribution ⁽¹⁾ | (39) | 12 | (4) | (31) |
| Sales volume | 5 | 3 | — | 8 |
| Operating expenses ⁽²⁾ | — | (3) | — | (3) |
| Gain on termination of the inventory availability agreement ⁽⁴⁾ | 35 | — | — | 35 |
| Total change | 1 | 12 | (4) | 9 |
| Adjusted EBITDA in October- December 2024 | 101 | (2) | 7 | 106 |

- (1) For analyzing the EBITDA, the change in marketing and selling expenses (transportation, storage and etc.) were included in the contribution analysis.
- (2) Includes fixed production, general and administrative.
- (3) For details, see Section B2 above.

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Chapter 2 - Bazan Group Results of Operations for the Year and for the Fourth Quarter - cont.

C. Analysis of fourth quarter results - cont.

3. Adjustment components in the Refining Segment

Breakdown of adjustment components in the Refining Segment (with respect to the Fuels Unit) and their effect on EBITDA (in USD millions):

| | 10-12.2024 | 10-12.2023 |
|--|---------------------------|---------------------------|
| Refining Segment reported EBITDA | 96 | 117 |
| Effects of timing differences ⁽¹⁾ | 8 | 34 |
| Effect of adjusting value of inventory to market value, net ⁽¹⁾ | (5) | (19) |
| Effects of changes in fair value of derivatives ⁽¹⁾ | 2 ⁽²⁾ | (32) |
| Total adjustments | 5 | (17) |
| Refining Segment adjusted EBITDA | 101 | 100 |
| Adjusted refining margin - USD per barrel | 10.3⁽²⁾ | 10.6⁽⁴⁾ |
| Adjusted pro forma refining margin - USD per barrel | 8.3⁽³⁾ | |
| Benchmark margin - USD per barrel | 6.4 | 10.4 |

(1) For details, see Section B3 above.

(2) In the fourth quarter of 2024, no hedges of the refining margin were realized.

(3) The pro forma margin for the fourth quarter of 2024 without the effect of income from the termination of the inventory availability agreement. For details, see Section 2B above.

(4) During the corresponding quarter last year, the Company recognized an adjusted EBITDA for a loss in realizing refining margin hedges of approx. USD 11 million (approx. USD 0.7 per barrel).

4. Net income

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

| | |
|---|-----------|
| Net income for the 10-12.2023 period | 30 |
| Change in reported EBITDA | (13) |
| Change in depreciation expenses | (5) |
| Change in finance expenses, net | 7 |
| Other | (1) |
| Net income for the 10-12.2024 period | 18 |

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Bazan Ltd.

Chapter 2 - Bazan Group Results of Operations for the Year and for the Fourth Quarter - cont.

D. Reported and adjusted consolidated quarterly accounting results for 2024 (USD million):

| | January- March | April-June | July- September | October- December | 2024 |
|--|---------------------------|-------------------|----------------------------|------------------------------|-------------|
| | In USD millions | | | | |
| Revenue | 2,088 | 1,850 | 1,811 | 1,793 | 7,542 |
| Cost of sales | (1,941) | (1,723) | (1,761) | (1,687) | (7,112) |
| Gross profit | 147 | 127 | 50 | 106 | 430 |
| Selling and marketing expenses | (46) | (35) | (29) | (35) | (145) |
| General and administrative expenses | (16) | (15) | (14) | (19) | (64) |
| Other income (expenses), net | (6) | 12 | — | (3) | 3 |
| Operating profit | 79 | 89 | 7 | 49 | 224 |
| Finance expenses, net | (20) | (17) | (24) | (24) | (85) |
| Profit (loss) before income tax | 59 | 72 | (17) | 25 | 139 |
| Income tax | (11) | (11) | 3 | (7) | (26) |
| Net income (loss) | 48 | 61 | (14) | 18 | 113 |
| Other comprehensive income (loss) | 13 | 2 | (25) | (13) | (23) |
| Comprehensive income (loss) | 61 | 63 | (39) | 5 | 90 |
| Reported EBITDA | 130 | 119 | 53 | 101 | 403 |
| Adjusted EBITDA | 124 | 96 | 70 | 106 | 396 |

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Chapter 3 - Analysis of Financial Position (Balance Sheet)

USD million

| | December 31, 2024 | December 31, 2023 | Change | Explanation |
|--|----------------------|----------------------|--------|--|
| Trade and other receivables | 615 | 740 | (17)% | In respect of an approx. USD 98 million decrease in receivables, which stems mainly from a decrease in receivables from institutions (VAT) and a decrease in refining margin calls (for details, see Note 7 to the Financial Statements). As well as a decrease of approx. USD 27 million in trade receivables, which arises mainly from a price decrease offset by an increase in quantity. |
| Inventories | 711 | 769 | (8)% | Mainly in respect of a decrease in prices in the Refining Segment |
| Property, plant & equipment, net | 2,302 | 2,262 | 2% | For details regarding the increase in the balance of property, plant and equipment, see Notes 11A and 12A to the Financial Statements. |
| Trade, other payables and provisions | 1,065 | 1,092 | (2)% | Mainly due to an approx. USD 49 million decrease in payables, which arises mainly from an increase in the taxes payable balance (for details, see Note 15B to the Financial Statements), and an approx. USD 27 million increase in trade payables, mainly due to a rise in quantity, offset by lower prices (for details, see Note 15A to the Financial Statements). |
| Financial derivatives, net | (39) | (63) | (38)% | Mainly to a decrease in liabilities in respect of refining margin calls totaling approx. USD 15 million (for details, see Note 30G to the Financial Statements) and a decrease in net liabilities in respect of cross-currency interest rate and principal swaps totaling approx. USD 5 million (approx. USD 3 million are in respect of exchange rate differences (*)). |
| Long-term bank loans and debentures (including current maturities) | 1,119 | 1,187 | (6)% | Mainly due to repayments of principal offset by raising of debentures and loans totaling approx. USD 63 million as well as exchange rate differences (*) totaling approx. USD 3 million (for details, see Notes 13A and 14B to the Financial Statements). |
| Equity | 1,764 | 1,857 | (5)% | Mainly due to net income for the year totaling approx. USD 113 million, offset against dividend distribution and share buyback totaling approx. USD 184 million. |
| Equity to asset ratio | 40% | 40% | | |

(*) Generally, the Group takes action to hedge the NIS debentures through principal and interest swaps. Accordingly, the effect of debenture exchange rate differences were substantially offset.

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Chapter 4 - Liquidity Analysis

The Group's liquidity analysis

Working capital (current assets less current liabilities)

USD million

| December 31, 2024 | December 31, 2023 | December 31, 2022 | December 31, 2021 | December 31, 2020 |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| 786 | 926 | 958 | 694 | 383 |

Current ratio

The current ratio as at December 31, 2024 is approx. 1.6 and as at December 31, 2023 it was approx. 1.7.

Accounting cash flows* for 2024

| | 2024 |
|---|-----------------|
| | In USD millions |
| Cash as of December 31, 2023 | 763 |
| Operating cash flows ⁽¹⁾⁽²⁾ | 441 |
| Interest paid, net | (77) |
| Purchase of property, plant & equipment ⁽³⁾ | (187) |
| Repayment of long-term bank loans and debentures, including early repayment ⁽⁴⁾ | (350) |
| Receipt of long-term loans and issue of debentures, net of capital raising costs ⁽⁴⁾ | 287 |
| Payment of lease liabilities | (20) |
| Change in deposits and short-term borrowing, net | 72 |
| Other | 7 |
| Dividend paid ⁽⁵⁾ | (174) |
| Share buyback ⁽⁵⁾ | (10) |
| Cash as of December 31, 2024 | 752 |

(*) Based on presentation in the Financial Statements

(1) Includes tax payments of approx. USD 57 million in respect of 2022-2023.

(2) Net operating cash flows, net of interest paid in the Reporting Period amounted to approx. USD 364 million.

(3) Including costs for periodic maintenance; for further details, see the Statements of Cash Flows in the financial statements.

(4) For further details, see Notes 13 and 14 to the Financial Statements.

(5) For details regarding dividends and buyback plans, see Note 21C to the Financial Statements.

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Chapter 5 - Total Borrowings from Financial Institutions

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

Financial debt

USD million

| | December 31, 2024 | December 31, 2023 | December 31, 2022 | December 31, 2021 | December 31, 2020 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Short-term borrowings ⁽¹⁾ | 14 | 13 | — | — | 2 |
| Loans from banks ⁽²⁾ | 413 | 462 | 440 | 488 | 453 |
| Debentures ⁽²⁾ | 742 | 754 | 916 | 1,100 | 1,070 |
| Hedging transactions on debentures ⁽³⁾ | 35 | 31 | 13 | (78) | (58) |
| Total gross financial debt* | 1,204 | 1,260 | 1,369 | 1,510 | 1,467 |
| Liquid financial assets ⁽⁴⁾ | (752) | (799) | (752) | (669) | (814) |
| Total financial debt, net | 452 | 461 | 617 | 841 | 653 |

(1) Mainly for Ducor.

(2) Including current maturities. Stated according to adjusted par value (excluding interest payable).

(3) In accordance with the Group's hedging policy, the Group hedges the NIS debentures. The principal and interest swaps hedging transactions are presented concurrently with the presentation of the debentures, at their adjusted par value (without interest receivable/payable), less or plus the deposits provided to secure the transactions.

(4) Including cash and cash equivalents and short-term deposits (excluding the deposits provided to secure the transactions that were carried out against the issuance of NIS debentures).

* Gross financial debt includes short-term credit, bank loans, debentures and hedge transactions in respect of debentures.

** Net financial debt includes gross financial debt net of liquid financial assets.

For details regarding the Group's secured short-term credit facilities, see Note 13A to the Annual Financial Statements. As at December 31, 2024, the Group has unutilized secured credit facilities in the amount of approx. USD 325 million (utilization is for letters of credit and guarantees only).

Movement in net financial debt for 2024

| | 1-12.2024 |
|---|-----------------|
| | In USD millions |
| Net debt as of December 31, 2023 | (461) |
| Operating cash flows (net of change in operating working capital and income tax paid, net) | 413 |
| Change in working capital ⁽¹⁾ (net of change in discounting and interest-bearing trade payables) | (101) |
| Changes in discounting and interest-bearing trade payables ⁽²⁾ | 203 |
| Income tax paid, net ⁽³⁾ | (74) |
| Interest paid, net | (77) |
| Purchase of property, plant & equipment ⁽⁴⁾ | (187) |
| Payment of lease liabilities | (20) |
| Change in deposits, net ⁽⁵⁾ | 31 |
| Other | 5 |
| Dividend paid ⁽⁶⁾ | (174) |
| Share buyback ⁽⁶⁾ | (10) |
| Net debt as of December 31, 2024 | (452) |

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Chapter 5 - Total Borrowings from Financial Institutions – cont.

Movement in net financial debt for October-December 2024

| | 10-12.2024 |
|---|----------------------------|
| | In USD millions |
| Net debt as of September 30, 2024 | (681) |
| Operating cash flows (net of change in operating working capital and income tax paid, net) | 105 |
| Change in working capital ⁽¹⁾ (net of change in discounting and interest-bearing trade payables) | 13 |
| Changes in discounting and interest-bearing trade payables ⁽²⁾ | 180 |
| Income tax paid, net | (5) |
| Interest paid, net | (10) |
| Purchase of property, plant & equipment ⁽⁴⁾ | (52) |
| Payment of lease liabilities | (7) |
| Change in deposits, net | 5 |
| Net debt as of December 31, 2024 ⁽⁸⁾ | (452) |

- (1) Change in inventory, trade receivables and trade payables balance.
- (2) Including an approx. USD 128 million balance of interest-bearing supplier credit in respect of the purchase of inventory under the Inventory Availability Agreement.
For details, see Note 20B4 to the Consolidated Financial Statements.
For details about the balances of discounting and interest-bearing trade payables, see Note 6B and 15A to the Financial Statements, respectively.
- (3) Includes tax payments of approx. USD 57 million in respect of 2022-2023.
- (4) Including costs for periodic maintenance; for further details, see the Statements of Cash Flows in the financial statements.
- (5) Stems mainly from a decrease in refining margin calls and inventory derivatives. Excluding the deposits provided to secure the transactions that were carried out against the issuance of NIS debentures.
- (6) For details regarding dividends and buyback plans, see Note 21C to the Financial Statements.

Financial leverage⁽¹⁾

| | December 31, 2024 | December 31, 2024 |
|--------------------|------------------------------|------------------------------|
| Financial leverage | 1.1 | 0.6 |

- (1) Net financial debt as defined above divided by adjusted EBITDA in the last 4 quarters.

Average volume of sources of financing in the Reporting Period

Short-term borrowings, long-term loans and debentures (including current maturities, based on their nominal value and without the costs of capital raising) of approx. USD 1,199 million. Average trade receivables of approx. USD 647 million and average trade payables of approx. USD 819 million.

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Chapter 6 - Exposure to Market Risks and Management Thereof

- A.** For details and description of the Group's exposure to market, credit and liquidity risks, its market risk management policy, its supervision, and the manner in which it is implemented, including the people responsible for managing market risks, see Notes 29 and 30 to the Financial Statements. As described in Note 29, the relevant Board of Directors' committees (Finance Committee and Trade Committee) receive reports and from time to time discuss issues relating to market risk management, each in its area of business. The Group companies have working instructions, procedures and internal controls designed to ensure market risk management in accordance with the Group's policy.
- B.** For details regarding the consolidated report linkage bases, see Note 30C to the Financial Statements.

Chapter 7 - Corporate Governance Aspects

The Company's Board of Directors adopted working procedures for the Board of Directors based on the recommendations of the Goshen Committee, and updated from time to time, in accordance with changes in relevant statutes and standards.

A. Company's internal compliance programs

The Company operates a number of internal compliance programs in various fields: relating to antitrust practices, safety and environmental protection, prevention of sexual harassment and securities laws, as well as with regard to compliance with international trade restrictions. Furthermore, the Company has a Code of Ethics, which includes an anti-corruption and bribery procedure. The Company's Balance Sheet and Audit Committee also serves as the designated compliance and enforcement committee.

B. Donations and community outreach

The Company's community investments and outreach are carried out in accordance with the policy formulated by way of a professional process in 2023, discussed and approved by the Board of Directors; according to the policy, donations to the community will amount to a maximum half a percent of the profit before tax in the past year, with a cap of NIS 10 million per year. The Company may reduce and/or revise this budget by decision of the board of directors, in the event of a change in the business environment and/or other circumstances that justify it. Generally speaking, the Group's social investment policy is based on the UN's Sustainable Development Goals and appears on the Group's website. In 2024, the Company's consolidated expenses for these activities amounted to approx. USD 5 million.

As soon as the Iron Swords War began, the Company's Board of Directors decided to increase the Company's 20 donations budget by an additional NIS 20 million, in order to support the community where needed in light of the War and the conditions in the home front, including assisting the security forces and evacuees, providing assistance to mental and post-trauma support associations, and adopting the Kibbutz Nahal Oz community. As part of investments in the community, support was provided to various associations, in addition to the purchase of products serving social causes, as defined by the Group's management and approved by the Board of Directors. The corporation supports a number of flagship educational projects over the next two years, in addition to adopting the community of Kibbutz Nahal Oz. The Company has no material future obligations for financial contributions to the community. Financial investments in the community are made to promote and develop the community, with an emphasis on youth at risk, gender equality, strengthening the periphery and community welfare, especially in northern Israel, where the Company's operations are located. In 2024, in light of the state of emergency and burning needs against the background of ongoing war and active fronts in southern and northern Israel, the Company decided to focus its community support efforts on areas where help was most needed: Support for the Gaza Envelope community, mental resilience and coping with PTSD, support for IDF units as well as rehabilitation of wounded soldiers of the Iron Swords War. This is in addition to continuing to contribute in accordance with the existing social investment policy and the UN's Sustainable Development Goals.

Chapter 7 – Corporate Governance Aspects – cont.

C. Directors with accounting and financial expertise

In accordance with the decision of the Company's Board of Directors, the minimum number of directors with accounting and financial expertise is 4. As at the date of this report, the Company has 5 directors with accounting and financial expertise. For information concerning qualifications, education and experience, see Regulation 26 in Chapter D of the Periodic Report.

D. Independent directors

Pursuant to the Company's Articles of Association, the number of independent directors, including external directors, will not fall below the minimum number required under by law. As of the report date, the Company has two external directors and an independent director who is an external director.

E. Disclosure regarding the internal auditor in a reporting corporation

Mr. Ronen Artzi, who served as the Company's internal auditor since 2017, ended his tenure on November 30, 2024, at his request (hereinafter - the **"Former Internal Auditor"**). As of December 1, 2024, Mr. Shlomo Ben-Shimol serves as the Company's internal auditor. The following details are regarding the current Internal Auditor, unless otherwise stated or arising from the context. For details regarding the Former Internal Auditor, see Chapter 7 to the Company's Report of the Board of Directors in the Annual and Periodic Report for 2023, published by the Company on March 14, 2024 (Ref. No.: 2024-01-022150), included herein by way of reference.

1. Name of internal auditor as at December 31, 2024: Shlomo Ben-Shimol.

2. Date of commencement of term of office: December 1, 2024

3. Necessary qualifications:

The Internal Auditor complied with the terms and conditions specified in Sections 3(a) and 8 to the Internal Auditing Law, 1992 (hereinafter - the "Internal Auditing Law") and Section 146 to the Companies Law, 1999.

The Internal Auditor holds a BA in Economics and Accounting from Tel Aviv University and is also a Certified Public Accountant (CPA) and Certified Internal Auditor (CIA), with approx. 26 years of experience in the field of internal auditing and previously served as Chief Internal Auditor in leading Israeli manufacturing companies.

4. The Internal Auditor is not a Company employee and provides it with outsourced internal auditing services.

5. The internal auditor is not an interested party in the corporation or a relative of an interested party in the corporation and is not the independent auditor or a representative thereof.

6. The internal auditor does not fulfill another position in the Company other than his position as ombudsman handling public and employee complaints.

7. The Internal Auditor does not hold securities of the Company or of any affiliated entities.

8. The appointment of Mr. Shlomo Ben Shimol was approved by the Company's Board of Directors following a recommendation by the Audit Committee, after it found him to have the appropriate qualifications to perform his duties, among other things, in light of his expertise and vast experience in internal auditing, and after Mr. Ben Shimol stated that he meets all the qualification requirements required to perform his duties as an internal auditor under law.

Chapter 7 – Corporate Governance Aspects – cont.

9. The Internal Auditor has prepared a proposal for a multi-year audit plan (including with respect to the Company's subsidiaries), based, inter alia, on the Group's risk map and on graded deficiencies found in previous audits. The Company's Board of Directors approves the multi-year plan and the annual plan derived therefrom, based on the recommendations of the Audit Committee, after discussing the issue.
10. The internal auditor regularly submits written internal audit reports once each audit report is completed and these are discussed shortly before completion and filing, by the Audit Committee of the Board of Directors. During the reporting period, the Former Internal Auditor submitted internal audit reports on several matters - Polyolefins Research and Development (discussed at the committee meeting on January 11, 2024), Gadiv, Implementation of the Lessons Drawn from Events, Human Resource Management (discussed at the committee meeting on June 18, 2024) and Monitoring The Implementation of Recommendations from Previous Audit Reports (discussed at the committee meeting on October 31, 2024).
11. The internal auditor's fee is based on an annual hourly budget and is not conditional on the audit results. The fee paid to the Former Internal Auditor for 2024 totaled approx. USD 0.11 million and to the internal auditor for 2024 - approx. USD 0.01 million. The fee is standard and at market conditions, and the Board of Directors believes that this is not a factor that can affect the internal auditor's judgment when preparing the audit.
12. The Company believes that the nature and continuity of operations and the internal auditor's work plan are reasonable under the circumstances, and will serve to achieve the purposes of the corporation's internal audit. The internal auditor - the internal auditor has free access to information, as set out in Section 9 of the Internal Auditing Law, including constant and direct access to the corporation's IT systems, including financial data.
13. The internal auditor conducts the audit in accordance with generally accepted professional standards in Israel and other countries.
14. The internal auditor reports directly to the Chairman of the Board of Directors.

A. Breakdown of the total fees that the independent auditors are eligible to receive

| | | For 2024, NIS thousand | For 2023, NIS thousand |
|--|--|---------------------------|---------------------------|
| In KPMG Somekh Chaikin | Fee for audit services | 1,032 | 2,580 |
| | Other fees ⁽¹⁾ | 322 | 382 |
| | | 1,354 | 2,962 |
| Material subsidiaries - KPMG | Fee for audit and tax services ⁽²⁾ | 350 | 889 |
| Others - KPMG Somekh Chaikin | Fee for audit and tax services | - | 120 |
| | | | |
| In the Company - EY Ernst & Young | Fee for audit services | 1,200 | - |
| | Other fees ⁽¹⁾ | 236 | - |
| | | 1,436 | - |
| Material subsidiaries - EY | Fee for audit and tax services | 408 | - |
| Others - EY Ernst & Young | Fee for audit and tax services | 70 | - |

(1) Other services in the Company include mainly advice on tax issues, special tasks on ongoing matters, including a shelf prospectus.

(2) Does not include the fees of Ducor's independent auditors in the Netherlands in the amount of approx. USD 145 thousand.

The independent auditors' fees were fixed by the Board of Directors of the Company, after receiving the recommendation of the Audit Committee, in accordance with the resolutions adopted by the general meeting of shareholders. The fee recommendation is formulated in negotiations between the independent auditors and the highest-ranking finance officer for a fixed amount which takes into account the expected scope of audit work in the reporting year. For additional work other than auditing, fees are determined separately according to the scope of work needed.

On August 27, 2024, the Company's general meeting approved the changing of the Company's independent auditor and appointing Kost Forer Gabbay & Kasierer, CPAs as the Company's independent auditor, as from subsequent to the publication of the Company's financial statements as of the second quarter of 2024. For further details regarding the process of replacing the independent auditor conducted by the Company, including the reasons and considerations for carrying out the replacement, see the meeting summons report published by the Company on August 21, 2024 (Ref. No.: 2024-01-086433), included herein by way of reference.

Chapter 8 - Disclosure of the Corporation's Financial Reporting

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

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

Note 20C to the Financial Statements regarding the Government of Israel's resolution dated March 6, 2022 on the strategy for the development and advancement of the Haifa Bay, which includes forming a government team to negotiate with the Company, with the aim of reaching an arrangement to discontinue the activity of petrochemical manufacturing of the Group's companies, while maintaining the energy security and regular fuel supply to the Israeli economy; in the opinion of the Company's management, at this stage, it is impossible to evaluate the significance and impact on its activity, business and financial results; as well as to what is stated in Note 20A(5) to the Financial Statements) regarding proceedings against Group companies in connection with environmental laws and regulations; in the assessment of the Company and the consolidated companies' managements, which is based, among other things, on the opinion of their legal counsels, the effect of some of those proceedings on the financial statements, if any, cannot be assessed at this stage; therefore, no provisions were included with regard to this issue in the financial statements.

1. Definition of negligible transactions in the Company's financial statements

For details, see Note 27I to the Financial Statements.

Chapter 9 - Details of Outstanding Debentures

As at December 31, 2024, 5 series of debentures issued by the Company and offered to the public are outstanding, as set out in Note 14B to the Financial Statements.

A. Debenture trustees

The trustees of the Company's debentures and their particulars are as follows:

1. The trustee for the Company's debentures (Series J, M and O) is Resnick Paz Nevo Trustee Company Ltd.; to the best of the Company's knowledge, the trustee's details are as follows:

Contact person (person in charge): Yossi Resnick; address: 14 Yad Harutzim Street, Tel Aviv;
Tel.: +972-3-6389200; fax: +972-3-6389222; email: yossi@rpn.co.il.

2. The trustee for the Company's debentures (Series I and K) is Hermetic Trust Services (1975) Ltd.; to the best of the Company's knowledge, the trustee's details are as follows:

Contact person (persons in charge): Dan Avnon, Merav Ofer; Postal address: 30 Derech Sheshet HaYamim, Bnei Brak;

Tel.: +972-3-5544553; fax: +972-3-5271451; email: .Bonds@hermetic.co.il.

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Chapter 9 - Details of Outstanding Debentures - cont.

2. Rating of the debentures

Rating of the Company's outstanding debentures (including expansions):

| Series | Original date of issue | Rating immediately prior to original issuance date | Rating at the date of the Periodic Report | Rating agency | Date and Ref. No. of immediate report regarding the rating as of the reporting date¹ |
|---------------|-------------------------------|---|--|----------------------|--|
| Series I | April 25, 2017 | A-/Stable | A+/Stable | S&P Maalot | March 13, 2024 2024-15-022087 |
| Series J | September 15, 2019 | A-/Stable | A+/Stable | S&P Maalot | March 13, 2024 2024-15-022087 |
| Series L | September 16, 2020 | A-/Negative | A+/Stable | S&P Maalot | March 13, 2024 2024-15-022087 |
| Series M | April 20, 2023 | A+/Stable | A+/Stable | S&P Maalot | March 13, 2024 2024-15-022087 |
| Series O | October 1, 2024 | A+/Stable | A+/Stable | S&P Maalot | September 16, 2024 2024-01-603679 |

(1) The immediate report included in this column is incorporated herein by way of reference

C. Collateral for debentures

For details regarding collateral for the debentures, the options for early redemption, grounds for immediate repayment, conditions for distribution of dividends, other restrictions, financial covenants and the Company's compliance with them, see Note 14 to the Financial Statements. In the Reporting Period the company complied with all its undertakings towards the debenture holders, including to refrain from creating a charge on the Company's assets, unless in accordance with the provisions of the relevant deeds of trust.

Chapter 10 – Significant Events in and Subsequent to the Reporting Period

A. The Iron Swords War

On October 7, 2023 a surprise attack was launched on the State of Israel, following which the Israeli government declared a state of war (hereinafter - the “Iron Swords War”). In September 2024, the War expanded with Operation Northern Arrows, which led to intensive fighting on the northern border and during the Iron Swords War, as well as attacks on Israel by Iran and its proxies.

Due to the War situation, on October 12, 2023, the Minister of Energy and Infrastructures issued to the Company a directive under the Control of Commodities and Services Law, 1957, regarding the operation of the Company’s refinery, under the conditions set in the Minister’s directive (hereinafter - the “Directive”). According to the directive, the Company was forced, among other things, to postpone the periodic maintenance work which was planned to begin in October 2023 at its main refining facility; it was performed in the second quarter of 2024.

The state of war and its intensity in the various fronts, which change frequently and unexpectedly, lead to a decrease in activity in the Israeli economy and to challenges in the supply chain and in the relevant infrastructures; they affect the cost of transportation to and from Israel and the cost of freight insurance and the cost of other insurance policies of the Group, and they can also affect the scope and mix of demand for the Group's products and the manner in which its facilities are operated.

During the reporting period, the effects of the War on the Group’s activity are declining compared with the fourth quarter of 2023, mostly due to positive developments with respect to the manner of using and ability to use the relevant infrastructures, as well as higher demand in the domestic market, combined with the Group’s capabilities in order to reduce excess costs. The coming into force of the ceasefires has also led to an improvement in demand alongside a decrease in excess costs, including, among other things, the abovementioned transportation and insurance costs.

The effects of the War have led, among other things, to changes in the market’s growth forecast and the expected increase in government deficit and the debt ratio. During the reporting period, three credit rating companies downgraded the State of Israel’s credit rating and outlook from "stable" to "negative". A deterioration in the Israeli economy may affect the Company's ability to raise credit and funding sources.

Since the outbreak of the War, the Company has continued its operating activities, with an emphasis on maintaining Israel’s energy continuity and supplying products to its customers from the petrochemical industry. In this context and further to the lessons drawn from the ongoing War, the Company’s management believes that the Government Resolution regarding the Haifa Bay should be reconsidered, including the setting up of a taskforce, which will assess the impact on Israel’s energy security.

At this stage, there is still significant uncertainty as to the development of the War, including the robustness of the cease fires, and the War’s scope and duration. Therefore, it is not possible to assess the future impact of the War on the Group and its results.

B. Periodic maintenance work

In the second quarter of 2024, periodic maintenance work was carried out in the main crude refining facility (CDU 4) and ancillary facilities, which was completed immediately prior to the date set upon commencement of the refurbishment. The process of operating the facilities until they reach full production capacity was prolonged, such that the facilities resumed full production capacity towards the end of July 2024.

The total direct cost of the periodic maintenance work (before capitalization of payroll and other costs) totals approx. USD 95 million.

In addition, the loss of profits in the Group in respect of the periodic maintenance work in the Reporting Period amounted to approx. USD 55 million.

Bazan Ltd.

Chapter 10 – Significant Events in and Subsequent to the Reporting Period – cont.

Subsequent to the Reporting Period, during the first quarter of 2025, periodic maintenance work was carried out in the hydrocracker (HCU) and hydrogen production facilities, CDU 3 and ancillary facilities, the direct cost of which is estimated at approx. USD 80-90 million.

C. Debt raising

For details regarding loans taken and the repayment of existing loans in the Reporting Period, see Note 13A to the Financial Statements.

For details regarding the amendment to the syndication agreement and the modification of the amortization schedule in the Reporting Period, see Note 13B to the Financial Statements.

For details regarding the Issuance of Debentures (Series O) and expansion of Debentures (Series M) during the reporting period, see Note 14B of the Financial Statements.

D. Inventory availability agreement

For details regarding the termination of the Inventory Availability Agreement in the reporting period, as well the renewal of the Availability Agreement subsequent to the reporting period, see Notes 29D3b and 20B4 of the Financial Statements.

E. Significant events

For details about significant events in and subsequent to the Reporting Period, see Note 31 to the Financial Statements.

The Board of Directors thanks the employees and management of the Company for their efforts in the Reporting Period and expresses special appreciation in light of their coping with unusual challenges in the War period.

Moshe Kaplinsky

Chairman of the Board of
Directors

Asaf Almagor

CEO

March 11, 2024

Article 8B of the Securities Regulations (Periodic and Immediate Reports), 1970 - Information regarding the Valuation

The reasons for commissioning the valuation:

Due to the decline in refining margins compared to the margins in the past several years (which were affected by the war in Ukraine), an assessment was prepared of the recoverable amount of the Refining Segment assets as of in December 31, 2024 in accordance with the provisions of IAS 36, by an independent appraiser with expertise in the field - BDO Ziv Haft Consulting and Management Ltd.

Valuation details:

| | |
|--|---|
| Subject of the valuation | To determine the recoverable amount of the Refining Segment assets, pursuant to the provisions of IAS 36 |
| Date of valuation | The effective date of the Valuation: December 31, 2024 Date of signing of contract: February 2025 Date of signing the valuation: March 11, 2025 |
| Carrying value attributed to the assets of the Refining Segment, pursuant to the provisions of IAS 36 | Approx. USD 2.21 billion. |
| The recoverable amount as determined in the Valuation | Approx. USD 2.51 billion. |
| Identification and characterization of the appraiser | <ul style="list-style-type: none"> The Valuation was carried out by BDO Ziv Haft Consulting and Management Ltd. (hereinafter - the "Appraiser"), which was founded by the partners of the accounting firm BDO. BDO Consulting and Management is part of the international BDO network, which provides a wide range of business services to national and global businesses in every sector. The Appraiser has extensive experience in the following areas: Business valuations, financial due diligence and tax due diligence, valuation of goodwill and intangible assets, financial analysis, developing business plans, consulting for PFI/PPP project financing, mergers and acquisitions, investment banking, etc. The Valuation was carried out by a team headed by CPA Sagiv Mizrahi, a partner and team manager in the Corporate Finance department. CPA Mizrahi holds a BA in Applied Mathematics from Bar Ilan University and an MBA with honors with a specialization in financial management from Tel Aviv University. CPA Mizrahi has more than 10 years of experience in economic and business consulting, corporate valuations and financial instruments and financial-accounting work of various types, in accordance with the IFRS and US GAAP. Formerly, CPA Mizrahi was a lecturer at Bar Ilan University on accounting and valuations. |

Bazan Ltd.

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| | <ul style="list-style-type: none"> As presented to the Company, the Appraiser has experience in performing valuations for accounting purposes in reporting corporations and in a scope similar to that of the reported valuation or higher. |
| Valuation model used by the Appraiser | Recoverable amount as of December 31, 2024, estimated by discounting future net cash flows at a discount rate that reflects the level of risk inherent in the forecasts. |
| The key assumptions on which the Valuation was based | <p>Key assumptions underlying the Valuation:</p> <ul style="list-style-type: none"> Forecast years - 2025-2031 as well as the representative year; Refining margins - the forecast for the refining margins was based on the forecasts of consulting company S&P Global Commodity Insights (IHS) with adjustments made with respect to the Refining Segment. Production quantities - the forecast regarding production quantities was based on the Company's forecast and takes into account the planned utilization rates of the refining facilities - including, among other things, the expected periodic maintenance work cycle. Discount rate – USD, annual, in real values after tax is approx. 8.0%; calculated after weighting the following parameters: debt ratio, equity ratio, foreign capital price, tax rate, risk-free interest, market risk premium, beta, size premium, specific risk premium and equity price; Long-term growth rate - the long-term growth rate, i.e. from 2032 onwards will be a real 0%; Haifa Bay - The government is promoting a comprehensive plan for Haifa Bay, which includes, inter alia, the discontinuation of the petrochemical manufacturing's activity, with the government's target date being the end of 2029. The Valuation assumed that, insofar as such an evacuation will take place, the Company would be compensated by the state in the amount of damage it will incur, i.e., according to the enterprise value as of that date. |
| Sensitivity analysis | <ul style="list-style-type: none"> An increase of 0.5% in the post-tax discount rate would have brought about a value in use of approx. USD 2.39 billion. A decrease of USD 0.5 per barrel in the refining margin per ton a year would have been brought about a value in use of approx. USD 2.26 billion. A decrease of 10% in the refining volume in the representative year would have resulted in a value in use of approx. USD 2.33 billion. |
| Details of the organ in the corporation which decided to contract the Appraiser | Guy Liberman, CFO |

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Bazan Ltd.

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|--|--|
| <p>Existence of dependence between the corporation and the Appraiser</p> | <ul style="list-style-type: none"> • The firm which conducted the valuation has no vested interest and/or dependence on the Company except for the fact that it received a fee which is not contingent on the results of its work. • As part of the engagement agreement, it was agreed that if the Appraiser will be obliged to pay any amount to a third party in connection with the performance of the services specified in the Appraisal, legal proceeding or other binding procedure, the Company undertakes to indemnify him for any such amount, to be paid to the Appraiser, beyond an amount equal to three times his fee, unless it is determined that he acted maliciously and/or negligently - in which case no indemnification obligation will apply. |
| <p>Classifying the valuation as material for the purpose of its inclusion (although according to the quantitative thresholds, it is considered highly material)</p> | <p>According to the Israel Securities Authority's document - "Clarification of Legal Position No. 105-23, Parameters for Examining the Materiality of Valuations: Questions and Answers", from December 2022, even if the valuation meets the quantitative tests for classification as a highly material valuation, it will be possible to consider it a material valuation (and accordingly - not to attach it to the financial statements), inter alia, if the following condition is met:</p> <p>The Valuation is for the purpose of examining the impairment of a cash-generating unit and under any reasonable possible change in the key assumptions used to determine a recoverable value of the unit, there was no highly material impairment (impairment that constitutes over 10% of the profit and over 5% of the equity). This is conditioned upon the fact that disclosure is given to the said valuation as a material valuation in accordance with Regulation 8B(i) (in lieu of highly material).</p> <p>In the Company's opinion, a reasonable possible change in the key assumptions used in determining the recoverable amount would not have led to recognition of a material loss in the Valuation; therefore, it considers the valuation to be a material in lieu of highly material.</p> |

Consolidated Financial Statements as at December 31, 2024

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Report of the Independent Auditor to the Shareholders of Bazan Ltd.

We have audited the consolidated statement of financial position of Bazan Ltd. (hereinafter - the "Company") as at December 31, 2024 and the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the year ended then ended. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

The Company's consolidated financial statements as at December 31, 2023 and for each of the two years in the period ended on December 31, 2023 have been audited by other independent auditors, the reports of which - dated March 13, 2024 - included and unqualified opinion as well as emphasis of matter to Note 20C to the Financial Statements regarding the Government of Israel's resolution dated March 6, 2022 on the strategy for the development and advancement of the Haifa Bay, which includes forming a government team to negotiate with the Company, with the aim of reaching an arrangement to discontinue petrochemical manufacturing by the Group's companies, while maintaining the energy security and regular fuel supply to the Israeli economy; as well as to Note 20A(4) to the Financial Statements regarding proceedings against Group companies in connection with environmental laws and regulations.

We did not audit the financial statements of a consolidated company whose consolidated assets constitute approx. 2.08% of total consolidated assets as at December 31, 2024, and whose revenues included in the consolidation constitute approx. 2.78%, of total consolidated revenues for the year then ended. The financial statements of the above company were audited by other independent auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for the company, is based on the reports of the other independent auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those set forth in the Certified Public Accountants (Modus Operandi of Certified Public Accountant) Regulations, 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the Financial Statements are free of material misstatement. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other independent auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other independent auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as at December 31, 2024 and their results of operations, changes in equity and cash flows for the year ended on that date, in accordance with International Financial Reporting Standards (IFRS), and the provisions of the Securities Regulations (Annual Financial Statements), 2010.

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Without qualifying our above opinion, we draw attention to what is stated in Note 20C to the Consolidated Financial Statements regarding the Government of Israel's resolution dated March 6, 2022 on the strategy for the development and advancement of the Haifa Bay, which includes forming a government team to negotiate with the Company, with the aim of reaching an arrangement to discontinue the activity of petrochemical manufacturing of the Group's companies, while maintaining the energy security and regular fuel supply to the Israeli economy; in the opinion of the Company's management, at this stage, it is impossible to evaluate the significance and impact on its activity, business and financial results; as well as to that which is stated in Note 20A(5) to the Financial Statements) regarding proceedings against Group companies in connection with environmental laws and regulations; in the opinion of the Company and the consolidated companies' managements, which is based, among other things, on the opinion of their legal counsels, the effect of some of those proceedings on the Financial Statements, if any, cannot be assessed at this stage; therefore, no provisions were included with regard to this issue in the Financial Statements.

Key audit matters

The key audit matters listed below are those matters that were communicated or should have communicated to the Company's Board of Directors, and which, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements for the current period. Such matters include, inter alia, any matter: (1) that refers to or might refer to material items or disclosures in the Financial Statements, and (2) on which our judgment was particularly challenging, subjective, or complex. These matters were addressed within our audit and the formation of our opinion on the Consolidated Financial Statements as a whole. Communicating these matters below does not alter our opinion on the Consolidated Financial Statements as a whole and is not a vehicle for a separate opinion on these matters or on the items or the disclosures to which they refer.

The effect of the government resolution on the assumptions and estimates underlying the Financial Statements

In accordance with Note 20C to the Consolidated Financial Statements regarding the Government of Israel's resolution dated March 6, 2022 on the strategy for the development and advancement of the Haifa Bay, which includes forming a government team to negotiate with the Company, with the aim of reaching an arrangement to discontinue the petrochemical manufacturing activity of the Group companies, while maintaining the energy security and regular fuel supply to the Israeli economy, the Company assesses and estimates the effect of the resolution on the Financial Statements as a whole.

The change in Bazan management's assessment regarding the assumptions and estimates underlying the Financial Statements might have a material effect on the Financial Statements, including the following estimates: the estimated useful life and the scrap value of property, plant and equipment, and the presence of indications of impairment of cash-generating units. In determining the estimates, the management exercises its professional discretion, and it relies, among other things, on its professional advisors.

We identified the review of the effect of the government resolution on the assumptions and estimates underlying the Financial Statements as a key audit matter, because the examination of the main assumptions and critical estimates the management had used to determine the resolution's effect, which involve substantial uncertainty, required us to exercise substantial discretion in the examination of their reasonability.

We examined the process of establishing the Company management's assumptions about the ramifications of the government resolution on the development of a strategy for the development and advancement of the Haifa Bay, as well as the planning, implementation, and operational efficiency of some internal controls related to the estimates underlying the Financial Statements, and in particular, an internal control that relates to the examination of changes and the available information about the government resolution.

The audit procedures we implemented to address the key audit matter

Among other things, the key audit procedures we implemented in our audit regarding this key audit matter are:

- Questioning the Board of Directors members and members of the senior management (specifically, the CEO and the CFO) on updates and developments in the negotiations with the government.
- Assessing the legal opinions with respect to the Government Resolution.
- Cross-referencing the Company's representations against publications by relevant government institutions about the government's plans.
- Examining the adequacy of the disclosures in connection with the government resolution in the financial report.

Proceedings pursuant to environmental laws and regulations

In accordance with that described in Note 20A(5) to the Consolidated Financial Statements, for some of the proceedings against Group companies pursuant to environmental laws and regulations (hereinafter – the "Proceedings"), the respective managements of the Company and Group Companies believe, based on the opinion of their legal counsels, that, at this stage, it is impossible to assess the Proceedings' effect, if any, on the Group and its Consolidated Financial Statements as at December 31, 2024.

Any change in such estimates or assessments might have a substantial impact on operating results and on the Group companies' financial position.

We identified the review of the Proceedings pursuant to environmental laws and regulations as a key audit matter, as reviewing the effects of these proceedings involves substantial uncertainty and requires us to exercise substantial discretion in the examination of their reasonability.

We reviewed the process of establishing the assessment of Proceedings pursuant to environmental laws and regulations, and the planning, implementation, and operational effectiveness of some internal controls related to the process of estimating the Proceedings' effect on the Group's Financial Statements.

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The audit procedures we implemented to address the key audit matter

Among other things, the key audit procedures we implemented in our audit regarding this key audit matter are:

- Reading minutes of internal discussions regarding environmental protection issues.
- We reviewed letters from the internal and external legal counsels about legal and administrative proceedings in the field, including a review of the developments in claims, as received from the Company's Legal Department.
- Reviewing the letter from the legal counsel on all Proceedings in the environmental domain, including a risk assessment of the Proceedings' materialization.
- Examination of external legal opinions in connection with the estimated probability that the Company would have to bear the land rehabilitation costs.
- Examining the adequacy of the disclosures in connection with the Proceedings in the environmental domain in the financial report.

We have also audited, in conformity with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, Audit of Internal Control Over Financial Reporting, and its amendments, internal controls over the Company's financial reporting as at December 31, 2024, and our report of March 11, 2025 includes an unqualified opinion of the effective fulfillment of these components.

Tel Aviv,
March 11, 2025

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Report of the Independent Auditor of Bazan Ltd. regarding the Audit of Components of
Internal Control over Financial Reporting

In accordance with Section 9B(c) of the Securities Regulations
(Periodic and Immediate Reports), 1970

We have audited the internal controls over the financial reporting of Bazan Ltd. and its subsidiaries (hereinafter, jointly - the "Company") as at December 31, 2024. The control components were determined as explained in the following paragraph. The Company's Board of Directors and management are responsible for maintaining effective internal control over the financial reporting and for their assessment of the effectiveness of these internal controls over the financial reports attached to the periodic report at this date. Our responsibility is to express an opinion of the internal controls over the Company's financial reporting based on our audit.

The audited components of internal control over financial reporting were defined by us in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, Audit of the Components of Internal Control Over Financial Reporting (hereinafter - "Audit Standard (Israel) 911"). The components are as follows: 1) Entity-level controls, including close-end period controls of financial reports and information technology general controls (ITGC); (2) Controls over the sales process to customers; (3) Controls over the purchase process of crude oil and distillates; (4) Controls over the raw materials and finished goods inventory process (all these are jointly referred to hereunder as: the "Audited Control Components").

We conducted our audit in accordance with Auditing Standard (Israel) 911. The standard requires us to plan and perform the audit to identify the Audited Control Components and obtain reasonable assurance that these control components have been implemented effectively in all material respects. Our audit included obtaining an understanding of the internal control over financial reporting, identifying the Audited Control Components, assessing the risk for material weaknesses in the audited control components, and testing and evaluating the effectiveness of the planning and implementation of these control components based on the assessed risk. Our audit regarding these controls included performing other procedures, as we considered necessary under the circumstances. Our audit referred only to the Audited Control Components, as opposed to internal control over all the significant processes regarding financial reporting, therefore our opinion refers to the Audited Control Components only. Additionally, our audit did not cover the reciprocal effects between the Audited Control Components and those that are unaudited; therefore, our opinion does not take into account such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Due to inherent limitations, internal control over financial reporting in general, and internal control components in particular, may not prevent or disclose misstatement. Moreover, drawing forward-looking conclusions based on any present assessment of effectiveness involves risks that the controls may become inadequate due to changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company has implemented effectively, in all material respects, the Audited Control Components as at December 31, 2024.

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We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as at December 31, 2024, and for the year then ended. Our report dated March 11, 2025 included our unqualified opinion regarding those Financial Statements, as well as emphasis of matter with respect to that which is stated in Note 20C to the Financial Statements regarding the Government of Israel's resolution dated March 6, 2022 on the strategy for the development and advancement of the Haifa Bay, which includes forming a government team to negotiate with the Company, with the aim of reaching an arrangement to discontinue the activity of petrochemical manufacturing of the Group's companies, while maintaining the energy security and regular fuel supply to the Israeli economy; in the opinion of the Company's management, at this stage, it is impossible to evaluate the significance and impact on its activity, business and financial results; as well as to that which is stated in Note 20A(5) to the Consolidated Financial Statements) regarding proceedings against Group companies in connection with environmental laws and regulations; in the opinion of the Company and the consolidated companies' managements, which is based, among other things, on the opinion of their legal counsels, the effect of some of those proceedings on the Financial Statements, if any, cannot be assessed at this stage; therefore, no provisions were included with regard to this issue in the Financial Statements.

Tel Aviv,
March 11, 2025

Kost Forer Gabbay & Kasierer
Certified Public Accountants

To
Board of Directors of
Bazan Ltd.
POB 4, Haifa 3100001

Dear Madam/Sir,

**Re: Letter of consent in connection with the shelf prospectus of Bazan Ltd.
(hereinafter - the "Company")
As from November 2024**

We hereby inform you that we agree to the inclusion (including by way of reference) of our statements set out below in connection with the shelf prospectus of November 2024.

- (1) The independent auditor's report of March 11, 2025 on the Company's consolidated financial statements as at December 31, 2024 and for the one-year period then ended.
- (2) The independent auditor's report of March 11, 2025 on the Audit of the Components of the Internal Control over Financial Reporting of the Company as at December 31, 2024.
- (3) The independent auditor's report of March 11, 2025 on the separate financial information of the Company in accordance with Regulation 9C to the Securities Regulations (Periodic and Immediate Reports), 1970, as at December 31, 2024 and for the one-year period then ended.

Yours
sincerely,

Tel Aviv,
March 11, 2025

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Bazan Ltd. - Consolidated Statements of Financial Position, in USD million

| | Note | As at | |
|--|------|----------------------|-------------------------|
| | | December 31, 2024 | December 31, 2023 |
| Current assets | | | |
| Cash and cash equivalents | 5A | 752 | 763 |
| Deposits | 5B | 1 | 37 |
| Trade receivables | 6 | 593 | 620 |
| Other receivables and debit balances | 7 | 22 | 120 |
| Financial derivatives | 30G | 5 | 11 |
| Inventories | 8 | 711 | 769 |
| Total current assets | | 2,084 | 2,320 |
| Non-current assets | | | |
| Loan to Company for Early Pension Haifa Ltd. | 18C | 19 | 22 |
| Long-term receivables and debit balances | 10 | 40 | 53 |
| Financial derivatives | 30G | 7 | – |
| Property, plant and equipment, net | 11 | 2,101 | 2,071 |
| Right-of-use assets, net | 12 | 170 | 162 |
| Intangible assets and deferred expenses, net | 12 | 31 | 29 |
| Total non-current assets | | 2,368 | 2,337 |
| Total assets | | 4,452 | 4,657 |

Moshe Kaplinsky
Chairman of the Board

Asaf Almagor
CEO

Guy Liberman
CFO

Approval date of the financial statements: March 11, 2025

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

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Bazan Ltd. - Consolidated Statements of Financial Position, in USD million (cont.)

| | Note | As at December 31, 2024 | December 31, 2023 |
|---|----------|-------------------------------|----------------------|
| Current liabilities | | | |
| Loans and borrowings (including current maturities) | 13A, 14A | 218 | 273 |
| Trade payables | 15A | 866 | 839 |
| Other payables and credit balances | 15B | 195 | 244 |
| Financial derivatives | 30G | 15 | 29 |
| Provisions | | 4 | 9 |
| Total current liabilities | | 1,298 | 1,394 |
| Non-current liabilities | | | |
| Liabilities to banks, net | 13A3 | 333 | 339 |
| Debentures, net | 14A | 582 | 588 |
| Other long-term liabilities | 17 | 119 | 119 |
| Financial derivatives | 30G | 36 | 45 |
| Employee benefits, net | 18C | 54 | 53 |
| Deferred tax liabilities, net | 16D | 266 | 262 |
| Total non-current liabilities | | 1,390 | 1,406 |
| Total liabilities | | 2,688 | 2,800 |
| Equity | 21 | | |
| Share capital | | 811 | 811 |
| Share premium | | 31 | 31 |
| Capital reserves | | 13 | 45 |
| Retained earnings | | 909 | 970 |
| Total equity | | 1,764 | 1,857 |
| Total liabilities and equity | | 4,452 | 4,657 |

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

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

Bazan Ltd. - Consolidated Statements of Income and Other Comprehensive Income, in USD million

| | Note | For the year ended December 31 | | |
|--|------|-----------------------------------|--------------|--------------|
| | | 2024 | 2023 | 2022 |
| Revenue | 22 | 7,542 | 8,324 | 10,828 |
| Cost of sales | 23 | (7,112) | (7,560) | (10,047) |
| Gross income | | 430 | 764 | 781 |
| Selling and marketing expenses | 24A | (145) | (123) | (124) |
| General and administrative expenses | 24B | (64) | (61) | (58) |
| Other income (expenses), net | 25 | 3 | (7) | (5) |
| Operating profit | | 224 | 573 | 594 |
| Finance income | 26 | 27 | 33 | 45 |
| Finance expenses | 26 | (112) | (116) | (123) |
| Finance expenses, net | | (85) | (83) | (78) |
| Profit before income tax | | 139 | 490 | 516 |
| Expenses for income tax | 16B | (26) | (82) | (75) |
| Net income for the year | | 113 | 408 | 441 |
| Earnings per share (in USD) | | | | |
| Basic and diluted earnings per 1 ordinary share | | 0.036 | 0.128 | 0.138 |
| Items of other comprehensive income (loss) transferred to profit and loss: | | | | |
| Effective share of the change in fair value of cash flow hedges, net of tax | | 9 | (26) | 40 |
| Other, net | | 1 | (1) | (1) |
| Other comprehensive income (loss), transferred to profit and loss, net of tax | | 10 | (27) | 39 |
| Items of other comprehensive income not transferred to profit and loss: | | | | |
| Remeasurement of defined benefit plan, net of tax | | – | 2 | 10 |
| Other, net | | – | 1 | – |
| Other comprehensive income, not transferred to profit and loss, net of tax | | – | 3 | 10 |
| Total other comprehensive income (loss) for the year, net of tax | | 10 | (24) | 49 |
| Comprehensive income for the year | | 123 | 384 | 490 |

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

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Bazan Ltd. - Consolidated Statements of Changes in Equity, in USD, in USD million

| | Share capital | Share premium | Capital reserves | Capital reserves for items of other comprehensive income (loss) Hedge fund reserve | Other capital reserves | Retained earnings | Total equity |
|--|---------------|---------------|------------------|---|------------------------|-------------------|--------------|
| For the year ended December 31, 2024 | | | | | | | |
| Balance as at January 1, 2024 | 811 | 31 | 8 | 33 | 4 | 970 | 1,857 |
| Net income for the year | — | — | — | — | — | 113 | 113 |
| Other comprehensive income, net of tax | — | — | — | 9 | 1 | — | 10 |
| Total comprehensive income for the year | — | — | — | 9 | 1 | 113 | 123 |
| Share-based payment | — | — | 1 | — | — | — | 1 |
| Transfer from capital reserve in respect of the realization of inventory hedging transactions, net of tax (see Note 29D3B) | — | — | — | (33) | — | — | (33) |
| Share buyback (see Note 21C) | — | — | (10) | — | — | — | (10) |
| Dividend declared and paid (see Note 21C) | — | — | — | — | — | (174) | (174) |
| Balance as at December 31, 2024 | 811 | 31 | (1) | 9 | 5 | 909 | 1,764 |

| | Share capital | Share premium | Capital reserves | Capital reserves for items of other comprehensive income (loss) Hedge fund reserve | Other capital reserves | Retained earnings | Total equity |
|--|---------------|---------------|------------------|---|------------------------|-------------------|--------------|
| For the year ended December 31, 2023 | | | | | | | |
| Balance as at January 1, 2023 | 808 | 33 | 30 | 60 | 3 | 810 | 1,744 |
| Net income for the year | — | — | — | — | — | 408 | 408 |
| Other comprehensive income (loss) for the year, net of tax | — | — | — | (27) | 1 | 2 | (24) |
| Total comprehensive income (loss) for the year | — | — | — | (27) | 1 | 410 | 384 |
| Share-based payment | — | — | 1 | — | — | — | 1 |
| Exercised share options | 3 | (2) | (1) | — | — | — | — |
| Share buyback (see Note 21C) | — | — | (22) | — | — | — | (22) |
| Dividend declared and paid (see Note 21C) | — | — | — | — | — | (250) | (250) |
| Balance as at December 31, 2023 | 811 | 31 | 8 | 33 | 4 | 970 | 1,857 |

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

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

Bazan Ltd. - Consolidated Statements of Changes in Equity, in USD, in USD million (cont.)

| | Share capital | Share premium | Capital reserves | Hedge fund reserve | Capital reserves for items of other comprehensive income (loss) Other capital reserves | Retained earnings | Total equity |
|--|--------------------------------------|---------------|------------------|--------------------|---|-------------------|--------------|
| | For the year ended December 31, 2022 | | | | | | |
| Balance as at January 1, 2022 | 808 | 33 | 30 | 20 | 4 | 478 | 1,373 |
| Net income for the year | – | – | – | – | – | 441 | 441 |
| Other comprehensive income (loss) for the year, net of tax | – | – | – | 40 | (1) | 10 | 49 |
| Total comprehensive income for the year | – | – | – | 40 | (1) | 451 | 490 |
| Share-based payment | – | – | 1 | – | – | – | 1 |
| Expired share options | – | – | (1) | – | – | 1 | – |
| Dividend declared and paid | – | – | – | – | – | (120) | (120) |
| Balance as at December 31, 2022 | 808 | 33 | 30 | 60 | 3 | 810 | 1,744 |

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

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

Bazan Ltd. - Consolidated Statements of Cash Flows, in USD million

| | For the year ended December 31 | | |
|--|--------------------------------|--------------|--------------|
| | 2024 | 2023 | 2022 |
| Cash flows from operating activities | | | |
| Net income for the year | 113 | 408 | 441 |
| Adjustments required to present cash flows from operating activities: | | | |
| Revenue and expenses not involving cash flows (Appendix A – Section A) | 242 | 314 | 383 |
| | 355 | 722 | 824 |
| Changes in assets and liabilities (Appendix A - Section B) | 160 | (20) | (104) |
| Income tax received (paid), net ⁽¹⁾ | (74) | 3 | (19) |
| Net cash provided by operating activities | 441 | 705 | 701 |
| Cash flows used in investing activities | | | |
| Interest received | 23 | 27 | 8 |
| Change in deposits, net | 66 | (13) | (22) |
| Repayment of a loan from Early Pension Haifa | 15 | – | – |
| Purchase of property, plant & equipment (including periodic maintenance work) ⁽²⁾ | (187) | (163) | (204) |
| Other | (1) | (4) | (9) |
| Net cash used in investing activities | (84) | (153) | (227) |
| Cash flows used in financing activities | | | |
| Change in deposits and short-term borrowing, net | 6 | (13) | (1) |
| Interest paid ⁽³⁾ | (100) | (111) | (96) |
| Derivative transactions, net | (2) | (1) | 5 |
| Receipt of long-term loans from banks ⁽⁴⁾ | 152 | 120 | 40 |
| Repayment of long-term bank loans, including early repayment ⁽⁴⁾ | (201) | (97) | (87) |
| Repayment of debentures | (149) | (203) | (209) |
| Issue of debentures, less issuance expenses | 135 | 57 | 117 |
| Payment of lease liabilities | (20) | (19) | (12) |
| Share buyback | (10) | (23) | – |
| Dividend paid | (174) | (250) | (120) |
| Net cash used in financing activities | (363) | (540) | (363) |
| Net increase (decrease) in cash and cash equivalents | (6) | 12 | 111 |
| Effect of exchange rate fluctuations on balances of cash and cash equivalents | (5) | – | 2 |
| Cash and cash equivalents at the beginning of the year | 763 | 751 | 638 |
| Cash and cash equivalents at the end of the year | 752 | 763 | 751 |

- (1) During the reporting period, includes tax payments of approx. USD 57 million in respect of 2022-2023. In 2022, includes a one-off tax payment of approx. USD 17 million; for details, see Note 16A3c.
- (2) During the Reporting Period and in 2023 - includes direct costs (before capitalization of salary costs and other costs) totaling approx. USD 55 million and approx. USD 40 million, respectively, in respect of periodic maintenance works in the Company's main refining facility and in adjacent facilities. Furthermore, during the Reporting Period - includes direct costs (before capitalization of salary and other costs) totaling approx. USD 23 million with respect to periodic maintenance work in the hydrocracker, hydrogen production facilities, CDU 3 and ancillary facilities, which commenced subsequent to the Reporting Period. In 2022, includes direct costs (before capitalization of salary and other costs) totaling approx. USD 105 million with respect to periodic maintenance works in all of Carmel Olefins' production facilities and in some of the Company's production facilities, in particular the fluid catalytic cracker (FCC).
- (3) As at December 31, 2022, interest payments for debentures in the amount of approx. USD 8 million, were deferred pursuant to the provisions of the deeds of trust to January 1, 2023, as their contractual maturity date was not a business day.
- (4) During the reporting period, includes repayment of loans of approx. USD 101 million against receipt of new loans. In 2023, includes repayment of a loan of approx. USD 36 million against receipt of a new loan. For details, see Note 13A3.

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

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Bazan Ltd. - Consolidated Statements of Cash Flows, in USD million (cont.)**Appendix A - Adjustments Required to Present Cash Flows from Operating Activities**

| | For the year ended December 31 | | |
|--|--------------------------------|-------------|--------------|
| | 2024 | 2023 | 2022 |
| A. Revenue and expense items not involving cash flows | | | |
| Depreciation and amortization | 182 | 173 | 155 |
| Other expenses (income), net | (3) | 7 | 5 |
| Finance expenses, net | 86 | 84 | 102 |
| Change in the balance of inventory and margins derivatives | (50) | (32) | 42 |
| Expenses for income tax | 26 | 82 | 75 |
| Other | 1 | — | 4 |
| | 242 | 314 | 383 |
| B. Changes in assets and liabilities items | | | |
| Change in trade receivables | 26 | (30) | 8 |
| Change in other receivables and debit balances | 69 | (35) | (3) |
| Change in inventories | 57 | (19) | (19) |
| Change in trade payables | 19 | 96 | (43) |
| Change in other payables, credit balances and provisions | (12) | (32) | (40) |
| Change in employee benefits, net | 1 | — | (7) |
| | 160 | (20) | (104) |

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

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Bazan Ltd. - Consolidated Statements of Cash Flows, in USD million (cont.)

Appendix B - Movement Arising from Financing Activities

| | Loans from banks ⁽¹⁾ | Debentures ⁽¹⁾ | Financial derivatives ^{(1),(2)} |
|---|------------------------------------|---------------------------|---|
| Liability as at January 1, 2024 | 447 | 740 | 48 |
| <u>Changes arising from cash flows:</u> | | | |
| Issue of debentures and receipt of bank loans | 152 | 135 | — |
| Repayment of debentures and bank loans | (201) | (149) | — |
| Interest paid | — | — | (11) |
| Net proceeds for derivative transactions | — | — | (2) |
| Total changes arising from cash flows | (49) | (14) | (13) |
| <u>Changes arising from non-cash activity:</u> | | | |
| Raising costs, premium, discounting, and other, net | (2) | 1 | — |
| Interest expenses | — | — | 11 |
| Effect of changes in exchange rates and CPI | — | (3) | 3 |
| Changes in fair value, application of hedge accounting and others | — | — | (6) |
| Total changes arising from non-cash activity | (2) | (2) | 8 |
| Liability as at December 31, 2024 | 396 | 724 | 43 |

| | Loans from banks ⁽¹⁾ | Debentures ⁽¹⁾ | Financial derivatives ^{(1),(2)} |
|---|------------------------------------|---------------------------|---|
| Liability as at January 1, 2023 | 420 | 904 | 21 |
| <u>Changes arising from cash flows:</u> | | | |
| Issue of debentures and receipt of bank loans | 120 | 57 | — |
| Repayment of debentures and bank loans | (97) | (203) | — |
| Interest paid | — | — | (11) |
| Net proceeds for derivative transactions | — | — | (1) |
| Total changes arising from cash flows | 23 | (146) | (12) |
| <u>Changes arising from non-cash activity:</u> | | | |
| Amortization of raising costs, premium, discounting, and other, net | 5 | 1 | — |
| Interest expenses | — | — | 12 |
| Effect of changes in exchange rates | (1) | (20) | 21 |
| Changes in fair value, application of hedge accounting and others | — | 1 | 6 |
| Total changes arising from non-cash activity | 4 | (18) | 39 |
| Liability as at December 31, 2023 | 447 | 740 | 48 |

(1) Including current maturities.

(2) Hedging transactions on debentures and loans from banks include cross-currency interest rate swaps (CCIRS) and interest rate swaps (IRS).

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

This translation of the financial statement is for convenience purposes only.
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Bazan Ltd. - Consolidated Statements of Cash Flows, in USD million (cont.)

Appendix B - Movement Arising from Financing Activities - cont.

| | Loans from banks ⁽¹⁾ | Debentures ⁽¹⁾ | Financial derivatives ^{(1),(2)} |
|---|--|----------------------------------|---|
| Liability (asset) as at January 1, 2022 | 464 | 1,093 | (89) |
| <u>Changes arising from cash flows:</u> | | | |
| Issue of debentures and receipt of bank loans | 40 | 117 | — |
| Repayment of debentures and bank loans | (87) | (209) | — |
| Interest paid | — | — | (9) |
| Net proceeds for derivative transactions | — | — | 5 |
| Total changes arising from cash flows | (47) | (92) | (4) |
| <u>Changes arising from non-cash activity:</u> | | | |
| Amortization of raising costs, premium, discounting, and other, net | 6 | — | — |
| Interest expenses | — | — | 10 |
| Effect of changes in exchange rates | (3) | (92) | 95 |
| Changes in fair value, application of hedge accounting and others | — | (5) | 9 |
| Total changes arising from non-cash activity | 3 | (97) | 114 |
| Liability as at December 31, 2022 | 420 | 904 | 21 |

(1) Including current maturities.
(2) Hedging transactions on debentures and loans from banks include cross-currency interest rate swaps (CCIRS) and interest rate swaps (IRS).

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

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NOTE 1 - GENERAL

A. Reporting entity

1. Bazan Ltd. (hereinafter - the “Company” or “Bazan”) is a company incorporated in Israel, which is located in Haifa Bay and its official address is POB 4, Haifa Bay 3100001, Israel. The Company’s shares are traded on the Tel Aviv Stock Exchange (hereinafter - the “TASE”). The Company and its subsidiaries are industrial companies operating mainly in Israel and the Netherlands and are engaged primarily in the production of petroleum products, feedstock for the petrochemical industry, raw materials for the plastics industry, and byproducts. The facilities of the principal manufacturing subsidiaries (Carmel Olefins and Gadiv, see Section B3 below) in Israel are integrated with those of the Company. In addition, the Company provides infrastructure services (storage, pumping, and production of petroleum products).

The Company’s controlling shareholder is Israel Petrochemical Enterprises Ltd. (hereinafter - “IPE”), a public company traded on the TASE that holds (directly and via a company wholly-owned and controlled by it) approx. 25% of the issued capital of the Company.

2. The Consolidated Financial Statements as at December 31, 2024 include the statements of the Company and its subsidiaries (hereinafter, jointly - the “Group”).

B. Definitions

In these financial statements -

1. The Company - Bazan Ltd.
2. The Group - Bazan Ltd. and its consolidated companies.
3. The subsidiaries or consolidated companies - companies and partnerships wholly owned by the Company that operate in Israel, in particular: Gadiv Petrochemical Industries Ltd. (hereinafter - "Gadiv"); Carmel Olefins Ltd. (hereinafter - "Carmel Olefins"), ORL Shipping Ltd. (hereinafter - "Shipping"), ORL Trading Ltd. (hereinafter - "Trading"), and Bnnovation LP (hereinafter - "Bnnovation"). In addition, the Company owns - through wholly-owned subsidiaries of Carmel Olefins - Ducor Petrochemicals BV (hereinafter - "Ducor"), which operates in the Netherlands, and Carmel Eco Ltd. (hereinafter - "Carmel Eco"), which operates in Israel.
4. Related party - As defined in IAS 24 (2009), Related Party Disclosures.
5. Interested party - As defined in paragraph ⁽¹⁾ of the definition of interested parties in Section 1 of the Securities Law, 1968.

C. War in Ukraine

Towards the end of February 2022, a war broke out between Russia and Ukraine, which continues as at the report's approval date. As a result, significant economic sanctions have been imposed on Russia (including on various financial institutions and corporations, some of which are active in the energy sector, as well as on certain politicians and businessmen), including a ban on trade, investment and economic relations, as well as the severing of certain Russian banks from international financial systems (hereinafter - the “Crisis”). As at the report's approval date, the sanctions do not include a sweeping ban on trade in energy, particularly crude oil and its products or natural gas, excluding regarding the United States, EU countries, the G7 countries and additional countries which adopted a similar policy.

NOTE 1 - GENERAL - cont.

C. War in Ukraine – cont.

In view of the crisis, the business environment underwent extreme changes, which include, among other things, a spike in Brent prices, and a sharp increase in distillates margins, specifically the diesel fuel margin. In the Reporting Period, the said effect of the War on Brent prices and distillates margins has subsided substantially.

It is noted that the Group companies are not materially exposed, in their business activities, to the Russian market. The Company purchases a range of types of crude oil from various sources across the world, and in recent years did not refine crude oil originating in Russia (such as Ural). Nevertheless, depending on geopolitical developments, trade on global energy markets or tightening of the sanctions imposed on Russia, there may be logistical difficulties in importing crude oil cargoes from Former CIS countries and/or purchasing of certain feedstock required for some of the Company's facilities. As from the report date and beginning of the Crisis, the Company does not engage directly with Russian entities but rather purchases feedstock originating in Russia from leading international trading companies.

As at the Report's approval date, the Company is operating as usual and in the short term, the Crisis is not expected to have any effects on its business continuity. The Company is continuously following the unfolding of the Crisis and its potential implications for its operations and operating results, including taking advantages of market opportunities; it is prepared to make necessary adjustments, if needed, to purchases of crude oil and feedstock in order to mitigate adverse effects on its operating results, in any, due to a shortage of feedstock and/or need to purchase alternative feedstock which is less optimal for its operations.

As at the Report's approval date, the Company is unable to assess whether and when such difficulties may materialize or their effect on the Company if they do materialize.

D. The Iron Swords War

On October 7, 2023 a surprise attack was launched on the State of Israel, following which the Israeli government declared a state of war (hereinafter - the "Iron Swords War"). In September 2024, the War expanded with Operation Northern Arrows, which led to intensive fighting on the northern border, as well as attacks on Israel by Iran and its proxies.

Due to the War situation, on October 12, 2023, the Minister of Energy and Infrastructures issued to the Company a directive under the Control of Commodities and Services Law, 1957, regarding the operation of the Company's refinery, under the conditions set in the Minister's directive (hereinafter - the "Directive"). According to the directive, the Company was forced, among other things, to postpone the periodic maintenance work which was planned to begin in October 2023 at its main refining facility; it was performed in the second quarter of 2024.

The state of war and its intensity in the various fronts, which change frequently and unexpectedly, lead to a decrease in activity in the Israeli economy and to challenges in the supply chain and in the relevant infrastructures; they affect the cost of transportation to and from Israel, the cost of freight insurance and the cost of other insurance policies of the Group, and they can also affect the scope and mix of demand for the Group's products and the manner in which its facilities are operated.

During the reporting period, the effects of the War on the Group's activity are declining compared with the fourth quarter of 2023, mostly due to positive developments with respect to the manner of using and ability to use the relevant infrastructures, as well as higher demand in the domestic market, combined with the Group's capabilities in order to reduce excess costs. The coming into force of the ceasefires has also led to an improvement in demand alongside a decrease in excess costs, including, among other things, the abovementioned transportation and insurance costs.

Since the outbreak of the War, the Company has continued its operating activities, with an emphasis on maintaining Israel's energy continuity and supplying products to its customers from the petrochemical industry. At this stage, there is still significant uncertainty as to the development of the War, including the robustness of the cease fires, and the War's scope and duration. Therefore, it is not possible to assess the future impact of the War on the Group and its results.

NOTE 2 - BASIS OF PREPARATION

A. Statement of compliance with IFRS

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Financial Statements have also been prepared in accordance with the Securities Regulations (Annual Financial Statements), 2010.

The Company's Board of Directors approved the Consolidated Financial Statements on March 11, 2025.

B. Functional currency and presentation currency

The Consolidated Financial Statements are presented in the US dollar, which is the functional currency of the Company and of most of the subsidiaries. The US dollar is the currency that represents the principal economic environment in which the Company operates.

C. Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except financial assets and liabilities measured at fair value and the following main assets and liabilities measured as described in Note 3 – Significant Accounting Policies: inventory, deferred tax assets and liabilities, provisions, assets and liabilities for employee benefits.

D. Rounding of amounts

In order to improve the process of reading the financial statements, as from December 31, 2024, the financial statements are presented in USD millions rather than in thousands of dollars. Comparison periods' figures were revised accordingly.

E. Operating cycle

The operating cycle of the Group companies is up to one year. As a result, the current assets and current liabilities of the Group include items the materialization of which is intended and anticipated to take place within one year as from the reporting date.

F. Use of estimates and judgments

The preparation of the Group's Consolidated Financial Statements in conformity with IFRS requires that management of the Company makes 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.

The preparation of accounting estimates used in the preparation of the Group's Consolidated Financial Statements requires the Company's management to make assumptions regarding circumstances and events that involve considerable uncertainty.

In applying judgment to its estimates, the Company's management relies on past experience, various facts, external factors, and reasonable assumptions according to the pertinent circumstances of each estimate.

Estimates and their underlying assumptions are reviewed by the Company's management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

NOTE 2 - BASIS OF PREPARATION - cont.

F. Use of estimates and judgments – cont.

Presented below is information about the assets and liabilities included in the Consolidated Financial Statements for which the Group prepared significant estimates and assumptions regarding the future, for which there is a significant risk of resulting in a material adjustment to carrying amounts in a subsequent reporting period:

| <u>Estimate</u> | <u>Principal assumptions</u> | <u>Possible effects</u> | <u>Reference</u> |
|---|--|---|--|
| Net realizable value of inventory | <ul style="list-style-type: none"> Exercise price of inventory as a finished product. Costs required to make the sale based on past experience. | Recognition or reversal of impairment loss | |
| Assessment of indications of impairment and calculation of the recoverable amount for testing impairment of cash generating units, if needed for impairment testing | <ul style="list-style-type: none"> Estimates regarding indications of impairment. Discount rate after tax. An estimate of the cash flows in connection with the cash-generating units, based, among other things, on past experience, relevant forecasts and management's best estimates as to the prevailing economic conditions, specifically the prices of products and raw materials during the projected cash flow period. | Recognition of impairment loss or reversal of impairment loss of non-financial assets | |
| Assessment of the probability of contingent liabilities, including for environmental aspects and uncertain tax positions | <ul style="list-style-type: none"> Whether it is more likely than not that an outflow of economic resources will be required for legal claims filed against the Group companies and other contingent liabilities, including environmental issues and uncertain tax positions - based on the assessments of the management of the Group companies, including the opinions of their legal counsel, if relevant, and based on their best professional judgment, the relevant instance that is expected to rule on the matter, and taking into account the stage of the proceedings and the legal and professional experience accumulated on various matters. The estimate is based, among other things, on the opinion of the legal counsel of the Group companies, that for certain proceedings in particular relating to environmental protection, in view of the complexity of the proceedings and/or the preliminary stage of the proceedings, at this stage, the Group companies' financial exposure cannot be assessed, if at all; therefore, no provisions were made for them in the Financial Statements. | Reversal of, or making, a provision, in general, against profit and loss | For further information about the Company's exposure to contingent liabilities, including in reference to the environment, see Note 20A. |

For details regarding the government resolution, see Note 20C.

G. Capital management – objectives, procedures and processes

Management's policy is to maintain a strong capital base in order to preserve the ability of the Company to continue operating, such that it may provide return on equity to its shareholders, benefits to other stakeholder in the Company, such as receivables and payables, credit providers and employees of the Company, and sustain future development of the business. The Board of Directors monitors dividend distributions to shareholders; for details about the dividend distribution policy which was approved in 2021 and subsequently revised, see Note 21C. As at December 31, 2024, the Company is subject to compliance with financial covenants, including compliance with minimum capital requirements; for details about the covenants, see Notes 13 and 14.

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NOTE 2 - BASIS OF PREPARATION - cont.

H. First-time application of new standards

Amendments to IAS 1 - Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Financial Covenants:

The Amendments change the provisions of the standard for classification of liabilities as current or non-current, including with respect to the following issues:

- The liability will be classified as non-current when the entity possesses the right to defer payment for a period of at least 12 months following the reporting period, when it possesses “substance” and when it exists until the end of the reporting period.
- Financial covenants that the entity must uphold after the reporting period will not influence the classification of the liability as current or non-current.
- Disclosure requirements were added regarding liabilities subject to the assessment of financial covenants within 12 months following the reporting period, such as disclosure regarding the nature of the financial covenants, the date by which they must be fulfilled, and facts and circumstances that indicate that the entity will struggle to uphold the financial covenants.
- A conversion right of a liability will affect the classification of the instrument as current or non-current unless the conversion option is classified as an equity instrument.

The Amendments were applied retrospectively to annual periods commencing on January 1, 2024.

The Amendments did not have a material effect on the financial statements.

NOTE 3 – MATERIAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by Group companies for all periods presented in these Consolidated Financial Statements, unless explicitly stated otherwise.

A. Basis of consolidation

The Consolidated Financial Statements include the Financial Statements of the Company and its subsidiaries.

Intra-group balances, any unrealized gains and expenses, and profits arising from intra-group transactions, were eliminated in the preparation of the Consolidated Financial Statements. Unrealized losses were eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

B. Financial instruments

1. Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are created. All other financial assets acquired in a regular way purchase are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument, i.e. - the date on which the Group undertook to purchase or sell the asset. Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit and loss, the initial measurement includes transaction costs that are directly attributable to the asset acquisition or creation. Subsequent to initial recognition, the Group measures financial assets at either fair value or amortized cost, as detailed below.

A. Financial assets measured at amortized cost

These assets include: Cash and cash equivalents, trade receivables, deposits, certain other receivables and long-term receivables and debit balances of the Group. Cash flows from those financial assets are principal and interest only and are held within a business model with an objective to hold assets in order to collect contractual cash flows. Accordingly, those assets are measured at amortized cost using the effective interest method.

NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

B. Financial instruments - cont.

1. Non-derivative financial assets – cont.

B. Financial assets at fair value through other comprehensive income

Those assets include the Company's investment in the shares of certain companies, which are not held for trading, and which subsequent to initial recognition are measured fair value through other comprehensive income, due to Group's intention to hold this capital investment long term. For these shares, profits and losses are not reclassified to profit and loss and impairments are not recognized in profit and loss.

C. Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows arising from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are substantially transferred.

In general, the Group companies have agreements for factoring of its trade receivables in an absolute assignment by way of a sale (see Note 6B). When the Group substantially transfers all the risks and rewards of ownership of the trade receivables that were assigned to the factoring entities, the Group derecognizes the transferred trade receivables.

2. Non-derivative financial liabilities

The Group initially recognizes debt instruments as they are incurred. Other financial liabilities are initially recognized at the trade date when the Group becomes party to the contractual provisions of the instrument.

In general, the Group's financial liabilities are initially recognized at fair value net of any attributable transaction costs.

A. Financial liabilities at amortized cost

Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

These liabilities include: loans and borrowings from banks, marketable Debentures (Series J, K, L and O) are subject to fair value or cash flow hedge accounting), lease liabilities, trade and other payables.

Primarily for suppliers of crude oil, usually when the credit period is longer than approx. 30 days, the Company recognizes the liability to suppliers discounted to the interest rate embodied in the transaction. The difference between the discounted amount and the nominal amount of the transaction is recognized as finance expenses over the credit period.

B. Derecognition of financial liabilities

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or canceled.

C. Change in terms and conditions of debt instruments

An exchange of debt instruments having substantially different terms and conditions, between a borrower and lender, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. Furthermore, a substantial modification of the terms and conditions of the existing financial liability or part thereof, is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. In such cases, the entire difference between the carrying amount of the original financial liability and the fair value of the new financial liability is recognized in profit and loss as finance income or expenses.

NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

B. Financial instruments - cont.

2. Non-derivative financial liabilities – cont.

C. Change in terms and conditions of debt instruments – cont.

The terms and conditions are substantially different if the discounted present value of the cash flows according to the new terms and conditions, including any fees and commissions paid, less any fees and commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforesaid quantitative test, the Group examines, among other things, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments.

In this context, the Company reviews any changes in the debt instrument's characteristics, such as a change in the currency in which the debt is denominated, exchange of a variable-interest instrument with a fixed-interest instrument, and changes in the economic risk factors that affect the value of the debt instrument, such as a change in the collateral of the liabilities and changes in the financial covenants of the liabilities, etc.

In an immaterial modification in terms and conditions (or exchange) of debt instruments, the new cash flows are discounted using the original effective interest rate, and the difference between the present value of the new financial liability and the present value of the original financial liability is recognized in profit and loss.

D. Netting of financial instruments

Financial assets and financial liabilities are netted and the net amount is presented in the statement of financial position when the Group currently has a legal right to offset the amounts and intends either to settle the asset and liability on a net basis or to dispose of the asset and settle the liability simultaneously.

3. Derivative financial instruments, including hedge accounting

The Group companies hold derivative financial instruments, mainly to hedge its exposure to commodity prices and margins, to foreign currency risks and to interest rate risk.

A. Measurement of derivative financial instruments

Derivatives are initially recognized at fair value. Attributable transaction costs are recognized in profit and loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and the changes in fair value are accounted for as described below:

B. Economic hedges

Changes in the fair value of derivatives designated as economic hedges, are recognized in profit and loss according to the purpose of the economic hedge, meaning the line item in which profits or losses are recognized for the hedged item; changes in the fair value of derivatives designated as economic hedges of commodity prices and their margins are recognized in cost of sales; changes in the fair value of the other derivative instruments are recognized in finance income or finance expenses.

C. Fair value hedges

The Group's cross-currency variable interest rate swaps (CCIRS) to hedge the exposure for fair value changes of the principal and interest payments for Debentures (Series L), attributable to the NIS-USD exchange rate and to changes in the variable interest rate (mainly SOFR), were accounted for the first time by applying fair value hedge accounting as described below.

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NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

B. Financial instruments - cont.

3. Derivative financial instruments, including hedge accounting – cont.

C. Fair value hedges – cont.

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit and loss, other than the share attributable to the foreign currency basis spread, which is recognized in capital reserve, as detailed below. Moreover, changes in the fair value for the hedged item, in relation to the hedged risks, are also recognized concurrently in the statement of income with reconciliation to the carrying amount of the hedged item.

D. Cash flow hedges

Marketable Brent crude futures acquired by the Company to hedge future cash flow exposure due to changes in the market price of crude oil, for the projected transaction for acquisition of inventory at the market prices prevalent on completion of the availability transaction (for details regarding the inventory availability transaction, including its completion in the reporting period, see Note 20B4), were designated as hedging items for the purpose of cash flows hedge accounting.

The Group's futures for the purchase of naphtha are designated as hedging items for the purpose of cash flow hedge accounting for exposure to changes in market prices of projected acquisitions of crude oil, the main raw material in the production of naphtha.

Certain swaps in which the Group engaged to hedge the margin between the prices of polymers it manufactures and sells and the price of naphtha, shall be designated as hedge items for application of cash flow hedge accounting policies in respect of: (a) Changes in market prices of projected polymer sales; and (b) changes in market prices of crude oil (the main raw material used in the production of naphtha).

Certain futures for interest rate swaps (IRS) to hedge exposure for changes in variable interest (mostly SOFR) as well as cross-currency fixed interest rate swap (CCIRS) to hedge currency exposure for Debentures (Series J, L, M and O) due to a change in the NIS-USD exchange rate and setting USD interest in which the Group engaged, will be designated as hedged items for application of cash flow hedge accounting policies.

Accordingly, changes in the fair value of these derivatives 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. In certain cases, changes in the fair value of the derivatives, attributable to the hedging cost (for the forward component or foreign currency basis spread), are recognized through other comprehensive income, directly in a hedging reserve.

Other fair value changes in these derivatives continue to be recognized in profit and loss under cost of sales or finance expenses, as the case may be. The amount recognized in the hedging reserves is reclassified to profit and loss in the same period that profit and loss is affected by the cash flows and is recognized under the relevant line item together with the hedged item.

When the hedged item is a non-financial asset (such as inventory or property, plant and equipment), the amount accrued in the hedging reserve is reclassified to the carrying amount of the hedged asset on recognition.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, 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 occurs or is no longer expected to occur. Replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if it is part of the documented hedging strategy and is consistent with that strategy.

NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

B. Financial instruments - cont.

3. Derivative financial instruments, including hedge accounting – cont.

D. Cash flow hedges – cont.

If the forecast transaction is no longer expected to occur, then the cumulative profit or loss previously recognized in the hedging reserve is recognized immediately in profit and loss.

E. Hedge accounting - general

On initial designation of the accounting hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at the inception of the hedge relationship and in subsequent periods, whether there is an economic relationship between the hedged item and the hedging instrument, whether the effect of the credit risk is not dominant in relation to the fair value changes arising from this economic relationship, and the appropriateness of the hedging ratio between the amount of the hedging instrument and the amount of the hedged item.

For a cash flow hedge and a fair value hedge of debentures as detailed above, the Group elected to deduct the foreign currency basis spread from the designation of a financial instrument as a hedging instrument, and accordingly, it recognizes the fair value changes of the instrument attributable to this component in other comprehensive income that was accumulated as a separate equity component. If the hedged item is time period-related, in any reporting period, the capital reserve will be amortized on a systematic and rational basis with adjustment for reclassification from other comprehensive income to profit and loss. However, if hedge accounting is discontinued, then the net amount that has been accumulated in the separate component of equity is reclassified immediately to profit and loss.

For a cash flow hedge, a forecast transaction constituting a hedged item is a transaction that is highly probable to occur and should present an exposure to changes in cash flows that could ultimately affect profit and loss.

In 2021, amendments to IFRS 9 regarding practical reliefs for application of hedge accounting and accounting for modifications to the terms of debt instruments arising from the interest rate benchmark reform (a reform that has led to the elimination of interest rates such as the LIBOR interest rate) and practical reliefs for the accounting treatment for modifications to the contract terms arising from the interest rate benchmark reform. For details regarding changing the benchmark interest from USD LIBOR to SOFR, due to discontinuation of LIBOR in 2023, see Note 29D2.

4. CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is remeasured every period in accordance with the actual rate of change in the CPI.

C. Inventories

Inventory is recognized when the Group gains control over the goods purchased. To make this determination, the Group considers, among other things, the date on which ownership of the inventory is obtained, its exposure to the risks and rewards arising from ownership of the inventory, the date of receipt of physical possession and the date of the obligation to pay for the purchased inventory.

NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

C. Inventories - cont.

Inventories are measured at the lower of cost or net realizable value. For crude oil, the cost of inventories is based on the first-in first-out (FIFO) principle and for finished goods, on the FIFO principle based on average monthly cost, and includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. In the case of inventories of finished goods, cost includes an appropriate share of production overheads based on normal operating capacity, taking into account loss of capacity due to planned maintenance activity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion (for inventory that is not finished goods) and the estimated costs required for the sale.

D. Property, plant and equipment

1. Recognition and measurement

Property, plant and equipment items are measured at cost less accumulated depreciation and any accumulated impairment losses, if any. The cost of property, plant and equipment includes expenditure that is directly attributable to the purchase of the asset. The cost of self-constructed assets includes the cost of materials, direct labor, and any other costs directly attributable to bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.

Spare parts, auxiliary equipment and stand-by equipment are classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16; otherwise, they are to be classified as inventory. Purchased software that is integral to the functionality of the related equipment is recognized under the cost of that equipment.

When major parts of a property, plant and equipment item (including costs of periodic maintenance and substantial tests) have different useful lives, they are accounted for as separate items of property, plant and equipment.

The balance of the Group's property, plant and equipment includes excess cost attributable to property, plant and equipment, arising upon acquisition of control in subsidiaries.

Costs of constructing facilities used in preventing environmental pollution are recorded as property, plant and equipment and are depreciated in accordance with the shorter of: their useful lives or the useful life of the facility or item to which the costs relate. Current costs of operating and maintaining installations used in preventing environmental pollution are recognized in profit and loss.

A. Subsequent costs

The costs of replacing part of a property, plant and equipment item and other subsequent costs are recognized in the carrying amount of the item if it is probable that the future economic benefit embodied in the cost of replacing the item will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part of a property, plant and equipment item is derecognized. Ongoing maintenance costs are recognized in profit and loss as incurred.

B. Depreciation

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognized in profit and loss according to a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Freehold land is not depreciated.

NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

D. Property, plant and equipment - cont.

1. Recognition and measurement – cont.

B. Depreciation – cont.

The estimated useful life for the current period is as follows:

| | <u>Years</u> ^(*) |
|--|-----------------------------|
| Refining and cracking facilities | 16 - 24 (Mostly 22) |
| Facilities for manufacturing aromatics | 17 - 24 (Mostly 22) |
| Facilities for manufacturing polymers | 10 - 28 (Mostly 19) |

(*) The number of years reflects the useful life of the main assets.

Estimates regarding depreciation methods, useful lives and residual value are reviewed at the end of each reporting year and adjusted as needed.

To ensure the proper and ongoing operations of its facilities, the Group companies perform periodic maintenance at its facilities every approx. 5-6 years. Costs effectively incurred in respect of the periodic maintenance of facilities, including the directly attributable costs, are capitalized and amortized over the period until the next scheduled maintenance.

Spare parts comprising property, plant and equipment are estimated at cost and depreciated over the useful lives of the property, plant and equipment items to which they are attributed (mostly 22 years). Furthermore, additional depreciation is recognized in respect of certain slow-moving spare parts.

- C. Advance payments for the purchase of property, plant and equipment are recognized under property, plant and equipment.

E. Leases

1. Determining whether an arrangement contains a lease

At the inception of an arrangement, the Group determines whether the arrangement constitutes or contains a lease and examines whether the arrangement transfers the right to control the use of an identifiable asset for a period of time in return for payment. When assessing whether the arrangement awards control over the use of an identifiable asset, the Group assesses, over the lease term, whether it has both rights set out below:

- A. The right to essentially obtain all the economic benefits associated with the use of the identifiable asset; and
- B. The right to direct the use of the identifiable asset.

Arrangements awarding the Group the rights of use for certain assets without awarding it control over an identifiable asset for a defined period do not constitute a lease.

For leases of vessels that include non-lease components (as detailed in Note 12C), such as services or maintenance, which are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.

NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

E. Leases – cont.

2. Right-of-use assets and lease liabilities

Contracts that award the Group the right to control the use of an identifiable asset over a period of time for a consideration are accounted for as leases. At initial recognition, the Group recognizes a liability at the present value of the future minimum lease payments (these payments do not include variable lease payments that are not linked to the CPI or to any currency), and concurrently - the Group recognizes a right-of-use asset at the amount of the liability, adjusted for lease payments paid in advance or accrued, plus direct costs incurred in the lease. If the interest rate inherent in the lease cannot be determined, the Group makes use of its incremental interest rate.

The Group has elected to apply the practical expedient for a certain asset classes, which determines that lease payments associated with short-term leases of up to one year, or leases for which the underlying asset is of low-value, are accounted for such that the lease payments are recognized in profit and loss on a straight-line basis over the lease term, without recognizing the asset and/or liability in the statement of financial position.

The balance of the right-of-use assets also includes direct costs attributable to assets, including levies.

With respect to the Group's obligation to dismantle, evacuate and restore the leased land of Ducor at the site of the plant at the end of the lease term, the cost of the right-of-use assets includes the estimated costs for the decommissioning, evacuation and restoration of the site on which they are located. Changes in the provision for dismantling and evacuation, other than changes deriving from the passage of time, are added to or deducted from the cost of the asset in the period in which they occur.

Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the assets, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

3. Lease term

The lease term is determined as the period in which the lease is non-terminable, together with the periods covered by an option to extend or terminate the lease if it is reasonably certain that the lessee will choose to exercise or not to exercise the option, respectively. When assessing whether it is reasonably certain that the Group will exercise the option for extending the lease term, various parameters are taken into account, including the required volume of investment, the importance of the location of the underlying asset, and the exercise price of the option.

A. Variable lease payments

Variable lease payments that depend on an index or a currency rate are initially measured using the index or currency rate at the lease commencement date and are included in the measurement of the lease liability. When there is a change in the cash flows of the future lease payments arising from the change in the index or the rate, the liability is adjusted against the right-of-use asset. Other variable lease payments that are not included in measurement of the liability are recognized in profit and loss at the date the payment terms are fulfilled.

B. Subleases

In leases in which the Group sublets the underlying asset, the Group assesses the classification of the sublease as a finance or operating lease, for the right-of-use received from the head lease.

NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

E. Leases – cont.

3. Lease term – cont.

C. Amortization of right-of-use asset

Subsequent to initial recognition, a right-of-use asset is accounted for using the cost model and is amortized over the lease term or the useful life of the asset, whichever is earlier, and is tested for impairment as required in accordance with IAS 36. Following is the estimated useful lives of the right-of-use assets for the current period:

| | <u>Years</u> |
|------------------------------|-------------------------------|
| Vessels | 1-2 years |
| Land and buildings in Israel | 32-81 years (mostly 81 years) |
| Land in the Netherlands | 19 years |

D. Revaluation of lease liabilities

Upon the occurrence of a significant event or a significant change in circumstances that is under the control of the Group and had an effect on the decision whether it is reasonably certain that the Group will exercise an option which was not included before in the lease term, or will not exercise an option, which was previously included in the lease term, the Group remeasures the lease liability according to the revised leased payments using a revised discount rate. The change in the carrying amount of the liability is recognized against the right-of-use asset or recognized in profit and loss if the carrying amount of the right-of-use asset was reduced to zero.

F. Impairment of assets

1. Financial assets

The Group recognizes a provision for current expected credit losses mainly for trade and other receivables and other receivables, in an amount equal to the expected credit losses throughout the useful life of the instrument (mainly for periods not exceeding one year).

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. Expected credit losses are discounted at the effective interest rate of the financial asset.

At each reporting date, to measure the provision for expected credit losses, the Group assesses the credit risk of the financial asset, taking into account reasonable and supportable information that is relevant and available with no undue cost or effort. Such information includes quantitative and qualitative information, and an analysis, based on the Group's past experience and reported credit assessment, and includes forward-looking information.

The provision for expected credit losses for a financial asset measured at amortized cost are presented less the gross carrying amount of the financial assets and are recognized, as a rule, in profit and loss under general and administrative expenses.

2. Non-financial assets

A. Timing of impairment testing

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset or cash-generating unit is estimated.

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NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

F. Impairment of assets – cont.

2. Non-financial assets – cont.

B. Determining cash-generating units

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest asset class that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or other asset classes (hereinafter - a “cash-generating unit”).

C. Measurement of recoverable amount

The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value less disposal costs. In determining value in use, the projected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit, for which the projected future cash flows from the asset or from the cash-generating unit were not adjusted.

D. Recognition of impairment loss

Impairment losses are recognized if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount and are recognized in profit and loss. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit on a pro rata basis.

E. Reversal of an impairment loss

Regarding assets for which impairment losses was recognized during prior periods, at each reporting period, an assessment is made to determine whether there are signs that these losses decreased or no longer exist. An impairment loss is cancelled if a change occurs to the estimates used to determine the recoverable amount, but only in the event that the book value of the asset, after cancellation of the impairment loss, does not exceed the book value less depreciation or amortization that would have been determined if not for the recognition of impairment.

G. Employee benefits

1. Post-employment benefits

The Group has a number of post-employment benefit plans. The plans are usually financed by contributions with insurance companies or with pension funds and they are classified as defined contribution plans and defined benefit plans.

A. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit and loss in the periods during which related services are rendered by the employees.

Defined contribution plans include mainly regular compensation, increased severance pay, and compensation for employees employed under collective agreements and for some of the employees, under individual agreements.

B. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Post-employment defined benefit plans include holiday gifts, Company products, and vacation for the Group's pensioners, as well as compensation for some employees.

NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

G. Employee benefits – cont.

1. Post-employment benefits – cont.

B. Defined benefit plans - cont.

The Group's net obligation in respect of defined benefit plan for post-employment benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is presented at its present value and the fair value of any plan assets is deducted. The net interest for the defined benefit liability is calculated by multiplying the net liability by the discount rate used to measure the defined benefit obligation, both of which were set at the beginning of the annual reporting period.

The discount rate is the yield, at the reporting date, on high-quality linked corporate debentures, that are denominated in NIS, with maturity dates approximating the terms of the Group's obligation. When the calculation results in a net asset for the Group, an asset is recognized up to the net present value of economic benefits available in the form of a refund from the plan or a reduction in future contributions to the plan. The calculation is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognizes remeasurements through other comprehensive income directly in retained earnings. Interest costs on a defined benefit obligation, interest income on plan assets and interest from the effect of the asset ceiling that were recognized in profit and loss, if any, are presented under finance income and expenses, respectively. When the benefits of a plan the Group provides to the employees increase or are curtailed, the portion of the increased benefits relating to past service by employees or the profit or loss on curtailment are recognized in profit and loss when the plan amendment or curtailment occurs.

The Group recognizes profit or loss from settlement of a defined benefit plan when the settlement occurs. Such profits or losses are the difference between the part settled out of the present value of the defined benefit obligation at the settlement date, and the settlement price, including transferred plan assets. The Group offsets an asset relating to one benefit plan from the liability relating to another benefit plan only when there is a legally enforceable right to use the surplus of one plan to settle the obligation in respect of the other plans, and there is intent to settle the obligation on a net basis or to simultaneously realize the surplus of one plan and settle the obligation in the other plan.

2. Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary retirement. Termination benefits for voluntary retirement are recognized as an expense if the Group has made an offer encouraging voluntary retirement (which constitutes a termination benefit), and when it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value. The discount rate is the yield, at the reporting date, on high-quality linked corporate debentures, that are denominated in NIS, with maturity dates approximating the terms of the Group's obligation.

The loan to Early Pension Haifa Ltd. (hereinafter - "Haifa Early Pension") constitutes a right to indemnity that the Company will receive for payment of liabilities for early pension. The right to indemnity does not constitute a plan asset for termination benefits and is presented as a separate asset in the statement of financial position. This right to indemnity is measured at fair value and the changes in each period are recognized directly in the statement of income under finance expenses or income.

NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

G. Employee benefits – cont.

3. Short-term benefits

Short-term benefits include mainly salaries payable, provisions for vacation and recreation pay, and provisions for bonuses (where relevant).

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated (such as parental leave).

A provision for short-term employee benefits for a bonus is recognized in the amount expected to be paid, if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the amount can be estimated reliably.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits determined when the Group expects the benefits to be wholly-settled.

4. Share-based payments

The fair value on the grant date of employee options is recognized as a salary expense with a corresponding increase in equity (capital reserve for share-based payments) over the period that the employees become unconditionally entitled to the options. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service conditions and non-market performance conditions, is adjusted to reflect the number of share options expected to vest.

H. Provisions

Provisions recognized in the Financial Statements refer mainly to legal claims and contingencies involving environmental issues. A provision for claims is recognized if, as a result of a past event, the Company has a present legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably. In cases in which the outcome of the claim and/or the proceeding, including opposite the Ministry of Environmental Protection, cannot be reliably assessed, due to the complexity of the process and/or the preliminary states of the process, no provision is included in the Financial Statements. In addition, when the Group has a commitment to decommission, evacuate and restore the site on which the property, plant and equipment items are located, a provision is recognized for the dismantling, evacuation and restoration of the site. For further details, see Section E2.

The provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability without adjustment for the Company's credit risk. The carrying amount of the provision is adjusted in each period to reflect the passage of time. The amount of the adjustment is recognized as a finance expense.

The Group recognizes an indemnification asset if, and only if, it is virtually certain that the indemnification will be received if the Company settles the obligation. For an indemnification asset arising from an insurance policy, the Group recognizes the asset when a qualifying event occurs. The asset is recognized in the amount expected to be received and does not exceed the amount of the provision.

I. Revenue

1. Revenue recognition

The Group recognizes revenue when the customer gains control over the promised goods or services. Regarding the sales of the Group's products in Israel, this condition is generally fulfilled on the date the goods are withdrawn from the factory premises. For sales of Group products in other countries, this condition exists, in some cases, when the goods are loaded onto the relevant carrier and in other cases, when the goods arrive at the port of destination, depending on the commercial conditions of each transaction.

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NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

I. Revenue – cont.

1. Revenue recognition – cont.

Transactions for the sale and repurchase of inventory are tested for fulfillment of the conditions for revenue recognition as detailed above. If the conditions for recognition of revenue are not met, the inventory in the transaction is not derecognized and a liability is recognized.

2. Variable consideration

The transaction price includes fixed amounts and amounts that may vary as a result of discounts, refunds, credits, price concessions, incentives, performance bonuses, penalties, claims and disputes and contract modifications that the consideration in their respect has not yet been agreed by the parties.

The Group includes variable consideration, or part of it, in the transaction price only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty regarding the variable consideration has been subsequently resolved. At the end of each reporting period and if necessary, the Group revises its estimate of the amount of the variable consideration included in the transaction price.

Revenue from services is recognized over time in the reporting period in which the services are provided, since the customer simultaneously receives and consumes the benefits provided by the Group's performance when the Group provides such services.

When the Group operates in a transaction as an agent and not as an owner, the revenue is recognized in the amount of the net commission.

Exchange of similar assets without any commercial substance is accounted for as recognition of inventory received at the cost of the derecognized inventory, with no effect on profit and loss.

J. Finance income and expenses

Finance income includes interest income on funds invested, changes in the fair value of financial derivatives, changes in the fair value of the loan to Haifa Early Pension and the effect of hedge accounting on the debentures. Interest income is recognized as it accrues using the effective interest method.

Finance expenses include interest expenses on loans received and debentures that were issued, interest expenses working capital, interest expenses for lease liabilities, net interest on net liabilities for a defined benefit, changes in the fair value of financial derivatives and the effect of the application of hedge accounting on debentures.

In the statements of cash flows, interests and dividends received are presented as part of cash flows from investing activities. Interests and dividends paid are presented as part of cash flows from financing activities.

Gains and losses on exchange rate differences for financial assets and liabilities are reported on a net basis as either finance income or finance expenses.

For further information about presentation of changes in the fair value of derivative financial instruments, see Section B3.

K. Income tax

1. Current taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and includes taxes for previous years.

2. Offsetting tax assets and liabilities

The Group offsets deferred tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets, and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

K. Income tax– cont.

2. Offsetting tax assets and liabilities – cont.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxable income levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle deferred tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

3. Uncertain tax positions

A provision for uncertain tax positions is recognized when it is not probable that the tax authority will accept the tax position. When assessing whether it is probable that the Israel Tax Authority will accept the Group's tax position, the Group considers the relevant instance that is expected to rule on the tax position, in accordance with how the Group expects to conduct the discussions on this position.

4. Deferred taxes

The Group does not recognize deferred taxes for differences arising from investments in subsidiaries and associates, to the extent that the Group is able to control the timing of the reversal of the difference and it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing dividends in respect of the investment.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A net deferred tax asset is recognized for carryforward losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Company's taxable temporary differences include temporary differences arising from allocation of excess cost attributable to property, plant, and equipment and intangible assets when acquiring control in subsidiaries.

5. Taxes on intra-group transactions

Deferred tax in respect of intra-group transactions in the Consolidated Financial Statements is recorded according to the tax rate applicable to the acquiring company.

L. Amendments to accounting standards not yet adopted

1. IFRS 18, Presentation and Disclosure in Financial Statements

This standard supersedes IAS 1, Presentation of Financial Statements. The purpose of the Standard is to improve the structure and content of the financial statements, especially of the statement of income. The standard includes new disclosure and presentation requirements, in addition to requirements that were brought from IAS 1, Presentation of Financial Statements, with slight wording changes.

As part of the new disclosure requirements, companies will be required to present two interim subtotals in the statement of income: operating profit and profit before financing and income tax. Furthermore, for most companies, the results of the statement of income will be classified into three categories: operating profit, investing income and finance income.

In addition to the changes in the structure of the statements of income, the standard also includes requirement to provide a separate disclosure in the financial statements regarding the use of management-defined performance measures (hereinafter - "non-GAAP" measures).

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NOTE 3 – MATERIAL ACCOUNTING POLICIES - cont.

L. Amendments to accounting standards not yet adopted – cont.

1. IFRS 18, Presentation and Disclosure in Financial Statements – cont.

In addition, under the amendment, specific guidance was added for the aggregation and disaggregation of items in the financial statements and notes. The standard will encourage companies to avoid classifying items as “other” and such classification will lead to further disclosure requirements.

The Standard will be applied retrospectively to annual periods commencing on January 1, 2027. In accordance with the resolution of the Israel Securities Authority, early application is permitted while providing a disclosure, as from the period starting on January 1, 2025.

The Group started to assess the implications of the standard and as at the reporting date, it is unable to assess its effect on the financial statements.

NOTE 4 - DETERMINATION OF FAIR VALUE

When determining the fair value of an asset or liability, the Group uses observable market inputs as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the inputs used in the measurement, as follows:

Level 1: quoted prices (unadjusted) in an active market for identical assets or liabilities.

Level 2: observable market inputs, either directly or indirectly, that are not included within Level 1 above.

Level 3: inputs that are not based on observable market inputs.

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. Further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

A. Trade and other receivables and investments in non-marketable shares measured at fair value through other comprehensive income

The fair value of trade and other receivables is determined, at the date of initial recognition, as the present value of future cash flows, discounted at the market rate of interest at the measurement date. For most of the Group's trade receivables, since the credit period is short and constitutes the standard credit in the industry, the future consideration is not discounted and in periods subsequent to initial recognition, the carrying amount approximates fair value.

The fair value of investments in non-marketable shares measured at fair value through other comprehensive income is estimated based on the prices set in the latest transaction or transactions that involved the securities of the investee, taking into account various parameters, such as the period that elapsed since the investment or transaction date through the end of the reporting period, the amount, number and class of sold shares, and the participation of external and existing investors in the capital raising round.

B. Derivative financial instruments

The fair value of foreign exchange forwards, for the short term (generally up to one year), is determined using quotations from a trading system that quotes the market prices flowing into it by financial entities. The fair value is based on the discounted future value arising from the difference between the opening price and the price at the end of the reporting period.

The fair value of interest rate swaps is based on quotes of market prices provided to trading systems by financial entities and based on the market prices determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. The fair value calculation includes credit risks of parties to the contract.

NOTE 4 - DETERMINATION OF FAIR VALUE - cont.

B. Derivative financial instruments – cont.

The fair value of exchange rate and interest rate swaps is based on market prices for discounting future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. The fair value calculation includes credit risks of parties to the contract.

Futures on prices crude oil and crude oil products are presented at fair value which is determined by the use of trading software that quotes the prices of products or similar products on a regular basis. Futures on margins (swaps) are stated at fair value based on quotes of prices of the relevant future products or similar products. At Carmel Olefins, futures on naphtha prices and/or product prices are recognized at fair value, based on quoted naphtha prices and on price forecasts for polymers.

C. Non-derivative financial liabilities

The fair value of trade payables and certain other payables is determined, at the date of initial recognition, as the present value of future cash flows, discounted at the market rate of interest at the reporting date. For the Group's trade payables and other payables, other than for crude oil suppliers as detailed in Note 3B2 above, since the credit period is short, the future consideration is not discounted and in periods subsequent to initial recognition, the carrying amount approximates fair value.

The fair value of the other financial liabilities, which is determined subsequent to initial recognition, mainly for disclosure purposes, is calculated as follows: USD loans: based on the present value of future cash flows for principal and interest, discounted at the USD risk-free, USD-linked zero coupon curve that includes a non-marketable premium plus the Company's risk margin; unlinked marketable NIS debentures or USD-linked Debentures - their quoted closing selling price at the end of the reporting period.

D. Share-based payments

The fair value of employee options is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the option, expected volatility of the share, expected contractual life of the option, expected early exercise, expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

NOTE 5 – CASH AND CASH EQUIVALENTS AND DEPOSITS

A. Cash and cash equivalents

| | Nominal interest as at December 31, 2024 | As at December 31 2024 | 2023 |
|---------------|---|---------------------------|------------|
| Cash | | 13 | 18 |
| Bank deposits | 5.1% | 739 | 745 |
| | | 752 | 763 |

B. Deposits

| | As at December 31 2024 | 2023 |
|------------------------------------|---------------------------|-----------|
| Bank deposits | — | 36 |
| Deposits for financial derivatives | 1 | 1 |
| | 1 | 37 |

For information about the Group's exposure to credit and currency risks and the risk management policy in respect of cash and cash equivalents and deposits, see Notes 29, 30A, and 30C.

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NOTE 6 – TRADE RECEIVABLES

A. Composition:

| | As at December 31 | |
|-----------------------------------|-------------------|------------|
| | 2024 | 2023 |
| Open accounts | 594 | 622 |
| Less provision for doubtful debts | (1) | (2) |
| | 593 | 620 |

For further information about transactions and balances with related and interested parties, see Note 27.

For information about the Group's exposure to credit and currency risks and risk management policy in respect of receivables, see Notes 29, 30A and 30C.

B. Sale of trade receivables as part of factoring agreements

1. The Company

The Company signed an agreement with a syndicate of banks (hereinafter - the "Lenders") for the factoring of some of its trade receivables, for a maximum USD 150 million; in addition, the Company and the Lenders agreed on a non-binding credit facility of USD 250 million; the two facilities are valid until September 30, 2025. Under the said agreement, trade receivables which will be acceptable by the Lenders when making the factoring transaction at the Lenders' discretion (whether insured by credit insurance and/or not insured by credit insurance, as the case may be), will be assigned to the Lenders the by way of a sale in an absolute, irrevocable and non-recourse assignment, and the factors will have no right of recourse in respect of default and/or delinquency in payment of the amounts of the liabilities sold as aforesaid. The amount of factoring for all trade receivables is restricted to the limit set in the agreement and the discount rate approved for the customer. The Lenders bear the default risk and/or the risk of delinquency of customer payments. Each factor may, at any time and at its own discretion, sell and/or assign its rights and/or liabilities under the agreement, in any way, to the list of potential factors set out in the agreement and/or to any other party approved by the Company. In addition, the agreement includes standard compensation mechanisms in the event of a breach of the agreement by the Company, including for representations that were made by it.

The Company derecognizes the factored trade receivables in accordance with IFRS 9 in the statement of financial position, in accordance with the discount rate agreed on between the Company and the factor for each customer.

2. Subsidiaries

Carmel Olefins and Gadiv have agreements with a financing syndicate for the non-recourse sale of some trade receivables, most of which are insured by them in credit insurance, in a maximum aggregate amount of approx. USD 100 million, valid until September 30, 2025.

As at December 31, 2024 and December 31, 2023, debts of Group companies' customers under the said agreements were not derecognized.

In addition to the above, the maximum potential factoring amount is affected by the scope of product sales and the identity of the relevant customers, customer credit days, product prices based mainly on crude oil prices, and by the diversification of working capital factoring sources and management of the Group's liquidity requirements and therefore may be lower than the total amount of the facilities agreed with the lenders.

NOTE 7 – OTHER RECEIVABLES AND DEBIT BALANCES

Composition:

| | As at December 31 | |
|---|-------------------|------------|
| | 2024 | 2023 |
| Deposits, inventory derivatives, and margins ⁽¹⁾ | 1 | 30 |
| Institutions ⁽²⁾ | — | 54 |
| Current maturities of loans to Haifa Early Pension ⁽³⁾ | 3 | 16 |
| Prepaid expenses | 14 | 12 |
| Other | 4 | 8 |
| | 22 | 120 |

(1) For details in respect of refining margins, see Note 29D3.

(2) As at December 31, 2023 - mainly includes a VAT receivable balance.

(3) See also Note 18B2b.

For information about the Group's exposure to credit and currency risks in respect of other receivables, see Note 29, 30A and 30C.

NOTE 8 - INVENTORIES

Composition:

| | As at December 31 | |
|---|-------------------|------------|
| | 2024 | 2023 |
| Crude oil and intermediate products in the Fuels Activity | 293 | 344 |
| Petroleum products | 265 | 260 |
| Products - Polymers Carmel Olefins | 74 | 59 |
| Products - Polymers Ducor | 15 | 16 |
| Products - Aromatics | 35 | 57 |
| Inventory of chemicals, petrochemical raw materials and other | 29 | 33 |
| | 711 | 769 |

NOTE 9 - INVESTEEES

A. Information about investees

As at the reporting date, the Company holds, directly, 100% of the share capital of the companies: Carmel Olefins, Gativ, Shipping, Trading, and the Bnnovation partnership (in which the Company is a limited partner) and 50% in the ESIL Technologies LP partnership (through Bnnovation). Most of the activities of all the companies take place in Israel.

In addition, the Company wholly owns (100%) (through wholly-owned subsidiaries of Carmel Olefins) Ducor Petrochemicals B.V. ("Ducor"), which is registered and operates in the Netherlands, and 100% of the share capital of Carmel Eco Ltd., which engages in mechanic recycling of plastic and operates in Israel.

B. Restrictions on the transfer of resources between entities within the Group

1. In accordance with the bank financing arrangements of the Group companies (the Company, Carmel Olefins, and Gativ), there are no restrictions on guarantees and/or loans between the said companies.
2. As at the report date, Ducor's trade receivables and inventory were pledged in favor of a bank (see Note 13). The balance of the net assets less liabilities of Ducor, included in the consolidated statement as at December 31, 2024 (excluding excess cost attributable to Ducor and excluding eliminating inter-company gains) is approx. USD 33 million (as at December 31, 2023 - approx. USD 38 million).

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NOTE 10 - LONG-TERM RECEIVABLES AND DEBIT BALANCES

Composition:

| | As at December 31 | |
|---|-------------------|-----------|
| | 2024 | 2023 |
| Employee benefit assets, net ⁽¹⁾ | 2 | 3 |
| Deferred tax assets, net ⁽²⁾ | 9 | 4 |
| Net charge for inventory availability agreement ⁽³⁾ | — | 15 |
| Investments at fair value through other comprehensive income ⁽⁴⁾ | 21 | 21 |
| Deposits for financial derivatives | 3 | 6 |
| Other | 5 | 4 |
| | 40 | 53 |

(1) See also Note 18C.

(2) For Ducor, see also Note 16D.

(3) See Note 20B4.

(4) Includes mainly investment in shares of companies engaged in areas that the Group deems as strategic - green hydrogen and biopolymers, changes in the fair value of which were recognized in capital reserve through other comprehensive income.

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT, NET

A. Composition and changes in the line item:

| | Machinery and equipment | Spare parts ⁽¹⁾ | Land, buildings, and other ⁽²⁾ | Total |
|--|-------------------------------|-------------------------------|---|--------------|
| Cost | | | | |
| Balance as at January 1, 2023 | 4,155 | 55 | 127 | 4,337 |
| Additions during the year ⁽³⁾ | 128 | 17 | 5 | 150 |
| Derecognitions during the year | (1) | – | – | (1) |
| Net exchange rate differences from translation of foreign operations | 4 | – | – | 4 |
| Balance as at December 31, 2023 | 4,286 | 72 | 132 | 4,490 |
| Additions during the year ⁽³⁾ | 174 | 7 | 3 | 184 |
| Derecognitions during the year | (44) | – | – | (44) |
| Net exchange rate differences from translation of foreign operations | (6) | – | – | (6) |
| Balance as at December 31, 2024 | 4,410 | 79 | 135 | 4,624 |
| Accumulated depreciation and impairment losses | | | | |
| Balance as at January 1, 2023 | 2,212 | – | 61 | 2,273 |
| Additions during the year | 141 | – | 3 | 144 |
| Net exchange rate differences from translation of foreign operations | 2 | – | – | 2 |
| Balance as at December 31, 2023 | 2,355 | – | 64 | 2,419 |
| Additions during the year | 149 | – | 3 | 152 |
| Derecognitions during the year | (44) | – | – | (44) |
| Net exchange rate differences from translation of foreign operations | (4) | – | – | (4) |
| Balance as at December 31, 2024 | 2,456 | – | 67 | 2,523 |
| Amortized cost, net | | | | |
| As at December 31, 2024 | 1,954 | 79 | 68 | 2,101 |
| As at December 31, 2023 | 1,931 | 72 | 68 | 2,071 |

(1) Presented on a net basis, net of other accrued depreciation and amortization as detailed in Note 3D1b above.

(2) For details, see Section B below.

(3) During the Reporting Period and in 2023 - includes direct costs (before capitalization of salary costs and other costs) totaling approx. USD 55 million and approx. USD 40 million, respectively, in respect of periodic maintenance works in the Company's main refining facility and in adjacent facilities. Furthermore, during the Reporting Period - includes direct costs (before capitalization of salary and other costs) totaling approx. USD 31 million with respect of periodic maintenance works in the hydrocracker, hydrogen production facilities, CDU 3 and ancillary facilities, which commenced subsequent to the Reporting Period.

B. Land

1. Facilities of the Company, Ducor, and Gadiv – located on leased land; for details about the companies' rights to the land, see Note 12B.
2. The Carmel Olefins Facilities are on a tract of approx. 39 hectares in Haifa Bay, adjacent to the south-eastern side of the Company's compound. Of this tract, Carmel Olefins has the right to register itself as the owner of approx. 38.1 hectares, of which the Company sold approx. 8.6 hectares to Carmel Olefins. The remainder of the tract, which is registered under the Company's ownership, was leased to Carmel Olefins.

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NOTE 11 – PROPERTY, PLANT AND EQUIPMENT, NET - cont.

C. Measurement of the recoverable amount of non-financial assets

1. Due to the decline in refining margins compared to the margins in the past several years (which were affected by the war in Ukraine), an assessment was prepared of the recoverable amount of the Refining Segment assets as at December 31, 2024 in accordance with the provisions of IAS 36, by an independent appraiser with expertise in the field - BDO Ziv Haft Consulting and Management Ltd.

The recoverable amount of refining assets was calculated according to value in use, which was estimated using the discounted cash flow (DCF) method. Based on the Valuation, the recoverable amount of Refining Segment assets as at December 31, 2024 was estimated at approx. USD 2.51 billion, which exceeds the carrying amount as at the same date, of approx. USD 2.21 million. Therefore, no impairment loss was recognized.

The valuation methodology included a number of key assumptions which constituted the basis for cash flow forecasts, including, among other things, the refining margin forecasts, which was based on the refining margin forecast of consulting firm IHS with adjustments made with respect to the Refining Segment activity; the forecast regarding production quantities was based on the Company's forecast and takes into account the planned utilization rates of the refining facilities - including, among other things, the expected periodic maintenance work cycle; real post-tax discount rate estimated at approx. 8%; and the long-term growth rate - at 0%. It is noted that a USD 0.5 decrease per barrel in the refining margin in the representative year would have resulted in a value in use of approx. USD 2.26 billion, which, as detailed above, exceeds the carrying amount, and a 10% decline in the refining volume in the representative year would have resulted in a value in use of approx. USD 2.33 billion. It should also be noted that an increase of 0.5% in the post-tax discount rate would have brought about a value in use of approx. USD 2.39 billion, which exceeds the carrying amount.

2. Due to the deterioration in the operating results of Ducor in 2023 and the adverse change in the forecasts of research company CMA for the polypropylene margin over propylene in Europe, on December 31, 2023, an assessment was prepared of the recoverable amount of the assets of Ducor's activity in accordance with the provisions of IAS 36, by an independent appraiser with expertise in the field, BDO Ziv Haft Consulting and Management Ltd.

The recoverable amount of Ducor activity assets was calculated according to value in use, which was estimated using the discounted cash flow (DCF) method. According to the valuation, the revised recoverable amount of Ducor as at December 31, 2023 is estimated at approx. USD 62 million and it is higher than the carrying amount at that date, which amounted to approx. USD 50 million. Therefore, no impairment loss was recognized.

3. Due to the deterioration in the operating results of Carmel Olefins in 2023 and the decrease in polymers margins, as at December 31, 2023, an assessment was prepared of the recoverable amount of the assets of the activity of Carmel Olefins in accordance with the provisions of IAS 36, by an independent appraiser with expertise in the field, BDO Ziv Haft Consulting and Management Ltd.

The recoverable amount of Carmel Olefins' assets was calculated according to value in use, which was estimated using the discounted cash flow (DCF) method. Based on the Valuation, the recoverable amount of Carmel Olefins' assets as at December 31, 2023 was estimated at approx. USD 823 million, which exceeds the carrying amount as at the same date, of approx. USD 747 million. Therefore, no impairment loss was recognized.

The valuation methodology included several key assumptions underlying the cash flow forecasts, including the margin for a ton based on the non-financial forecasts of the research company CMA, the estimated discount rate after tax of approx. 9%, and a long-term growth rate of 0%. It is noted that a decrease of USD 15 in the margin per ton a year would have been reflected in the value in use of approx. USD 776 million, which exceeds the carrying amount. It should also be noted that an increase of 0.5% in the post-tax discount rate would have been reflected in a value in use of approx. USD 774 million, which exceeds the carrying amount.

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NOTE 12 – INTANGIBLE ASSETS, RIGHT-OF-USE ASSETS, AND DEFERRED EXPENSES, NET

A. Composition and changes in the line item:

| | Land, buildings, and other ⁽¹⁾ | Right of use assets Vessels | Total | Intangible assets and deferred expenses ⁽²⁾ |
|--|---|--------------------------------|------------|---|
| Cost | | | | |
| Balance as at January 1, 2023 | 158 | 9 | 167 | 95 |
| Additions during the year ⁽⁴⁾ | 1 | 39 | 40 | 8 |
| Derecognitions during the year ⁽³⁾ | – | (10) | (10) | – |
| Net exchange rate differences from translation of foreign operations | 1 | – | 1 | – |
| Balance as at December 31, 2023 | 160 | 38 | 198 | 103 |
| Additions during the year ⁽⁴⁾ | 3 | 28 | 31 | 6 |
| Derecognitions during the year ⁽³⁾ | – | (16) | (16) | – |
| Net exchange rate differences from translation of foreign operations | (2) | – | (2) | – |
| Balance as at December 31, 2024 | 161 | 50 | 211 | 109 |
| Accumulated depreciation and impairment losses | | | | |
| Balance as at January 1, 2023 | 21 | 4 | 25 | 71 |
| Additions during the year | 3 | 18 | 21 | 3 |
| Derecognitions during the year ⁽³⁾ | – | (10) | (10) | – |
| Balance as at December 31, 2023 | 24 | 12 | 36 | 74 |
| Additions during the year | 3 | 19 | 22 | 4 |
| Derecognitions during the year ⁽³⁾ | – | (16) | (16) | – |
| Net exchange rate differences from translation of foreign operations | (1) | – | (1) | – |
| Balance as at December 31, 2024 | 26 | 15 | 41 | 78 |
| Amortized cost, net | | | | |
| As at December 31, 2024 | 135 | 35 | 170 | 31 |
| As at December 31, 2023 | 136 | 26 | 162 | 29 |

(1) As at December 31, 2024 and December 31, 2023 - mainly includes leased land and buildings, whose amortized cost is approx. USD 131 million. For further details, see Section B below.

(2) The balance includes mainly rights and know-how.

(3) Tankers with a contractual lease term that has expired.

(4) Additions to right-of-use assets were recognized against a liability.

B. Lease of land and buildings

- The Company's facilities: In accordance with the new property agreement as detailed below, the Company is entitled to register as a lessee of the State of Israel for 213.3 hectares of land in Haifa Bay, most of which is registered in its name. Ownership of the land does not pass to the Company at the end of the lease term. Of this land, the Company's facilities are located on an area of approx. 160 hectares.

New asset agreement

On January 24, 2007, the State of Israel and the Company entered into an asset agreement (hereinafter - the "Asset Agreement"), which resolves the dispute between the parties regarding the rights to the Company's assets (hereinafter - the "Company's Assets") and which replaces the previous agreement of 2002.

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NOTE 12 – INTANGIBLE ASSETS, RIGHT-OF-USE ASSETS, AND DEFERRED EXPENSES, NET - cont.

B. Lease of land and buildings – cont.

1. The Company's facilities (cont.)

According to the Asset Agreement, the rights of the Company in the Company's real estate are as follows:

- A. Rights of the State of Israel: The State has ownership in respect of each of the Company's parcels of land for which the Company had a right of ownership, including the right to be registered as the owner in the land registry:

Accordingly, and in exchange for the Company's withdrawing its claims as to right of ownership in the said land - the Company has a long-term lease from the State.

The period of each Lease Agreement is 49 years, commencing on the date the agreement is signed (January 24, 2007), with the Company having an option to extend the period for an additional 49 years (hereinafter - the "Option Period"), subject to the fulfillment of all of its obligations under the Asset Agreement and the Lease Agreement. At the end of the leasing period, including the Option Period should it be exercised, the Company will transfer possession of each parcel of leased land to the State of Israel, including any construction and permanent appurtenances. Regarding each parcel of land of the Company which is not included in this paragraph - the Company will have the same rights it would have in the parcels of property were it not for the position of the State of Israel in the dispute.

- B. According to the Asset Agreement, the Company will pay the State of Israel, every year, an annual fee comprised of a fixed amount of USD 2.25 million and additional annual amounts, that are contingent on the annual income of the Company, according to the profit increments, as follows: 8% of the annual pre-tax income, in the range of USD 0-30 million; plus 10% of the annual pre-tax income in the range of USD 30-52.5 million; plus 12% of the annual pre-tax income in the range of USD 52.5-67.5 million. In any event, the amounts paid to the State in respect of the annual payment (including the fixed component) will not exceed USD 8.7 million per year before linkage. All amounts are translated into NIS at a rate of NIS 4.80 per USD and are linked to the CPI (base index of May 2002). In 2023, the Company applied to Israel Lands Administration and the Accountant General at the Ministry of Finance for input tax deduction invoices in order to be able to deduct input tax for previous periods as well as the current input tax (the amount of which is immaterial to the Company). Since the Company's application was not allowed, on May 1, 2024 it filed a motion against the Israel Lands Authority and the Government of Israel for the issuance of a mandatory injunction ordering the Israel Lands Authority to issue tax invoices with respect to the abovementioned annual payments made by the Company. On December 30, 2024 the defendants filed a statement of defense on their behalf. The Company believes, based on the opinion of its legal counsels, that it has good claims to counter the State's claims in the statement of defense filed on behalf of the State.

For information about the profit-dependent lease payments recognized in profit and loss, see Note 23.

- C. The Asset Agreement set out the objectives of the leasing of the property and stipulated provisions regarding the need for the agreement of various parties for the transfer of the rights of the Company in the land (except for a lien and/or pledge of its rights in the leased land in favor of a financial institution only for purposes of obtaining financing for its operations in the ordinary course of business).

The Company is required to notify the State authorities, in advance and in writing, of its intention to rezone or change the use of the leased land, provided no objection is received from any of the authorities.

Should the Company breach any of its commitments in respect of any specific parcel of property, all the rights of the Company in that land will be canceled and all the rights in that land will revert back to the State, in addition to any possible compensation.

NOTE 12 – INTANGIBLE ASSETS, RIGHT-OF-USE ASSETS, AND DEFERRED EXPENSES, NET - cont.

B. Lease of land and buildings – cont.

1. The Company's facilities – cont.

- D. Under a note recorded in the Haifa Land Registry in 1958, the Company is registered as the owner of an easement in three strips of land that connect the Haifa oil refinery to three facilities held by an infrastructure company: a crude oil terminal in Kiryat Haim, a fuel port in Haifa Port (distillate pipeline), and a petroleum products terminal in Elroy (Kiryat Tivon). By virtue of the easement, the Company possesses underground pipes under the strips for the purposes of flowing crude oil and various petroleum products. In the same note, an easement was mutually granted to the infrastructure company by virtue of which there are other underground pipes in the strip of land that constitute part of the Company's land included in the assets agreement located along the northern boundary of the oil refineries' compound.

According to the Asset Agreement, as at the Asset Agreement date, the Company will return all its rights in the distillate pipeline to the State, including any right of the Company in the land on which the distillate pipeline is located. It was also stipulated that in the period until February 28, 2010, the Company will be entitled to operate and use the distillate pipeline, in accordance with and subject to the state provisions pertaining to operation and use of the pipeline, as may be issued from time to time and in effect, this use and operation continue as at the Report Date.

In 2009, the Company applied for an extension of its long-term right to operate and use the distillate pipeline.

In 2011, a letter of warning was received from the Accountant General, according to which the Company's continued holding in the distillate pipeline is contrary to the agreement between the parties. The letter alleges that the government incurs damage in this respect and will insist on the complete fulfillment of the Company's obligations towards it. The Company contends that its application to arrange its continued long-term holding of the distillate pipeline has yet to be finalized.

According to the Asset Agreement, the Company will be liable and will indemnify the State, upon the State's demand, for any damage and/or expense incurred and/or that may be incurred to the State as a result of breach of the Company's undertakings as set out above.

2. Gadiv's facilities are on an area of approx. 8.6 hectares including approx. 8 hectares, registered in the Company's name, which are leased to Gadiv by the Company under a capitalized lease registered for 999 years in the name of Gadiv. In accordance with the agreement of January 24, 2007 between the Company and the State of Israel, the Company has a 49-year lease on the land, commencing from the date the agreement with the State was signed, with an option for an extension of another 49 years, subject to fulfillment of its obligations under the agreement. The agreement further stipulates that rights conferred on a third party prior to its signing will not be impaired.

Another approx. 0.6 hectares were leased to Gadiv by the Company for storage until August 30, 2006. As at the report date, the parties continue to act in accordance with the provisions of the lease agreement and Gadiv continues to pay the lease payments in accordance with this agreement.

3. Ducor's facilities are located on leased land in the area of Rotterdam port in the Netherlands. The lease term started in 1994 for 25 years, and Ducor was granted the option to extend the lease term for three periods of 25 years each, under terms to be established between the parties in negotiations at the extension dates. In 2019, Ducor exercised the option for an additional 25-year lease term.

Ducor has an obligation to dismantle and evacuate the land at the end of the lease term. Ducor recognized the long-term provision for the said obligation. For details, see Note 17.

4. The remaining land, which constitutes part of the new assets agreement, serves for various uses required for the Company's activity.

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NOTE 12 – INTANGIBLE ASSETS, RIGHT-OF-USE ASSETS, AND DEFERRED EXPENSES, NET - cont.**B. Lease of land and buildings – cont.****4. (cont.)**

Referring to a land plot of approx. 21.5 hectares previously leased Haifa Group Ltd. (formerly Haifa Chemicals Ltd.) (hereinafter - the “Lessee”), in 2020, a mediation agreement was signed with the Lessee; the agreement was approved by the court and the general meeting of the Company (after approval by the audit committee and the Company's board of directors); under the mediation agreement, the lessee, among other things, will vacate the land underlying the dispute between the parties on December 31, 2020 and will return it to the Company, vacant and clean and in compliance with any environmental law applicable to it, after the lessee clears it of any pollution it caused. The interest in the land was returned to the Company; however, in 2023, a dispute arose between the Company and the Lessee in connection with the Lessee's obligation to comply with the requirements of the law and the Ministry of Environmental Protection, and the Company intends to stand up for its legal rights. The aforesaid dispute is not expected to have a material impact on the Company's operating results.

C. Leasing of vessels

1. Leases in which the Group is the lessee: Trading leases a number of tankers for transporting crude oil and/or petroleum products, and for shipping materials, including materials that the Company buys or sells. The lease agreements are for short periods, mostly one to three years.

In 2022-2024, the Group recognized in profit and loss an immaterial amount in respect of profit-based lease payments.

2. Leases in which the Group is the lessor - Trading leases out ships to the Company and third parties. In 2024, the Group recognized revenue in profit and loss for the sublease of tankers in the amount of approx. USD 6 million (in 2023 - approx. USD 24 million and in 2022 - approx. USD 25 million). In this context, it is noted that due to the state of war in Israel (see Note 1D), during the Reporting Period increased use was made of the vessels, which Trading leases for the Company's activity.

D. The Group is party to various lease agreements that are immaterial, including of vehicles.

NOTE 13 - LOANS AND BORROWINGS FROM BANKS AND OTHERS

This Note includes information about the contractual terms and conditions of the Group's interest-bearing loans and borrowings. Additional information about the Group's exposure to interest, foreign currency, CPI and liquidity risks appears in Note 30 – Financial Instruments.

A. Composition and interest**1. Loans and borrowings (presented under current liabilities)**

| | As at December 31 | |
|--|-------------------|------------|
| | 2024 | 2023 |
| Credit from banks | | |
| Overdraft and short-term loans ⁽¹⁾ | 14 | 13 |
| Total credit from banks | 14 | 13 |
| Current maturities of long-term liabilities | | |
| Current maturities of bank loans | 62 | 108 |
| Current maturities of debentures | 142 | 152 |
| Total current maturities of long-term liabilities | 204 | 260 |
| | 218 | 273 |

(1) Attributed in full to Ducor.

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NOTE 13 - LOANS AND BORROWINGS FROM BANKS AND OTHERS – cont.

A. Composition and interest – cont.

2. Short-term credit facilities

- A. Below is information about the short-term credit facilities from banks of the Group companies (in USD million):

| | Immediately prior to the Report approval date ^(*) | As at December 31 | |
|--|--|-------------------|------|
| | | 2024 | 2023 |
| Consolidated secured credit facilities | | | |
| Scope of credit facility ⁽¹⁾ | 500 | 500 | 500 |
| Actual utilization ⁽²⁾ | 16 | 175 | 69 |
| Consolidated unsecured credit facilities ⁽³⁾ | | | |
| Actual utilization ⁽²⁾ | 1 | 1 | 11 |

(*) Balance as at March 9, 2025.

(1) As at December 31, 2024, the Company has short-term secured credit facilities of USD 500 million, in effect until September 30, 2025.

(2) The facilities were utilized for letters of credit and bank guarantees only.

(3) Utilization of the unsecured credit facilities is subject to the exclusive discretion of each bank individually at the date of each utilization request, therefore there is no certainty as to the ability to utilize them.

- B. Ducor entered into an agreement with a bank for a credit facility of up to EUR 20 million for 3 years (as from 2020). In 2023, Ducor entered into an extension agreement with the bank for the credit facility for another 3 years (until 2026). Some of Ducor's trade receivables and inventory were pledged in favor of the bank and the Company provided it a guarantee in an amount that does not exceed EUR 20 million (approx. USD 21 million). For further details, see also Note 13B.

3. Liabilities to banks (presented under non-current liabilities)

| | Weighted interest as at December 31, 2024 | As at December 31 | |
|--|---|-------------------|------------|
| | | 2024 | 2023 |
| Long-term bank loans | | | |
| At variable interest ⁽¹⁾⁽²⁾ | 7.5% | 381 | 426 |
| At fixed interest | 7.2% | 32 | 36 |
| Net of adjustment for amendments to the terms of the loans ⁽³⁾ | | (14) | (11) |
| Less raising costs, net | | (4) | (4) |
| Total long-term bank loans | | 395 | 447 |
| Less current maturities | | (62) | (108) |
| | | 333 | 339 |

(1) Including an immaterial amount in respect of shekel loans. Weighted interest as at December 31, 2023 is 8.5%.

(2) During the reporting period, the Company took new loans from banks (hereinafter in this paragraph - the "New Loans") in an aggregate amount of USD 152 million at a variable interest rate (SOFR plus a margin), some of which was used for full repayment of existing loans totaling approx. USD 101 million, including the additional syndicated loan as detailed in Section B.1. below. The New Loans were taken at terms and conditions that are better than those of the repaid loans, while significantly extending average duration (the final repayment date is set for 2030-2032), alongside a reduction in the interest spread above the SOFR basis. The New Loans are subject to the same financial covenants as those prescribed under the syndication agreement, as detailed in Section B below.

(3) For details regarding changes in the syndicated loan, see Section B below.

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NOTE 13 - LOANS AND BORROWINGS FROM BANKS AND OTHERS – cont.

B. Agreements with banks

1. Syndication agreement

On November 15, 2016, a new syndication agreement was signed (replacing the former syndication agreement) between the Company and lenders (hereinafter - the "Lenders"), led by Bank Hapoalim as the main organizer and Discount Bank as co-organizer (hereinafter - the "Syndication Agreement"), under which the Company was provided with a loan (hereinafter - the "Loan") of USD 355 million. The Loan bore variable interest (LIBOR) plus a margin of 5%. It was further determined that the Company may repay the Loan prematurely, in whole or in part, in consideration for payment of discounting differences and an early repayment fee, at a decreasing rate as detailed in the Syndication Agreement.

Amendments to the Syndication Agreement were signed in 2018-2019; most of the amendments focused on reductions in the loan's interest rate and updating the amortization schedule.

In 2021, the Company took an additional loan (hereinafter - the "Additional Loan") under the Syndication Agreement, at the total amount of USD 80 million.

In June 2023, due to discontinuation of the publication of LIBOR interest rates, an amendment to the loan agreements was signed to replace the benchmark interest rate from LIBOR to SOFR while adjusting the original margin by the difference between the LIBOR and SOFR interest rates in order to create economic equivalence; for further details, see Note 29D2.

In March 2024, the Company informed Bank Hapoalim (as the main organizer of the syndication agreement) of its wish to make an early repayment of the outstanding balance of the Additional Loan on the next interest payment date as defined in the syndication agreement (March 2024). The outstanding loan balance, which was repaid by way of early repayment, amounted to approx. USD 68 million.

In December 2024, an amendment was signed to the syndication agreement according to which the amortization schedule of the outstanding loan balance was spread, such that the final repayment date was scheduled for the end of 2032, instead of the end of 2028. In addition, the interest spread was revised to reflect the economic conditions in the current market environment. In respect of the said amendment, the Company has borne immaterial amounts in one-off transaction costs and various fees as is generally accepted in such agreements. In addition, in respect of the amendment, the Company recognized an immaterial amount in one-off finance income (in accordance with the provisions of IFRS 9).

As at the report date, the loan's outstanding balance is approx. USD 163 million, and the interest is SOFR + a spread of approx. 3.3%.

The amortization schedule is as follows: in 2025-2026, approx. USD 5 million per quarter; in 2027, approx. USD 7 million per quarter; in 2028, approx. USD 1.6 million per quarter; in 2029, approx. USD 5.3 million per quarter; in 2030, approx. USD 6.1 million per quarter and in 2031-2032, approx. USD 5.3 million per quarter.

NOTE 13 - LOANS AND BORROWINGS FROM BANKS AND OTHERS – cont.

B. Agreements with banks – cont.

2. Principal agreements with banks, including by virtue of the Syndication Agreement

A. Financial covenants

1. Below are the financial covenants applicable to the Company by virtue of the Syndication Agreement, and referring to most of its financing agreements with the banks (including long-term loans and secured short-term credit facilities), and agreements and/or actual ratios as at December 31, 2024:

| | Required | Required ratio / amount | Actual ratio / amount |
|--|----------|-------------------------|-----------------------|
| Consolidated adjusted equity ⁽¹⁾ (in USD million) | ≥ | 750 | 1,815.3 |
| Consolidated adjusted equity ⁽¹⁾ to net total consolidated balance sheet ⁽²⁾ | ≥ | 20.0% | 47.4% |
| Consolidated ratio net financial debt ⁽³⁾ to consolidated adjusted EBITDA ^{(4), (5), (6)} | ≤ | 5.0 | 1.2 |
| Consolidated principal and interest coverage ratio ⁽⁷⁾ | ≥ | 1.1 | 3.4 |
| Cash flows ⁽⁸⁾ plus the unused balance of binding credit facilities ⁽⁹⁾ - separate statement (in USD million) | ≥ | 75 | 853.5 |

As at December 31, 2024, the Company is in compliance with the financial covenants.

- (1) Adjusted equity means the equity at the measurement date less A, B, and if the Company so elects, C, as follows:
A - basic adjustment calculated for the first time when signing the Syndication Agreement, in accordance with the financial statements as at June 30, 2016, and updated subsequently every 18 months, in accordance with the formula $A=Q \times (P1-P2)$
Q - 730 thousand tons, less the amount of the inventory availability transaction at the date of the update (approx. 250 thousand tons).
P1 - accounting average of the price of a Brent barrel in the last 24 months preceding the date of the update.
P2 - the price of crude oil inventory in the Financial Statements as at the date of the update (the value of the inventory divided by the number of barrels in the inventory).
B - current adjustment calculated from the signing date onwards, by the adjustment row attributable to the non-hedged inventory in the Company's Report of the Board of Directors.
C - The Company may elect not to include a provision for impairment of assets in the equity calculation in accordance with IAS 36, which was recognized up to an amount of USD 100 million for 2 consecutive quarters from the quarter of initial recognition.
At each update, adjustment B will be reset and adjustment A will be recalculated in accordance with the formula set out above.
- (2) Net total assets means the total assets plus/less the full difference between the adjusted equity as defined in Subsection (1) above and the accounting equity in the Financial Statements, net of cash as defined in Subsection (8) below, in an amount exceeding the cash balance that the Company is required to hold under the financial covenants.
- (3) Net financial debt means the debt to financial institutions, less cash as defined in Subsection (8) below and net of cash and cash equivalents, securities, short-term and long-term deposits that are pledged/restricted in use or that secure in any other manner the liabilities included in the debt to financial institutions. Financial debt will not include discounting of receivables that meet the criteria of a true sale (sale in an absolute, irrevocable and non-recourse assignment) at the aggregate amount of up to USD 200 million. A discounting that does not meet the True Sale criteria, and any discounting amount exceeding the said aggregate amount will be included in net financial debt.
The amount of the debt relating to the Company's debentures for the purpose of calculating the net debt will be based on the fair value of the debentures, or, as the case may be, on the carrying amount after hedge accounting, and calculation of the debt will take into account the value of the Company's hedging transactions together with the issue of the Company's debentures and with regard to their issue, provided that in any case, the amount of the debt for the debentures does not fall below the liability value of the Company's debentures, and revaluation of the hedge transactions will not fall below their liability value. The amount of net debt does not include interest payable.
- (4) Adjusted EBITDA means gross profit less marketing and selling expenses and general and administrative expenses, net of finance expenses for supplier credit and factoring expenses that do not form part of the net financial debt in Subsection (3) above, and are not included in gross profit, plus depreciation and amortization included in gross profit, or sales and marketing expenses or general and administrative expenses, and net of following effects:
A. Presentation method for derivatives according to IFRS
B. Buying and selling timing differences of the value of unhedged inventory
C. Reconciliation of the hedged inventory value with the market value
All as described in the Company's reports of the board of directors.
Calculation of adjusted EBITDA will also include payments for one-time indemnity received by the Company from third parties.
- (5) Adjusted EBITDA will be calculated according to the higher of: (a) adjusted EBITDA in the four quarters prior to the measurement date; or (b) adjusted EBITDA in the two quarters prior to the measurement date, multiplied by two. It is clarified that if EBITDA includes payments for one-time indemnification, as described in Subsection (4) above, these payments will not be multiplied by two but will be included once only in the adjusted EBITDA calculation.

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NOTE 13 - LOANS AND BORROWINGS FROM BANKS AND OTHERS – cont.

B. Agreements with banks – cont.

2. Principal agreements with banks, including by virtue of the Syndication Agreement – cont.

A. Financial covenants – cont.

- (6) The Company may elect not to include maintenance quarters, as defined below, in the adjusted EBITDA. If the adjusted EBITDA does not include a maintenance quarter, instead of that quarter, the EBITDA will include the prior quarter that is closest to the maintenance quarter, such that in any event, four quarters will always be taken into account. If the Company elects not to include maintenance quarters in the adjusted EBITDA, the contents of Section 5(b) above will not apply regarding multiplication of years. In a period of five consecutive years, no more than four quarters of maintenance will be adjusted, no more than two maintenance quarters will be adjusted consecutively, and no more than two maintenance quarters in the same calendar year will be adjusted. Maintenance quarters means the quarters in which the Group companies perform periodic maintenance at their plants, which continues for at least 30 days, and its effect on adjusted EBITDA exceeds USD 20 million per quarter.
- (7) The principal and interest coverage ratio means (a) the total amount of: (i) cash as defined in Subsection (8) below, (ii) cash and cash equivalents, securities and short-term deposits pledged/restricted in use or securing in any other way the liabilities included in the financial debt as defined in Subsection (3) above; and (iii) consolidated adjusted EBITDA for the four quarters preceding the measurement, calculated in accordance with the provisions of Subsections (4), (5) and (6) above, less investments in property, plant and equipment amounting to USD 60 million per year (at each annual measurement date as from December 31, 2016, if depreciation expenses for consolidated property, plant and equipment exceed USD 150 million, the rate of increase in depreciation expenses will be added to the amount of the investments) and net of current tax payments in the 12 months preceding the measurement date. It is clarified that the current tax payments will not include tax payments arising from the closing of tax assessments for prior years, for which there is disclosure in the Company's Financial Statements; divided into (b) principal repayments for long-term credit and the amount of interest payments expected to be payable in the 12 months following measurement date.
- (8) Cash means cash and cash equivalents, securities and short-term deposits, unless these are pledged/restricted in use or secure in any other way debts that are not included in the Syndication Agreement.
- (9) Unutilized balances of binding credit facilities means the unused balances of binding credit facilities, other than unused balances that are pledged/restricted in use or that secure in any other manner the liabilities that are not included in the secured debts. Binding credit facility means a credit facility provided by a financial institution as reflected in a binding document, which can be immediately utilized on demand and for which a commitment fee and/or non-utilization fee is charged by that financial institution.

The covenants will be calculated by rounding the ratio to the first digit after the decimal point.

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

B. Conditions for distribution of a dividend

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

1. The ratio between (i) net financial debt (1) plus the amount to be distributed and (ii) adjusted EBITDA (2) for each of the two quarters preceding the announcement date (for which the Company's Financial Statements were approved) does not exceed 3.5;
 - (1) Net financial debt as defined in Subsection 3 above in the financial covenants.
 - (2) Adjusted EBITDA as defined in subsection 4 above in the financial covenants, calculated for the eight quarters preceding the measurement date, divided in 2. Calculation of adjusted EBITDA does not apply to the provisions referring to the quarters of treatments set out in Subsection 6 above in the financial covenants, therefore the calculation mechanism in subsection 5 above in the financial covenants will not apply.
2. The ratio between (i) equity in the Financial Statements (without any adjustments) less the amount to be distributed and (ii) net balance sheet (3) for the quarter preceding the declaration date (for which the Company's Financial Statements were approved), will not fall below 25%;
 - (3) Total assets in the Financial Statements net of cash as defined in Subsection (8) above in an amount exceeding the cash balance that the Company is required to hold under the financial covenants.

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NOTE 13 - LOANS AND BORROWINGS FROM BANKS AND OTHERS – cont.

B. Agreements with banks – cont.

2. Principal agreements with banks, including by virtue of the Syndication Agreement – cont.

B. Conditions for distribution of a dividend – cont.

3. There was no event of default as defined in the Syndication Agreement, which is still ongoing (other than discontinuation of the work or a significant part thereof at the Company, which does not exceed 15 days) and there will be no event of default due to the distribution of a dividend; and
4. The Company complied with all the financial covenants without any deviation in the last quarter preceding the declaration date (for which the Company's Financial Statements were approved);

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

C. Loans and/or guarantees provided to Group companies

1. When signing the Syndication Agreement and thereafter, and after receiving the consent of the banks to provide guarantees and/or loans to the Company and the other subsidiaries, Gadiv and Carmel Olefins (together: the "Material Subsidiaries") provided unlimited guarantees to the Lenders in the Syndication Agreement (including for additional credit provided to the Company) and to other banks that provided the Company with credit.
2. The Company undertook not to provide, and not to take steps to prevent the Material Subsidiaries from providing loans, guarantees or other financing to a third party, other than customer and/or supplier credit in the ordinary course of business and under market conditions, with the exception of:

- A. Loans, guarantees or other financing in favor of the Company and/or in favor of any of the Material Subsidiaries, provided that the debt ratio, as defined below, is no less than 90%. Notwithstanding the aforesaid, if the debt ratio falls below 90% but is higher than 85%, for a period of up to two consecutive quarters, this will not constitute an event of default, provided that within two quarters the ratio returns to at least 90% for two consecutive quarters.

In this section, "debt ratio" means the ratio of the Company's total debt to financial institutions in the separate statements (without discounting of receivables) and the total consolidated debt to financial institutions in the consolidated statements.

Subsequent to the signing date of the Syndication Agreement, the Company provided unlimited guarantees to the banks that provided credit to the Material Subsidiaries.

As at December 31, 2024, the debt ratio is higher than 90%.

- B. Guarantees to be provided by Company to Ducor together with loans to Ducor in a cumulative amount not exceeding EUR 50 million.

For information about a guarantee provided by the Company for an amount not exceeding EUR 20 million in favor of a bank that provided a credit facility to Ducor, see Note 13A.

- C. Guarantees in favor of the activities of the trading and shipping companies, which will sign guarantees for the Lenders in the syndicate, including their undertaking not to create any lien on their assets and/or rights, and not to take out any credit, other than credit from the Company to be used in their operations, and other than supplier credit in the ordinary course of business and under market conditions.

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NOTE 13 - LOANS AND BORROWINGS FROM BANKS AND OTHERS – cont.

B. Agreements with banks – cont.

2. Principal agreements with banks, including by virtue of the Syndication Agreement – cont.

C. Loans and/or guarantees provided to Group companies – cont.

2. (cont.)

- D. Loans, guarantees or other financing to subsidiaries and/or a sub-subsidiary and/or second-tier subsidiaries of any of them, all in a cumulative amount of up to USD 20 million.
3. When signing the Syndication Agreement, which serves as a guarantee as set out in Section 2 above, the material subsidiaries assumed various obligations, specifically not to create any lien on its property and assets (negative lien) under the conditions set out in the financing agreements.
4. In addition, Carmel Olefins undertook: (a) not to make any guarantees whatsoever in favor of a third party, other than: (i) guarantees in the ordinary course of business; and (ii) guarantees to the Company and Gadiv; without the prior written consent of the banks, and (b) it will be subject to restrictions in respect of loans and/or transactions with companies in the Bazan Group and related entities, other than: (i) transactions in the ordinary course of business; (ii) loans to the Company and Gadiv.

D. The Company's undertakings

The Syndication Agreement includes the Company's undertakings to the Lenders, including:

1. The Company will not create and will not cause the material subsidiaries to create liens on their property and assets (negative lien clause), with the exception of: (a) lien rights and offsetting in bank account or during the ordinary course of business and under market conditions, (b) the transfer, assignment or endorsement of documents for export or import of goods, to a bank that will provide credit to finance the export or import; and (c) a lien on inventory exceeding 1.2 million tons, by the Company, for its financing through a non-recourse loan, which can be called for repayment from the pledged inventory only.
2. The Company's holdings in the shares of its material subsidiaries will not fall below 51%.
3. The Company will not change the nature of its businesses and will cause the material subsidiaries not to change the nature of their business; as part of the above, the Company will not sell and/or dispose of a material asset or a material right, and will cause the subsidiaries not to sell and/or dispose of a material asset (unless it is no longer in use) or a material right, which is not in the ordinary course of business and under market conditions, without the prior written consent of the Lenders. "Substantive asset" and "material right" - an asset and/or right with an economic value of at least USD 30 million.
4. The Company will only take out shareholder loans under conditions that are not less favorable than market conditions and after obtaining all approvals required by law and subject to the provisions in Section 5 below.
5. The Company will not carry out: (a) A distribution, as defined in the Companies Law, unless in accordance with Section B above regarding the conditions for distribution of a dividend; (b) Any other payment (cash or cash equivalents), transfer of assets or providing a benefit to a related party or the acquisition of assets from a related party, with the exception of (i) Directors' fees and compensation, reimbursement of expenses and bonuses to directors; (ii) The transaction was made in the ordinary course of business and under market conditions; and (iii) Payment of management fees in a cumulative amount of up to USD 5 million per year; (c) Acquisition, redemption or return of its shares or the financing of any of these activities unless it is in accordance with Section B above regarding terms and conditions for dividend distribution; and (d) An undertaking to carry out any of these activities.

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NOTE 13 - LOANS AND BORROWINGS FROM BANKS AND OTHERS – cont.

B. Agreements with banks – cont.

2. Principal agreements with banks, including by virtue of the Syndication Agreement – cont.

D. The Company's undertakings – cont.

5. (cont.)

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

In this section, "related party" is defined as an interested party and/or controlling shareholder and/or a relative of any of them and/or an entity related to any of them.

E. Events of default

The Syndication Agreement includes events, which, if they occur, grant the Lenders the right to call for immediate repayment of the loan, including:

1. An amount (or cumulative amounts) exceeding USD 25 million payable by the Company and/or any of the Guarantors to a financial institution and/or debenture holders was called for immediate payment; or an amount (or cumulative amounts) exceeding USD 50 million payable by the Company and/or any of the Guarantors to third parties was called for immediate repayment due to grounds to call for immediate repayment or due to a claim of default (cross acceleration).
2. Work in the Company or a significant part thereof is discontinued for 60 consecutive days or more, except due to renovations planned in advance and except in cases where the damage resulting from discontinuation of the work does not exceed a cumulative amount of USD 50 million.
3. The Lenders informed the Company that based on their reasonable judgment, a significant adverse effect occurred as defined in the Syndication Agreement.
4. There was a change in control, as defined in the Syndication Agreement, without obtaining the prior written consent from the Lenders.

NOTE 14 – DEBENTURES

A. Composition

| | Weighted interest as at December 31, 2024 | As at December 31 2024 | 2023 |
|---|--|---------------------------|--------------|
| Debentures at amortized cost with application of hedge accounting, net ⁽¹⁾⁽²⁾ (shekel series) | 5.4% | 657 | 606 |
| Less current maturities | | (75) | (85) |
| | | 582 | 521 |
| Balance of debentures at amortized cost, net (USD- linked series) | 4.8% | 67 | 134 |
| Less current maturities | | (67) | (67) |
| | | – | 67 |
| Total debentures | | 724 | 740 |
| Less current maturities | | (142) | (152) |
| Total debentures, net | | 582 | 588 |

(1) For details about a series issuance and expansion carried out in the reporting period, see Section B below.

(2) The weighted effective interest rate in terms of USD interest after taking into account swap transactions is approx. 6.5%.

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Bazan Ltd. - Notes to the Consolidated Financial Statements, in USD million

NOTE 14 – DEBENTURES - cont.

B. Further details regarding the Company's public debentures

| Series | Original date of issue | p.v. as at raising debt in USD millions ⁽¹⁾⁽²⁾ | Balance of adjusted p.v. as at December 31, 2024, in USD million ⁽²⁾ | Market value as at December 31, 2024, in USD million ⁽³⁾ | Coupon interest | Principal repayment dates | Interest repayment dates ⁽⁴⁾ | Linkage basis and terms (principal and interest) |
|----------|------------------------|---|---|---|-----------------|---|---|--|
| Series I | April 26, 2017 | 224 | 67 | 68 | 4.7% | 16 unequal semi-annual payments on March 31 and September 30 of each of the years 2018-2025; for each of the first to the sixth payments (inclusive), 2.5% of the principal will be repaid; for the each of 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 for each of the thirteenth to the last payments, 15% of the principal will be repaid. | On September 30, 2017 and on March 31 and September 30 of each of the years 2018-2025 | USD linked (benchmark interest rate - 3.649) |
| Series J | September 15, 2019 | 241 | 187 | 179 | 2.7% | 23 unequal semi-annual payments on September 25 of each of the years 2020 to 2031 and on March 25 of each of the years 2021 to 2031; for each of the first to the ninth payments (inclusive), 2.5% of the principal will be repaid; for each of the tenth to the thirteenth payments (inclusive), 12.5% of the principal will be repaid; for each of the fourteenth to the twenty-second payments (inclusive), 2.5% of the principal will be repaid; and in the twenty-third and last payment, 5% of the principal will be repaid. | On March 25 and September 25 of each of the years 2020-2031 | Non-linked |
| Series L | September 16, 2020 | 290 | 283 | 285 | 5.0% | 12 unequal semi-annual payments, payable on March 25 and September 25 of each of the years 2021, 2025, 2026, 2027, 2028, and 2029; in each of the first to the fourth payments (inclusive), 2.5% of the principal will be repaid, in the fifth and six payments (inclusive), 5% of the principal will be repaid, in the seventh to eighth payments (inclusive), 10% of the principal will be repaid, and in the ninth to twelfth payments (inclusive), 15% of the principal will be repaid. | On March 25 and September 25 of each of the years 2021-2029 | Non-linked |
| Series M | April 20, 2023 | 144 | 144 | 148 | 5.75% | 14 unequal semi-annual payments on March 25 and September 25 of each of the years 2026 through 2032; for each of the first and the second payments (inclusive) - 3% of the principal will be repaid; for the each of the third and fourth payments (inclusive) - 6% of the principal will be repaid; for each of the fifth and sixth payments (inclusive) - 4.5% of the principal will be repaid, for each of the seventh and eighth payments (inclusive) - 6.5% of the principal will be repaid, for each of the ninth and tenth payments (inclusive) - 10% of the principal will be repaid, for each of the eleventh and twelfth payments (inclusive) - 12% of the principal will be repaid; and for each of the thirteenth and fourteenth payments (inclusive) - 8% of the principal will be repaid. | On September 25, 2023 and on March 25 and September 25 of each of the years 2024-2032 | Non-linked |
| Series O | October 1, 2024 | 60 | 60 | 58 | 5.25% | 12 unequal semi-annual payments on June 25 and December 25 of each of the years 2029 through 2034; for each of the first and the second payments - 4% of the principal will be repaid; for the each of the third and fourth payments (inclusive) - 7% of the principal will be repaid; for each of the fifth and sixth payments - 9% of the principal will be repaid; and for each of the seventh to twelfth payments - 10% of the principal will be repaid. | On December 25, 2024, June 25 and December 25 of each of the years 2025-2034 | Non-linked |

(1) In addition to the original issuance date, Series I was expanded in 2018, Series J and L were expanded in 2020, and Series L was expanded in 2021-2022, and Series M was expanded in 2024.

(2) For the shekel series, converted at the exchange rate as at December 31, 2024 and for USD-linked Series I, converted at the effective USD exchange rate of the series.

(3) The market capitalization is based on the closing price quoted on the TASE and is translated according to the exchange rate on December 31, 2024.

(4) As at December 31, 2024, the interest payable for the debentures is approx. USD 8 million.

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NOTE 14 – DEBENTURES - cont.

B. Further details regarding the Company's public debentures - cont.

The Company's public debentures are rated by Maalot (S&P) - the Israel Securities Rating Company Ltd. As at the reporting date, the rating of the Company and its debentures is iLA+ with a stable outlook.

Following are details regarding issuances and expansions of debenture series issued in 2023-2024:

| Date | Type of issue | P.v. at the issue date, in USD million ⁽²⁾ | Net consideration net of issuance costs, in USD million |
|--------------|--------------------------------------|---|---|
| October 2024 | Issuance of Series O ⁽¹⁾ | 59 | 54 |
| January 2024 | Expansion of Series M ⁽¹⁾ | 81 | 81 |
| April 2023 | Issuance of Series M ⁽¹⁾ | 62 | 57 |

(1) To reduce currency and interest exposure, the Company entered into principal and interest swap (including fixing the USD interest) and elected to apply cash flow hedge accounting principles.

(2) Translation at the exchange rate as at the date of issue.

C. Key financial covenants**A. Series I, J, L, M and O**

The Company undertook that until the repayment date of Debentures (Series I, J, L, M and O), it will comply with the financial covenants.

Following are the financial covenants of Debentures (Series I, J, L, M and O) as defined in the deed of trust:

| | Required | Required ratio / amount | Actual ratio / amount |
|--|----------|-------------------------|-----------------------|
| Adjusted equity (in USD million) ⁽¹⁾ | ≥ | 720 | 1,938.7 |
| Adjusted equity plus shareholder loans out of consolidated total assets ⁽²⁾ | ≥ | 17.5% | 51.3% ⁽³⁾ |
| Net debt divided by the average consolidated annual adjusted EBITDA | ≤ | 8 | 1.2 |
| Consolidated cash and cash equivalents (in USD million) | ≥ | 50 | 751.7 |

(1) For Debentures (Series I, J and L), adjusted required equity is approx. USD 630 million.

(2) For Debentures (Series I, J and L) required adjusted equity plus shareholder loans out of consolidated total assets - 15%.

(3) For Debentures (Series M and O), the actual ratio is 52.4%.

As at December 31, 2024, the Company is in compliance with the financial covenants.

- (1) Adjusted equity means equity as at the date the adjustment was measured: (a) For the period as from the fourth quarter of 2013 - the cumulative effects of the adjustments used to calculate the adjusted EBITDA as presented by the Company in the interim and annual reports of the board of directors; and (b) Changes in equity arising from adjusting deferred tax assets or liabilities due to changes in statutory tax rates and/or tax laws applicable to the Company.

The equity calculation will not include a provision for impairment of assets in accordance with IAS 36, which was recognized up to an amount of USD 100 million (with respect to Debentures (Series M and O) on the entire provision amount), for two consecutive quarters from the quarter of initial recognition.

- (2) Total balance sheet means consolidated total assets less cash in an amount exceeding USD 75 million (with reference to Debentures (Series M and O) net of the full amount of the cash). In addition, if the provision for impairment is adjusted in the equity calculation, the adjustment amount will be added to the total consolidated total assets.
- (3) Net debt means the debt to financial institutions and debenture holders net of cash (5); the amount of the debt relating to the Company's debentures for the purpose of calculating the net debt will be based on the fair value of the debentures, or, as the case may be, on the carrying amount after hedge accounting, and calculation of the debt will take into account the value of the Company's hedging transactions together with the issue of the Company's debentures and with regard to their issue, provided that in any case, the amount of the debt for the debentures does not fall below the liability value of the Company's debentures (meaning, the outstanding principal of the debentures together with the interest as at the testing date), and revaluation of the hedge transactions will not fall below their liability value (meaning, the outstanding principal of hedging transactions together with the interest as at the testing date).

- (4) Consolidated adjusted EBITDA means the consolidated adjusted EBITDA as presented by the Company in its interim and annual reports of the board of directors and as set out below:

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

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NOTE 14 – DEBENTURES - cont.

C. Key financial covenants – cont.

A. Series I, J, L, M and O – cont.

(4) (cont.)

- B. Adjusted EBITDA will be calculated according to the higher of: (a) adjusted EBITDA in the four quarters prior to the measurement date, as defined in the Trust Deeds; or (b) adjusted EBITDA in the two quarters prior to the measurement date, multiplied by two. It is clarified that if the EBITDA includes payments for indemnification, as described above, these payments will not be multiplied by two but will be included once only in the adjusted annual EBITDA calculation.
- C. The Company may elect not to include maintenance quarters, as defined below, in the adjusted EBITDA. If the adjusted EBITDA does not include a maintenance quarter, instead of that quarter, the EBITDA will include the prior quarter that is closest to the maintenance quarter, such that in any event, four quarters will always be taken into account. If the Company elects not to include maintenance quarters in the EBITDA, the contents of Section B above will not apply. Notwithstanding the aforesaid, it is agreed that in a period of five consecutive years, no more than four quarters of maintenance will be adjusted, no more than two maintenance quarters will be adjusted consecutively, and no more than two maintenance quarters in the same calendar year will be adjusted. In this section, "Maintenance Quarters" means the quarters in which the Group performs periodic maintenance at one of its plants, which continues for at least 30 days, and its effect on the adjusted EBITDA exceeds USD 20 million per quarter.
- D. In addition, with reference to Debentures (Series M and O) only, calculation of the annual adjusted EBITDA will also include dividends and/or repayments of shareholder loans received by the Company from equity-accounted entities and expenses for share-based payment will be adjusted.

(5) Cash means cash and cash equivalents, deposits and securities portfolio and with respect to Debentures (Series L, M and O), unless these are encumbered/restricted for use or secure other liabilities that are not included in the debt to financial institutions.

The Company's failure to comply with one or more of the financial covenants in accordance with two consecutive financial statements is cause for immediate repayment. However, if the deviation rate according to the second financial statement does not exceed 10% of the values determined, grounds for immediate repayment will only apply if there is a deviation from the financial covenants in subsequent financial statements as well.

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

D. Additional main undertakings towards holders of Debentures (Series I, J, L, M and O)

1. Call for immediate repayment

The deeds of trust established grounds to call for immediate repayment, including:

- A. If there was a call for immediate repayment of one of the following: a different debenture series that the Company issued to the public; or the Company's debt to a financial institution, including an institutional entity (with the exception of a non-recourse debt to Company in an incremental amount exceeding the lower of the following: (1) USD 150 million; or (2) 15% of the Company's total obligations to financial institutions in accordance with its most recent Consolidated Financial Statements prior to the call for immediate repayment.
- B. With regard to the debentures series M and O, if a going concern emphasis of matter is recorded in the Company's financial statements over a period of two (2) consecutive quarters, and there is reasonable concern that the Company will not meet its material obligations towards the debenture holders, and with regard to Series I - if a going concern emphasis of matter is recorded in the Company's financial statements for a period exceeding 1 quarter.

2. Early redemption

The Company may redeem the debentures by way of early redemption, in whole or in part, at its own initiative, at its sole discretion, and in such a case the provisions set out in the deeds of trust will apply. The frequency of early repayments will not exceed one redemption each quarter.

The amount payable to the debenture holders will be the higher of the following: (1) The market value of the balance of the debentures in circulation; or (2) the liability value of the debentures in circulation called up for early redemption; or (3) the cash flow of the debentures called up for early repayment (principal plus interest), discounted on the basis of the return on government bonds as defined in the deed of trust, plus 1.25%-2 interest.

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NOTE 14 – DEBENTURES - cont.**D. Additional main undertakings towards holders of Debentures (Series I, J, L, M and O) – cont.****3. Restrictions on dividend distribution**

Until the date on which the debentures are repaid, the Company will not declare, pay or distribute a dividends, in any of the following cases, including if, insofar as there is a distribution, one of the cases described in the deed of trust occurs, specifically: (1) There are grounds for immediate repayment or breach of any of the Company's material obligations under the provisions of the Deed of Trust; (2) Failure to meet financial covenants; (3) The Company's equity, as defined in the Deeds of Trust, is less than USD 690 million in Debentures (Series I and J), USD 720 million in Debentures (Series L) and USD 760 million in Debentures (Series M and O).

In addition, for Debentures (Series L, M and O), adjusted equity plus shareholder loans to total consolidated balance sheet (as calculated for the covenant) is less than 20%, 21% and 21%, respectively, in accordance with the most recent financial statements, or according to the most recent published financial statements, there are "warning signs" as defined in Regulation 10(b)(14) of the Israel Securities Regulations (Periodic and Immediate Reports), 1970.

In addition, the Company undertook that if the terms for the distribution are not met, the Company will not repay, in any way, the shareholder loans that were provided to the Company, if provided (including any principal or interest payments), until the full, final and precise repayment of the debt in accordance with the terms of the debentures.

4. Negative lien

Until the settlement date of the debentures, the Company will not create a lien on its assets in favor of a third party (other than for cases listed in the deeds of trust), unless, when creating the lien, the Company also creates a lien on the asset and at the same degree *pari passu* in favor of the debenture holders.

In addition to the provisions of Sections 4-1 above, the deeds of trust include additional standard market provisions and obligations.

NOTE 15 – OTHER PAYABLES AND CREDIT BALANCES**A. Trade payables**

| | As at December 31 | |
|---|-------------------|------------|
| | 2024 | 2023 |
| Trade payables with extension of credit days ⁽¹⁾ | 415 | 212 |
| Trade payables without extension of credit days and others | 451 | 627 |
| | 866 | 839 |

(1) As at December 31, 2024 - includes a total of approx. USD 128 million in respect of the purchase of inventory as per the availability transaction; for details see Note 20B4. Regarding agreements for extension of supplier credit days, see below. For further details regarding finance expenses for the extension of credit days, see Note 26.

For details about transactions and related and interested parties, see Note 27.

For information about the Group's exposure to currency and liquidity risk and for the risk management policy for payables, see Notes 29, 30B, and 30C.

NOTE 15 – OTHER PAYABLES AND CREDIT BALANCES – cont.**A. Trade payables – cont.****Agreements for extension of supplier credit days**

In the ordinary course of business, the Company enters into agreements (framework agreements for fixed terms and spot transactions) with several crude oil suppliers, allowing it to purchase crude oil from the suppliers (with respect to some of the framework agreements setting the minimum amount) and receive, as a rule, credit of up to approx. 60 days (and in certain cases - up to approx. 90 days) without collateral (in relation to the framework agreements up to a maximum amount of crude oil and against payment of transaction costs estimated at an annual amount which is not material to the Company). If the Company exercises its right to extend the suppliers' credit beyond 30 days, it will bear the cost of the suppliers' credit for the period beyond the 30 days, which is on market terms, and similar to other tracks for the Company's short-term working capital. Other than the above terms, the purchase of crude oil from the suppliers is on the market terms prevailing on each purchase date. In addition, in general, the Master Agreements include conditions for their termination if certain events occur, including controls for significant deterioration in the state of the Company's business.

The maximum potential amount of suppliers' credit due to the extension of the credit days depends on the amount of crude oil purchases from suppliers with which the Company has an agreement to extend the credit days, the credit days to be determined by the Company for each transaction (within the set range of days), and the price of crude oil.

B. Other payables and credit balances

| | As at December 31 | |
|--|-------------------|------------|
| | 2024 | 2023 |
| Deposits from customers ⁽¹⁾ | 23 | 23 |
| Advance payments from customers | 7 | 10 |
| Employees ⁽²⁾ | 52 | 55 |
| Institutions ⁽³⁾ | 20 | 7 |
| License fees payable ⁽⁴⁾ | 3 | 3 |
| Taxes payable | 45 | 101 |
| Lease liability - current maturities | 22 | 14 |
| Interest payable | 9 | 8 |
| Other | 14 | 23 |
| | 195 | 244 |

(1) Deposits provided by customers to secure some of the current sales in the Refining Segment. Cash received in respect of these deposits are not limited in use and are used by the Company for its operating activities.

(2) See also Note 18C.

(3) As at December 31, 2024 - includes a VAT payable balance.

(4) See also Note 12B1.

For information about the Group's exposure to currency and liquidity risk and for the risk management policy for some of the other payables, see Notes 29, 30B, and 30C.

NOTE 16 – INCOME TAX**A. Tax environment of the Group**

The Group companies are taxed in Israel in accordance with the provisions of the Israeli Income Tax Ordinance (New Version), 1961 (hereinafter - the "Ordinance"), with the exception of the consolidated companies of Carmel Olefins, which are taxed in the Netherlands (mainly Ducer).

1. Rate of corporate tax

The corporate tax rate in Israel for 2022-2024 is 23% and in the Netherlands - 25.8%.

For details about the tax rates applicable to the Group companies taxed in Israel and entitled to benefits under the Encouragement of Capital Investments Law, see Section 3 below.

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NOTE 16 – INCOME TAX - cont.

A. Tax environment of the Group - cont.

2. Benefits under the Law for Encouragement of Industry (Taxes), 1969

The Company, Carmel Olefins, and Gadiv are industrial companies, as defined in the Law for Encouragement of Industry (Taxes), 1969, and as such, they are entitled to benefits. The main benefits are: (1) Depreciation at increased rates; (2) amortization of issuance expenses upon listing the Company's shares for trade on the exchange; (3) an 8-year amortization period for the patents and knowhow used in the development of the enterprise; (4) an option to submit consolidated tax return for companies sharing a single production line.

The Company, Carmel Olefins, and Gadiv file a consolidated tax return to the Israel Tax Authority in accordance with Section 23(a) of this law.

3. Benefits by virtue of the Law for the Encouragement of Capital Investments, 1959

Beneficiary/approved enterprise

As a rule, beneficiary or approved enterprises are eligible for tax benefits, including tax-exempt income and taxable income at a reduced tax rate for limited periods defined in each plan. The benefits are conditional on compliance with the criteria set out in the law, (including compliance with certain export rates).

Distribution of a dividend from the income of an approved beneficiary enterprise is taxable at a rate of 15%. However, an exemption was established for taxes on a dividend received by a company resident in Israel from the profits of an approved/beneficiary enterprise, which were generated in the benefit period according to the provisions of the law prior to the amendment, if the company distributing the dividend informs the Israel Tax Authority of the applicability of the provisions of the amendment to the Law before June 30, 2015 as detailed below, and the dividend is distributed after the date of the notice.

Amendment to the Law of December 29, 2010

On December 29, 2010, the Knesset passed the Economic Arrangements Law for 2011-2012, which includes an amendment to the Encouragement of Capital Investments Law, 1959 (hereinafter - the "Amendment"). The Amendment entered into effect on January 1, 2011 and its provisions apply to preferred income generated by or arising from a preferred enterprise, as defined in the Amendment, in 2011 and thereafter. The Company can choose not to be included in the scope of the Amendment and to remain within the scope of the law, prior to its amendment, until the end of the benefit period; the 2012 tax year is the last year that the Company can choose as the base year, provided that the minimum qualifying investment began in 2010.

As from the 2014 tax year, the tax rate on preferred income for an enterprise that is not in Development Area A is 16%.

Furthermore, on December 21, 2016 the Knesset passed the Economic Efficiency Law (Legislative Amendments for the Achievement of the Budget Objectives for the Budget Years 2017 and 2018), 2016 specifying, among other things, that an enterprise not in Development Area A that meets the definition of a "Special Preferred Enterprise" is entitled to a reduced tax rate of 8% for a benefit period of 10 consecutive years.

No tax will apply to a dividend distributed out of preferred income to a shareholder that is an Israeli resident company, for both the distributing company and the shareholder.

A. The Company

In 2021, the Company announced its inclusion in the scope of the amendment to the law as from the 2022 tax year.

NOTE 16 – INCOME TAX - cont.

A. Tax environment of the Group - cont.

3. Benefits by virtue of the Law for the Encouragement of Capital Investments, 1959 - cont.

A. The Company – cont.

In prior years, the Company informed the Israel Tax Authority that it elected 2008 and 2012 as the base years (and therefore, the periods of benefits in respect thereof will end no later than 2023), in accordance with Section 51(d) of the Law for the Encouragement of Capital Investments, 1959 (hereinafter - the “Law”); however, the Company did not utilize any benefits in respect thereof. In addition, in the years prior to the plans, the Company utilized benefits under the Law.

In 2023, the Company applied for “Special Preferred Enterprise” status (for companies filing a consolidated tax return as aforesaid). The Company believes it complies with quantitative conditions of Section 51T of the law. It should be clarified that in addition to the quantitative conditions, the approval of the directors as defined in the law should also be received. As at the report approval date, the approval of the directors has not yet been received. Due to the uncertainty in accepting the Company's position, the tax rate applied in the Group's reports is based on the tax rate on preferred income for an enterprise that is not in Development Area A, namely 16%.

B. Carmel Olefins and Gadiv

Carmel Olefins and Gadiv entered into the application of the amendment to the Law beginning from 2019 and 2016, respectively.

C. The tax effect in respect of tax-exempted income

If a dividend is distributed from tax-exempt income from prior years, the benefit period of which has already ended, or the companies are considered as having distributed a dividend in accordance with Section 51B of the Law, the companies will be taxed the rate set out in the law.

Amendment No. 74 and Temporary Order to the Law were published on November 15, 2021 (hereinafter - the “Temporary Order”). The Temporary Order suggests an arrangement for payment of reduced tax to companies that are exempted from corporate tax under the Law. The reduced corporate tax rates shall be set in accordance with the terms of the Temporary Order and will not be lower than 6%. Companies that will opt to apply the Temporary Order through November 14 2022 shall pay corporate tax at reduced rates within 30 days from the date of their notice to the Israel Tax Authority and will undertake to invest in their enterprise - over a 5-year period - an amount that will be calculated based on a formula set in the Temporary Order.

In 2021, Carmel Olefins and Gadiv opted to apply the Temporary Order, and in 2022 paid a one-off tax payment, at a reduced rate of approx. USD 17 million in respect of tax-exempt income generated in prior years, in which the companies benefited from certain benefits under the Law. As at report date, Group companies have not such tax-exempt profits.

D. Temporary differences for which deferred tax liabilities were not recognized

The Group companies did not recognize deferred tax liabilities in respect of temporary differences in connection with investments in consolidated companies, due to the fact that the companies control the timing of the reversal of the temporary difference, such that it can be expected that the temporary difference will not be reversed in the foreseeable future.

B. Components of expenses for income tax

| | For the year ended December 31 | | |
|--------------------------------|--------------------------------|-----------|-----------|
| | 2024 | 2023 | 2022 |
| Current tax expenses | 22 | 92 | 9 |
| Deferred tax expenses (income) | 4 | (10) | 66 |
| Expenses for income tax | 26 | 82 | 75 |

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NOTE 16 – INCOME TAX - cont.

C. Reconciliation between the theoretical tax on pre-tax income and carrying amount of income taxes:

| | For the year ended December 31 | | |
|--|-----------------------------------|------------|------------|
| | 2024 | 2023 | 2022 |
| Profit before income tax | 139 | 490 | 516 |
| The main statutory tax rate of the Company | 16% | 16% | 16% |
| Tax based on the statutory tax rate | 22 | 78 | 83 |
| <u>Addition (saving) in tax liability for:</u> | | | |
| Effect of the creation of taxes at a tax rate that is different from the primary tax rate | – | (1) | (2) |
| Non-deductible expenses | 1 | 1 | 1 |
| Tax expenses in respect of previous years | 2 | – | – |
| Utilization of carryforward losses for which deferred taxes were not created | (3) | – | (1) |
| Utilization of advance payments due to surplus quantities which were amortized in previous years | – | – | (6) |
| Difference between the measurement basis of income as reported for tax purposes and the measurement of income as reported in the financial statements net and others | 4 | 4 | – |
| Expenses for income tax | 26 | 82 | 75 |

D. Recognized deferred tax assets and liabilities and movements therein

Deferred taxes in respect of Group companies in Israel are calculated according to the tax rate anticipated to be in effect on the date of reversal as detailed above. Deferred taxes in respect of foreign consolidated companies are calculated according to the relevant tax rates in the territory in which they operate, specifically in the Netherlands.

1. Deferred tax assets and liabilities are attributed to the following items:

| | Property, plant and equipment | Employee benefits | Losses carried forward for tax purposes ⁽¹⁾ | Other | Total |
|---|-------------------------------------|----------------------|--|------------|--------------|
| Deferred tax asset (liability) as at January 1, 2023 | (286) | 19 | 1 | (7) | (273) |
| Changes recognized directly in other comprehensive income | – | – | – | 5 | 5 |
| Changes recognized directly in profit and loss | 7 | – | 3 | – | 10 |
| Deferred tax asset (liability) as at December 31, 2023 | (279) | 19 | 4 | (2) | (258) |
| Changes recognized directly in other comprehensive income or equity | – | – | – | 5 | 5 |
| Changes recognized directly in profit and loss | (2) | (1) | 5 | (6) | (4) |
| Deferred tax asset (liability) as at December 31, 2024 | (281) | 18 | 9 | (3) | (257) |

1. As at December 31, 2024, Group companies have carryforward business losses totaling approx. USD 37 million (as at December 31, 2023 - approx. USD 18 million). In addition, as at December 31, 2024, the Group companies have carry-forward capital losses of approx. USD 29 million (as at December 31, 2023 - approx. USD 49 million) for which no deferred tax assets were generated, since according to management, no capital gains are expected in the foreseeable future against which they can be offset.

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NOTE 16 – INCOME TAX - cont.

D. Recognized deferred tax assets and liabilities and movements therein - cont.**2. Deferred taxes are presented as follows:**

| | As at December 31 | |
|---|-------------------|--------------|
| | 2024 | 2023 |
| Non-current assets (through receivables and debit balances) | 9 | 4 |
| Non-current liabilities | (266) | (262) |
| | (257) | (258) |

E. Tax assessments and discussions

1. The Company, Carmel Olefins and Gadiv have final tax assessments up to and including the 2019 tax year.
2. Ducor has final tax assessments up to and including 2022.

NOTE 17 - OTHER LONG-TERM LIABILITIES

Composition:

| | As at December 31 | |
|---|-------------------|------------|
| | 2024 | 2023 |
| Lease liability (without current maturities) ⁽¹⁾ | 107 | 105 |
| Liability for dismantling and evacuation of land - Ducor ⁽²⁾ | 10 | 11 |
| Liability for the water treatment plant | 2 | 3 |
| | 119 | 119 |

(1) For details, see Note 12B1.

(2) For details, see Note 12B3.

NOTE 18 - EMPLOYEE BENEFITS

A. Employment agreements

The Group companies and most of their employees have collective agreements regulating labor relations and employment conditions of employees, who are divided into several generations. The collective wage agreements were valid until December 31, 2024, and as at the approval date of the financial statements, negotiations with the employees' representatives for new wage agreements continue. In addition, some employees of the Group companies, including executives, have signed individual employment agreements.

B. Main types of employee benefits

Employee benefits include mainly: (1) Short-term benefits (mainly salaries to pay, provisions for leave and recuperation and provisions for bonuses, where relevant); (2) Post-employment benefits (benefits under the Severance Pay Law, increased benefits, and benefits for the Group's retirees); (3) Other long-term benefits (mainly tuition for the children of employees and jubilee bonus and long-term bonuses); and (4) Severance benefits (mainly early retirement plans).

1. Post-employment benefit plans

According to labor laws and the Severance Pay Law in Israel, the Group companies are required to pay compensation to an employee upon dismissal or retirement (including employees leaving the job under other specific circumstances).

NOTE 18 - EMPLOYEE BENEFITS - cont.

B. Main types of employee benefits - cont.

1. Post-employment benefit plans - cont.

A. Defined contribution plans

1. The Company and Gadiv (hereinafter, in this section - the "Companies")

In accordance with the collective agreements applicable as from January 1, 2014, Section 14 of the Severance Pay Law applies to the severance pay liabilities of the companies. In addition, for surplus compensation (half month salary for each year of employment in the Companies, between 20 and 30 years and an additional month for each year of employment beyond 30 years), the Companies transfer to individual policies that they own, on behalf of each employee, 4.166% of the effective wage as defined in the agreement as from the 21st year of employment in the Company and 8.33% of the effective salary from the 31st year of employment in the Company.

Since according to the terms of these agreements, the obligations of the Companies for compensation and surplus compensation are restricted to the amount they deposit in pension funds and individual policies, the actuarial and investment risks fall on the employees. Accordingly, these benefits, as well as contributions for retirement benefits, are classified as defined contribution plans.

2. Carmel Olefins

Section 14 to the Severance Pay Law, 1963 applies to some of Carmel Olefins' employees; its fixed contributions into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom the contributions were made. These contributions and contributions for retirement benefits represent defined contribution plans.

3. The contribution amounts for each of the years 2022-2024 are approx. USD 17 million.

B. Defined benefit plan

1. Section 14 to the Severance Pay Law does not apply to some of the employees with personal employment agreements, who are eligible for compensation based on their last salary (which management believes gives rise to the right for compensation) and taking into account the number of years of employment, and in some cases, different levels of increased severance pay.

2. The Group companies have undertaken to pay some employees with a personal agreement, whose employment is discontinued due to dismissal or resignation, payment of up to 6 monthly salaries.

3. Retirees of Group companies are entitled to receive benefits, mainly gifts for holidays, Company products, and weekend holidays. The liabilities of the companies for these benefits are accrued during the employment period. Subsequent to the Reporting Period, the Company and Gadiv carried out a partial settlement of the liability for the future amount of benefits by way of one-off redemption, as a result of which the Company and Gadiv will recognize in 2025 an approx. USD 17 million decrease in liability and an approx. USD 7 million income, which will come under the other revenues line item.

2. Termination benefits

A. Early retirement

As at the date of early retirement, the Company and Gadiv pay the insurers a lump-sum for the payment of monthly compensation to the employees during the early retirement period, until they reach the statutory retirement age, and supplemental pension rights under the terms of the collective agreement.

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NOTE 18 - EMPLOYEE BENEFITS - cont.

B. Main types of employee benefits - cont.

2. Termination benefits - cont.

A. Early retirement – cont.

Carmel Olefins (and the Company, in respect of certain employees) pays a monthly compensation for early retirement, up to the date of eligibility for comprehensive pension from the pension fund (when the employees reach the statutory retirement age). Carmel Olefins and the Company recognize a liability for these amounts.

In 2023, the Company's Board of Directors approved an early retirement plan for employees (before the statutory retirement age) for 2023-2025, according to which approx. 20 employees will retire, at a total cost of approx. USD 12 million (approx. NIS 45 million). In each of the years 2023-2024, the Group recognized approx. USD 6 million in expenses under the other expenses line item. As at December 31, 2024, all the conditions required for recognition of the full provision amount were met.

B. Loan to Haifa Early Pension Ltd. (hereinafter - "Haifa Early Pension")

According to the collective agreement for early retirement and enhanced severance pay of Company employees, signed between the Company and representatives of the employees on June 14, 2006 (hereinafter - the "Early Retirement Agreement"), a loan agreement was signed between the Company and Haifa Early Pension, whereby the Company granted a loan of approx. NIS 300 million, linked to the CPI, to purchase pension rights for the employees, at any date or time, if Haifa Early Pension sees that the Company was in breach of the Early Retirement Agreement. Haifa Early Pension will invest the loan in bank deposits or in debentures listed on the TASE or in marketable government bonds.

Haifa Early Pension will pay the Company interest and principal in accordance with the terms of the loan agreement. The principal and interest repayment is scheduled for January each year, commencing on 2010, subject to approval of the workers' union of the calculation method for payment of the principal.

C. Composition of employee benefits

| | As at December 31 | |
|---|-------------------|-----------|
| | 2024 | 2023 |
| Presented as current liabilities - other payables | | |
| Short-term employee benefits ⁽¹⁾ | 44 | 47 |
| Liabilities for early retirement ⁽²⁾ | 6 | 6 |
| Current maturities for early retirement | 2 | 2 |
| | 52 | 55 |
| Presented as non-current liabilities - employee benefits | | |
| Recognized liabilities for a defined benefit plan (mainly benefits for retirees) ⁽³⁾ | 52 | 51 |
| Liabilities for other long-term benefits | 3 | 3 |
| Termination benefits - early retirement | 8 | 8 |
| Less current maturities for dismissal - early retirement | (2) | (2) |
| Less fair value of plan assets | (7) | (7) |
| | 54 | 53 |

(1) Short-term employee benefits include obligations for salary and social benefits, liabilities for leave and a provision for bonuses.

(2) For details, see Section B2a above.

(3) For details, see Section B1b3 above.

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NOTE 18 - EMPLOYEE BENEFITS - cont.

C. Composition of employee benefits - cont.

| | As at December 31 | |
|---|-------------------|-----------|
| | 2024 | 2023 |
| Presented as current assets – other receivables | | |
| Current maturities of loans to Haifa Early Pension | 3 | 16 |
| Presented as non-current assets | | |
| Loan to Haifa Early Pension | 22 | 38 |
| Less current maturities of loan to Haifa Early Pension | (3) | (16) |
| | 19 | 22 |
| Fair value of plan assets | 4 | 4 |
| Less liabilities recognized for defined benefit plan | (2) | (1) |
| | 2 | 3 |

D. Expense (income) recognized in profit and loss for a defined benefit plan

| | For the year ended December 31 | | |
|---------------------------|--------------------------------|----------|------------|
| | 2024 | 2023 | 2022 |
| Cost of current service | 1 | 2 | 2 |
| Interest expenses, net | 2 | 2 | 2 |
| Exchange rate differences | – | (1) | (6) |
| | 3 | 3 | (2) |

E. Main actuarial assumptions

1. Main actuarial assumptions for benefits for the Company's retirees in the reporting period (in %):

| | 2024 | 2023 |
|----------------------------|----------|----------|
| Discount rate (CPI-linked) | 3.3 -3.4 | 3.3 -3.4 |
| Churn rate | 1.1-3.3 | 1.1-3.2 |

2. Future mortality rates are based on standard mortality tables and demographic assumptions as published by the Ministry of Finance's circulars.
3. The discount rate is based on market input for high-rated linked corporate debentures, according to the gross yield to maturity of debentures with an average duration proximate to the average life of the liability).

A reasonable change in the assumptions listed above will not materially change the Group's operating results.

- F. For further details regarding benefits for officers, see Notes 21B and 27.

NOTE 19 - GUARANTEES AND LIENS

- A.** As at December 31, 2024, the Company provided bank guarantees to institutions and others in immaterial amounts.
- B.** As at December 31, 2024, the Company opened short-term documentary letters of credit for suppliers in the ordinary course of business. For further details, see Note 13A.
- C.** For details regarding the bank guarantee provided by the Company with respect to the inventory availability transaction and which was released in 2024, see Note 20B4.
- D.** As at the reporting date, the Company has provided guarantees in favor of banks that granted certain credit to the subsidiaries (Carmel Olefins and Gadiv) and guarantees in favor of a bank that granted credit to Ducor. Ducor recorded liens in favor of a bank that provided it with credit. In addition, the subsidiaries (Carmel Olefins, Gadiv, Trading and Shipping) provided guarantees in favor of the Company. For further details, see Note 13.
- E.** For details about the commitments of the Company, Carmel Olefins and Gadiv for a negative lien, see Notes 13B2 and 14D4.

NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS

A. Contingent liabilities

| Parties | Court | Claimed amount | Nature of the claim | Odds of the claim |
|---|------------------------------------|----------------|---|--|
| 1. Proceedings concluded in the reporting period | | | | |
| The Company v. third parties | -- | -- | The Company's claims regarding third parties' liability for damages, which the Company claims to have suffered in previous years in connection with services rendered thereto. On June 30, 2024, a settlement agreement was signed, under which the Company received a one-off compensation (which will affect the Company's results only in the Reporting Period) at the total amount of approx. USD 16 million (before tax), as a full and final settlement of the Company's claims. | The compensation amount was included in the other income item. |
| The Ministry of Environmental Protection v. Carmel Olefins, an officer and two managers | Haifa Magistrate Court (5/2022) | -- | An indictment against Carmel Olefins, an officer and two managers, in connection with alleged breaches of the provisions of environmental laws in Carmel Olefins Facilities. In the indictment, the defendants are accused of alleged breaches of the terms of the business license, the terms of emissions permit, excessive or unreasonable air pollution, and alleged breach of individual provisions. In addition, the managers are accused of alleged breach of the duty to oversee and to do all in their power to prevent the alleged offenses. On May 19, 2024, a plea agreement was signed, which was approved by the court according to which the plaintiff withdrew the indictment, Carmel Olefins and all the defendants in the case were struck, and the indictment was canceled and converted into a financial sanction in an immaterial amount. | The aforesaid plea agreement did not have a material effect on the operating results of the Company and Carmel Olefins. |
| The Ministry of Environmental Protection v. the Company, an officer and a manager | Haifa Magistrate Court (9/2022) | -- | An indictment against Carmel Olefins, an officer and two managers, in connection with alleged breaches of the provisions of environmental laws in the Company's facilities. The indictment attributes claims of alleged deviations from the emission values in periodic inspections and in unannounced inspections in 2017 to the defendants, and accordingly, several alleged offenses in the form of activating an emission source that requires a permit contrary to the permit terms and causing strong or unreasonable air pollution. In addition, the managers are accused of alleged breach of the duty to oversee and to do all in their power to prevent the alleged offenses. On May 19, 2024, a plea agreement was signed and approved by the court, according to which the indictment was amended, the manager was removed from the indictment, the Company and the officers were convicted under the amended indictment, and under a letter of suspicions in another investigation case held against the Company, immaterial penalties were imposed on the Company and the officer, who undertook to refrain from committing certain offenses in the future. | The aforesaid plea agreement did not have a material effect on the operating results of the Company, Carmel Olefins and Gadiv. |
| The Ministry of Environmental Protection v. Gadiv, an officer and other defendants not related to the Company | Haifa Magistrate Court (5/2023) | -- | An indictment in connection with alleged breaches of the provisions of environmental laws during loading of a ship at the chemical terminal. According to the indictment, Gadiv and the officer allegedly breached the general terms of the toxins permit and of handling hazardous substances contrary to the terms of the toxic materials permit. This was in addition to the alleged breach - by the officer - of the duty to monitor and do all in his power to prevent the violation of the terms of the permit. All defendants are also charged of offenses of spilling oil into sea waters, littering public spaces, and failure to take precautions when piping oil. On May 19, 2024, a plea agreement was signed, which was approved by the court, according to which Gadiv and the officer were convicted and Gadiv was fined an immaterial amount and undertook to refrain from committing certain offenses in the future. | The aforesaid plea agreement did not have a material effect on the operating results of the Company and Gadiv. |

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NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS - cont.

A. Contingent liabilities - cont.

| Parties | Court | Claimed amount | Nature of the claim | Odds of the claim |
|---|-------------------------------|--|--|---|
| 2. Proceedings involving local authorities | | | | |
| Mei Carmel against the Company and the subsidiaries | Letters of demand (2/2021) | Approx. NIS 79 million (approx. USD 22 million as of the report date) | Demand for payment of construction fees for water systems. The above is due to the settlement and judgment of April 7, 2019 according to which Mei Carmel's demand for payment of the water pipeline installation levy was revoked, reserving the right of Mei Carmel to issue a demand for payment based on the construction fee method. | The Company and the subsidiaries believe, based on the assessment of their legal counsel, the demands have no legal grounds, and the chances that the companies will be required to bear costs in respect of the said demands are lower than 50%. Therefore, no provision was included in the Financial Statements in respect of this matter. |
| 3. Derivative claims | | | | |
| A shareholder on behalf of the Company and the subsidiaries against current and former Company officers | Haifa District (7/2024) | Exceeds NIS 150 million (approx. USD 41 million as of the report date) | A motion filed by a shareholder to certify a claim he/she had filed as a derivative claim by the Company and its subsidiaries against the defendants, claiming that the officers breached their duties, such that they caused the Company and its subsidiaries' to breach environmental protection laws and damage, and that the officers should compensate the Company and its subsidiaries and repay them various types of compensation they were paid by the Company and its subsidiaries, at a total amount estimated by the movants to exceed NIS 150 million. On December 29, 2024, the 3 companies filed separate motions for the dismissal in limine of the motion to certify for various reasons, and also filed a joint motion (as an alternative for the motion for dismissal in limine) to delay the hearing of the motion to certify the derivative claim until a ruling is handed down in pending proceedings, in which factual and legal questions are discussed which overlap with those arising from the motion to certify. On January 22, 2025, another motion was filed for deferral of the date for submitting the responses to the motion to certify until after a ruling is handed down regarding the dismissal in limine motion and/or until after a ruling is handed down in the motion to stay the proceedings. The court has ordered that responses to these motions be submitted. | The Company and its subsidiaries believe - based on the opinion of their legal counsel, that at this early stage, it is impossible to estimate the exposure to the said motion. |

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NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS - cont.

A. Contingent liabilities - cont.

| Parties | Court | Claimed amount | Nature of the claim | Odds of the claim |
|--|-------------------------------|---|--|---|
| 4. Liabilities relating to the environment | | | | |
| Third party v. the Company, Carmel Olefins, Gadiv and 8 other defendants | Tel Aviv District (6/2015) | Approx. NIS 14.4 billion (as at the date the claim was filed, June 2015) (approx. NIS 14.4 billion as at the report date) | Claim and application for class certification due to alleged air pollution caused by the defendants in the Haifa Bay area, which resulted in a higher morbidity rate in the Haifa Bay compared to the rest of the country and caused a higher risk of sickness and breach of autonomy. In the reporting period, evidentiary hearings in the case ended, and summations were filed in the proceeding by the movants. Subsequent to the Reporting Period, summations were submitted by the Company, Carmel Olefins and Gadiv as well as response summaries by the movants. | The Company and the subsidiaries believe, based on the assessment of their legal counsel, that it is more likely than not that the motion to certify will be dismissed. Therefore, no provision was included in the Financial Statements in respect of this matter. |
| Citizens for the Environment Association against 30 defendants, including the Company, Carmel Olefins, and Gadiv | Haifa District (7/2019) | -- | A claim was filed along with a motion to certify the claim as a class action for allegations of air pollution in Haifa Bay and the illnesses it allegedly causes to the population in the Haifa area. In the motion, the movant is petitioning for declaratory relief and the establishment of a mechanism for awarding compensation but does not specify the amounts of the compensation claimed or, alternatively, the splitting-up of remedies that will allow each of the class members to sue for damages in a separate proceeding. In 2023, evidentiary hearings were held and summations were filed in the proceeding by the movant. The respondents submitted summations on June 30, 2024. On November 6, 2024 the State announced that in its opinion the lawsuit should not be certified as a class action, and that it has nothing to add to the claims raised by the respondents in their summations. On December 12, 2024, the respondents and the Bazan Group respondents filed a short supplementary please statement in light of the judgment of the Supreme Court in Civil Appeal 3397/23, Glidat Strauss Ltd. v. Joubran (handed down on November 3, 2024). The movant submitted the summations of its response on January 12, 2025. | The Company and the subsidiaries believe, based on the assessment of their legal counsel, that it is more likely than not that the motion to certify will be dismissed. Therefore, no provision was included in the Financial Statements in respect of this matter. |

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NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS - cont.

A. Contingent liabilities - cont.

5. The Group companies operate regularly to comply with applicable environmental laws and regulations. As at the reporting date, in general, the Group companies are in compliance with the emission permits and with other environmental laws, other than irregular events as detailed below and other than deviations for which the Group companies are working with the Ministry of Environmental Protection to adjust the provisions and/or revise the schedules for their implementation.

The Company, Carmel Olefins, and Gadiv received various warnings and summons to hearings from the Ministry of Environmental Protection for alleged violations of the emission permits, toxin permit, the discharge permit into the sea, and personal orders issued to them, including for air quality. The companies submit their responses to the Ministry for any warning and/or summons to a hearing received, as relevant. In addition, the Company, Carmel Olefins and Gadiv are negotiating with the Ministry of Environmental Protection regarding findings of soil surveys and the resulting requirements pertaining, among other things, to rehabilitation of certain land plots in the petrochemical compound. It was noted that, at this stage, the ministry will not require any actual restoration actions as long as the site is active. At the same time, in 2023, a risk management plan was filed with the ministry; two intrastructural sampling rounds were also filed with the ministry. Further to the submitted risk management plan, the ministry required the execution of two intrastructural sampling in 6 buildings twice a year, until two consecutive normal results are received. Furthermore, it was required to add 2 additional substances to hygiene monitoring. The requirements are complied with. At this stage, it appears they are not expected to have a material effect on the Company.

The Ministry of Environmental Protection is investigating a number of issues against the Company, Carmel Olefins and Gadiv, and in some of the investigations, also against managers and employees who served at the dates relevant to the investigation of the companies, including for alleged violations of various environmental protection laws, and including personal ordinances, toxic materials permits and emission permits issued to the companies at the dates on which they were valid, and/or due to malfunctions in their facilities. As part of an overall plea agreement, which was approved by the court on May 19, 2024 in connection with three indictments described in Note 20A1 above, 3 additional investigations were closed. In addition, from time to time, sanctions and/or fines in immaterial amounts are imposed on the Group companies.

For some of these proceedings, the managements of the Company and its subsidiaries believe, based on the opinion of their legal counsel, that, at this stage, it is impossible to assess their effect, if any, on the Group and its Financial Statements as at December 31, 2024. Provisions were not included in the Financial Statements for these proceedings, the effect of which cannot be assessed. As for the other proceedings, the Group included provisions in immaterial amounts in its Financial Statements, which it believes adequately reflect the amounts that will more likely than not be paid.

6. In addition to that set out in Sections A1-A4 above, commercial and other claims were filed against the Group companies in the ordinary course of business, each of which is not material and amount to a total of approx. USD 13 million as at December 31, 2024, less deductibles. In addition, the Company received demands from time to time, which it dismisses.
7. The Group companies include provisions in their Financial Statements for claims which their managements believe, based on the opinion of their legal counsel, are more likely than not to materialize. The provisions are based on the estimated amounts of payments required to extinguish the liability. The amount of the additional exposure, less the participation of insurers for which there is no provision, is estimated at approx. USD 31 million as at December 31, 2024 (without proceedings regarding environmental issues, for which the exposure cannot be estimated, and without the motion to certify of a class action amounting to approx. NIS 14.4 billion for air pollution, as detailed in Section A4 above).

NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS - cont.

B. Agreements

1. Agreements for purchase of natural gas for the Group's plants

The Group's plants are connected to the national natural gas pipeline. The Company signed a natural gas transmission agreement, from the receiving points from the natural gas reservoirs in Israel to the Company, with Israel Natural Gas Lines Ltd. (hereinafter - "INGL"), which is constructing and operating the national gas pipeline.

In addition, the Company has agreements with suppliers to purchase natural gas for the Company and the subsidiaries, as follows:

- A. In December 2017, the Company signed an agreement for the supply of natural gas with Energean Israel Limited (hereinafter - "Energean"), which has holdings in the Karish and Tanin gas reservoirs (hereinafter - the "Gas Reservoir"); under the agreement, the Company began to purchase, during the first quarter of 2023, natural gas in the quantities and for the periods agreed on for operation of the facilities of the Company and subsidiaries in Haifa Bay. In 2023, Energean notified the Company of commercial operation from April 1, 2023.

The main terms of the agreement are as follows:

1. The total quantity of gas that the Company expects to purchase from Energean is approx. 17 BCM over the entire expected supply period.
2. The supply period will commence when gas starts to flow from the gas reservoir and is expected to end when the full contractual quantity is consumed or 15 years from the date of supply of natural gas to the Company, whichever is earlier. If the entire contractual quantity is not consumed, the parties may extend the supply agreement for an additional period, subject to compliance with the terms and objectives defined in the agreement.
3. A take or pay mechanism for a minimum annual quantity of natural gas (80% of the adjusted annual amount), in accordance with the mechanism determined
4. The price of natural gas will be determined according to an agreed formula, which is generally based on linkage to an electricity generation component and includes a minimum price. The minimum price set is USD 3.975 per unit of energy.
5. The agreement includes other provisions and arrangements, which are standard in agreements for the purchase of natural gas, including in the matter of maintenance, gas quality, limitation of liability, seller collateral and in some cases buyer collateral, reassignments and liens, terms and conditions for selling excess quantities of natural gas, dispute resolution, and the operation mechanisms of the agreement.
6. The agreement includes circumstances in which each of the parties may terminate the agreement before the end of the contractual period, including in cases of prolonged non-supply and damage to collateral.

The total financial volume of the agreement is likely to reach approx. USD 2.5 billion (assuming maximum consumption according to the agreement and according to implementation of the gas price formula as at the signing date of the agreement), and it depends mainly on the electricity generation component and the scope and rate of gas consumption.

NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS - cont.

B. Agreements – cont.

1. Agreements for purchase of natural gas for the Group's plants – cont.

- B. To ensure a continuous supply of natural gas until Energean starts piping natural gas (as detailed in Section A above), two mediation agreements for the purchase of natural gas were signed¹ in 2019 and 2020 with the Tamar Partnership. Subsequent to the expiry of the mediation agreements, the Company purchased natural gas directly from the owners of natural gas reservoirs and from natural gas suppliers in the secondary market until the date of commencement of natural gas piping from Energean on a firm basis on April 1, 2023 (as detailed above) (hereinafter - the "Interim Period"). In light of the sharp increases during the Interim Period in the crude oil and natural gas prices worldwide, the purchase of natural gas for the Interim Period was made at an average price that was higher than the Agreement price with Energean, reflecting an additional cost in 2022 of approx. USD 28 million (in 2023, the additional cost amounted to an immaterial amount).

2. Agreement for acquisition of condensate

On December 15, 2019, an agreement was signed with the partners holding the Leviathan gas reservoir (hereinafter - the "Leviathan Partners", the "Reservoir", and the "Agreement", respectively), according to which condensate will be piped to the pipeline of the Europe Asia Pipeline Company (hereinafter - "EAPC"), and will be diluted with crude oil transported through the EAPC pipeline to the tanks of Energy Infrastructures (hereinafter - "Energy Infrastructures"), from which the crude oil flows to the Company's facilities. According to estimates of the Leviathan Partners for the amount of condensate that will flow from the rig throughout the agreement term, it is expected to represent approx. 1% of the total mix of raw materials that will flow to the Company's facilities. Under the Agreement, the Leviathan Partnership undertook that the amount of condensate diluted with the crude oil, to be refined by the Company, will not exceed 3% of the Company's crude oil at any given time in the PEI tanks. Under the Agreement, the condensate will be piped to the Company's facility at zero value, and the Leviathan Partners will bear all the expenses incidental to the its piping.

The Agreement is for a period of 15 years from its effective date and each party has the right to cancel the Agreement with prior notice of 360 days. In addition, the parties have the right to terminate the Agreement immediately if various events occur, including in respect of the Company's right in case of breach of the Agreement by the Leviathan Partnership or in the event of regulatory changes that will not allow continuation of the flow of condensate.

¹ The Company and ICL Group Ltd. (a public company controlled by Israel Corporation Ltd., which is the controlling shareholder in the Company, as at the years in which the agreements were signed) negotiated with the Tamar Partnership, together, to leverage their aggregate buying power to obtain optimal terms for the purchase of natural gas. However, on completion of the negotiations, the supply agreement was signed by each of the companies separately and it stands alone independently of the other agreements.

NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS - cont.

B. Agreements – cont.

2. Agreement for acquisition of condensate – cont.

The Agreement took effect on January 29, 2020. In the reporting period and immediately prior to the report approval date, the Leviathan Reservoir partners continued to raise claims that the agreement to supply condensate to the Company at zero value constitutes abuse of the Company's (alleged) monopsonic power, and that a price should be set for the condensate. The Company rejects the claims of the Leviathan Reservoir. According to the opinion of their legal counsel, the Company has adequate defense claims against the claims of the Leviathan Reservoir partnership. In September 2022, some of the partners to the Leviathan Partnership reported that a binding agreement was signed between Chevron Mediterranean Limited, the Leviathan Project Operator, and Energy Infrastructures, to pump the condensate from the Leviathan Project through a pipeline owned by Energy Infrastructures. In January 2023, some of the partners in the Leviathan Partnership and Paz Oil Company Ltd. reported of the Leviathan Reservoir partners' entrance into a condensate sale agreement with Oil Refinery Ashdod Ltd. (hereinafter - "ORA"). As stated in the report, flow of condensate is expected to begin in the fourth quarter of 2023. In November 2023, some of the Leviathan Reservoir partners reported that due to the War, the above condensate flow commencement date is expected to be postponed to the first quarter of 2024. On February 4, 2024, a first notice was sent to the Company on behalf of the Leviathan Reservoir partners that the condensate flow to ORA Ltd. is expected to commence in March 2024, and as a result, the quantity of condensate supplied to the Company's facilities will be decreased significantly. On March 7, 2024, the pumping of condensate to the company was discontinued. The Company is examining realization of its legal rights in accordance with the provisions of the agreement.

In that context, it is noted that subsequent to March 7, 2024, condensate was pumped to the Company on a number of occasions for short periods of time, as per the request of the Leviathan Reservoir Partnership. During the Reporting Period, condensate constituting approx. 0.6% of the total crude oil quantities being refined was pumped to the Company. Since condensate serves as a substitute to crude oil in the refining process, where crude oil prices increase, condensate's contribution to the Company's profitability increases accordingly.

3. Receipt of services from infrastructure companies

To maintain the Company's operations, the Company is dependent on services from the infrastructure companies Energy Infrastructures and EAPC, which own crucial infrastructure for the unloading, shipping, storage, and distribution of crude oil and petroleum products, and Israel Natural Gas Lines Ltd., which owns crucial infrastructure for delivery of natural gas.

As part of a proceeding conducted in the Haifa Local Affairs Court in connection with Energy Infrastructures, on June 25, 2024 the court decided that in the absence of a building permit, within six months from the date of the decision Energy Infrastructures - a government company in charge of storing and transporting crude oil and distillates in Israel - will be required to discontinue the operation of the main tankers in the Kiryat Haim tanks farm and several other buildings within nine months from the decision date. The tankers and buildings are used by Energy Infrastructures in the rendering of the services to the Company in connection with the importation, storage, and piping of crude oil.

On August 18, 2024, Energy Infrastructures delivered a notice to the Company, according to which a settlement procedure was conducted and completed, as part of which Energy Infrastructures and the Haifa Municipality reached an agreed and approved memorandum of understanding, according to which Energy Infrastructures acts (hereinafter - the "Outline"); accordingly, Energy Infrastructures is of the opinion that the Outline allows for the continued use of the tanks and the required buildings in the Kiryat Haim tanks farm, such that the provision of all the services rendered to the Company by Energy Infrastructures will continue as usual.

NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS - cont.

B. Agreements – cont.

3. Receipt of services from infrastructure companies (cont.)

Based on Energy Infrastructures' notice, the Company is of the opinion that it is not expected that it will be impacted to a material extent, if at all, as a result of the abovementioned resolution of the Local Affairs Court.

4. Inventory availability agreement

In November 2019, the Company extended the inventory availability agreement (hereinafter - the "Agreement") for the availability of feedstock inventory, mainly crude oil (hereinafter - "Crude Oil"), with an international company (hereinafter - the "Second Party"), after the previous agreement (of March 2017) ended in February 2020. The agreement entered into effect on March 1, 2020.

The main terms of the agreement are as follows:

- A. The Company will have available access, over 5 years (hereinafter - the "Agreement Period") to up to 1.8 million barrels (approx. 250 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 the Second Party periodic payments (hereinafter - the "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 will total an amount that is immaterial to the Company's operating results.
- 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 during shipping, and it will have the option of storing inventory of up to 750,000 barrels on the Company's premises, under the terms of the storage agreement with the infrastructure supplier and the availability and storage agreements with the Company.
- D. Under the Agreement, the Company granted the Second Party a put option, whereby the Second Party may sell to the Company, at the end of the new Agreement Period (at the end of February 2025), 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.
- E. To secure its obligations under the Agreement, 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 detailed in the Agreement.
- G. The Agreement allows the Company to reduce, over the Agreement period, quantities in its crude oil inventory compared to the quantities that it would have held in the absence of an inventory availability transaction, resulting in optimal management of its operating inventory as well as to benefit from the financial advantages arising from smaller inventory of 1.8 million barrels, release of cash amounting to approx. USD 85 million (reflecting the value of the inventory underlying the agreement at the date the previous agreement was signed), and diversification of financing sources.

Since the Second Party bears the material yields and 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 accounted for as contract performance (an off-balance sheet agreement).

On October 22, 2024, the Company and Party B agreed to revise the Agreement, such that its termination date will be brought forward to the end of October 2024 (instead of the end of February 2025) (hereinafter - the "Revision of the Agreement").

NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS - cont.

B. Agreements – cont.

4. Inventory availability agreement – cont.

Upon the Revision of the Agreement, Party B announced that it will exercise the put option, whereunder it may sell to the Company the Crude Oil inventory, which is the subject matter of the Agreement (at the end of October 2024) and on that date the Company became the owner of the inventory. As stated in the Agreement, the consideration of the exercise of the put option was based on the Crude Oil's market price prevailing immediately prior to the termination date of the revised Agreement totaling approx. USD 128 million. Subsequent to the Reporting Period, it was determined that the consideration payment would be made at the beginning of the second quarter of 2025, plus a total of approx. USD 1 million in respect of the deferral of the payment.

In addition, on completion of the availability agreement the bank guarantee that was extended by the Company to Party B in order to secure its obligations under the Agreement, was released.

For details regarding the termination of the hedging transactions attributed to the purchase of (basic) inventory at the end of the availability transaction and regarding the volume of (basic) inventory, which is not hedged by the Company through futures, see Note 29D3.

Subsequent to the Reporting Period, in March 2025, the Company and another party entered into an inventory availability agreement, which will come into effect on April 1, 2025. According to the agreement, the Company will have available access, over 4 years to up to 1.5 million barrels (approx. 205 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, without the Company posting a guarantee. The other terms of the agreement are essentially similar to the terms of the agreement listed above, mutatis mutandis.

The Agreement allows the Company to reduce, over the agreement period, quantities in its crude oil inventory compared to the quantities that it would have held in the absence of an inventory availability transaction, and consequently it is able to optimally manage its operating inventory, benefit from the financial advantages arising from a smaller inventory of 1.5 million barrels and diversify its financing sources.

Since the Second Party bears the material yields and 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 accounted for as contract performance (an off-balance sheet agreement).

5. Power purchase agreement (PPA)

On May 23, 2023, the Company and OPC Rotem Ltd. (hereinafter - “**OPC**”) signed PPAs for Bazan Group's facilities in the Haifa Bay (hereinafter - the “**Agreement**”). The Agreement term is ten years, starting from July 2023, subject to early termination causes and gradual exit points starting 5 years of the supply start date, in accordance with the provisions set forth in the Agreement. The Agreement includes other common provisions for power purchase agreements, including on consumption beyond the maximum, the OPC power plant's capacity undertaking, the ancillary payments OPC is entitled to, and power supply from various sources, including from renewable energy. According to the Company's estimate, immediately prior to the signing date as stated above, the total cost to purchase power under the Agreement is approx. NIS 250 million per year.

6. For details about agreements with crude oil suppliers for extension of credit days, see Note 15A.
7. For details about factoring agreements, see Note 6.
8. For details about lease agreements, see Note 12.
9. For details about agreements with banks and about the deeds of trust issued by the Company, see Notes 13 and 14.
10. For details about transactions and agreements with employees of Group companies, see Note 18A.

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NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS - cont.

B. Agreements – cont.

11. For details about transactions and agreements with related parties, see Note 27.

C. Government resolution

On October 25, 2020, the government decided to establish an inter-ministerial directors committee to discuss the development and promotion of Haifa Bay, headed by a representative of the Prime Minister's office (hereinafter - the "Committee"). In accordance with the government resolution, the Committee will discuss, among other things, the future of heavy industry, with emphasis on the petrochemical industry in Haifa Bay; energy infrastructure in Haifa Bay and its impact on the future national energy market; housing requirements and urban development in the Haifa metropolitan area; economic and regional development; increasing productivity and encouraging investment; future employment requirements in the Haifa metropolitan area; risks from hazardous substances; air pollution, land rehabilitation, and other environmental aspects in Haifa Bay.

On June 7, 2021, the Committee's report was published. Following on the decision dated October 25, 2020 and the Committee's report dated June 7, 2021 as stated above; on March 6, 2022 a government resolution was made regarding a strategy for the development and advancement of Haifa Bay (hereinafter: "decision"). The main points of the decision are as follows:

1. Promotion of a strategy for the development and advancement of the Haifa Bay area as specified in the decision, as well as the appropriate preparation of the energy sector aimed at bringing the oil refining and the petrochemical industry's activities to an end in Haifa Bay, finding alternative solutions, in order to meet the needs of the energy market to ensure functional continuity, and following the global trend to reduce the use of fossil fuels, including LPG, and move to renewable energies.

The purpose of this strategy is to lead to significant urban development, which has the potential to change the character of the entire region from heavy industry to an area that combines housing, employment, clean industry and green spaces, all in an effort to meet the schedules recommended by the Directors Committee (as stated in the explanation of the decision - closing within a decade).

2. Establishment of a team to negotiate a framework for the cessation of the petrochemical and chemical industry activity in Haifa Bay:
 - A. The Governmental team, composed as detailed in the decision (hereinafter - the "Negotiating Team"), will be entrusted with negotiating with the Company and with other relevant companies, in order to bring about a cessation of the petrochemical and chemical industry activity in Haifa Bay as specified in the decision, while maintaining energy security and the regular supply of fuel to the economy. In this regard, it is clarified that any decision-making on behalf of the State is subject to finding a budgetary source and approving it in a government resolution. Moreover, it is clarified that if these negotiations are unsuccessful, this does not derogate from the state's authority on any matter, and the provisions of this section cannot derogate from the powers of the government, ministers, or any other entity under the law, nor restrict their discretion on any matter or issue.
 - B. The Negotiating Team will periodically update a team that will be defined pursuant to a decision led by the Director General of the Prime Minister's Office and the Director General of the Alternate Prime Minister's Office regarding the progress of the negotiations. To the extent that disputes arise, they will be brought to the decision of the Director General of the Prime Minister's Office, the Director General of the Alternate Prime Minister's Office and the Director General of the Ministry of Finance.

NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS - cont.

C. Government resolution – cont.

2. Establishment of a team to negotiate a framework for the cessation of the petrochemical and chemical industry activity in Haifa Bay: (cont.)
 - C. After completion of the negotiations, as stated in Sections A and B above, the Commissioner for Budgets in the Ministry of Finance, after consultation with the relevant ministries and government entities, will be charged with offering funding sources for the project detailed in the decision. In the event of budgetary costs, every budgetary expense will be presented to the government for approval.
3. Preparations of the energy sector for cessation of operations of the petrochemical industry in Haifa Bay and new plans for the bay area:
 - A. The Israel Lands Administration and the Planning Administration, in consultation with the ministries set forth in the decision, will be charged with the planning for the Haifa Bay area as specified in the decision. The plan will provide a planning solution for the preparations of the energy sector and the preparations of the port at the bay, in order to ensure full operational continuity on the national level. The planning will be promoted in coordination with government representatives on the negotiating team. To clarify, this does not prejudice the authorized planning institution's independent judgment.
 - B. It should be clarified that the termination of the petrochemical industry's activity is conditional on ensuring the functional continuity of the energy sector, and in particular on their full functioning, under any law, of the facilities, including the emergency storage facilities, as described in Appendix A attached to the decision (derived from Chapter 3 to the Committee's report).
 - C. Five years prior to the date to be determined in the negotiations for the cessation of petrochemical activity, the Minister of Energy will examine the compliance with the conditions regarding the functional continuity of the energy sector and the feasibility of the cessation of petrochemical activity on the stated date. In the event that the Minister believes that the date for cessation of petrochemical activity should be changed, she will submit her recommendation to the government to be decided. The Minister will conduct another examination six months prior to the set date, as stated, for the cessation of petrochemical activity.
 - D. Five years before the petrochemical activity is discontinued, the Director General of the Ministry of Energy will be charged with presenting to the Ministerial Committee on Social and Economic Affairs (hereinafter - the "Economic-Social Cabinet") an updated consumption forecast for distillates in the Israeli economy taking into consideration the government resolutions regarding the targets for greenhouse gas emissions. To the extent that the Israeli economy's expected consumption of distillates has decreased compared to the forecasts stated in the conclusions of the Committee's report, the amount of distillates required in storage will be reduced accordingly.
4. Economic development of Haifa Bay:
 - A. The parties determined in the decision will be required to act as much as possible in coordination with the negotiating team, for the reduction of the area occupied by the tank farms of Energy Infrastructures Ltd. (hereinafter - "Energy Infrastructures") as soon as possible and even before the cessation of petrochemical activity in the Company's complex and to the extent possible until 2026. This is for the restoration of the land and the establishment of a neighborhood with mixed uses, including residential, commercial, employment and tourism in the areas that will be evacuated, while addressing the storage needs for the crude oil required for refining in the Company.
 - B. Decreasing the active storage capabilities at the tank farm, including full evacuation of the farm, prior to cessation of the petrochemical activity, will be implemented subject to operation of crude oil storage alternatives that will be integrated as part of the negotiations to be conducted with the Company and with Energy Infrastructures, as stated in Section 2 above.

NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS - cont.

C. Government resolution – cont.

5. Import of oil distillates and LPG:

- A. The Minister of Transportation and Road Safety will be charged with ordering the Israel Ports Company to promote, among other things, the construction of a new terminal for the unloading of imported distillates in the Haifa Bay port area for the ongoing needs for distillates in northern Israel and as backup for the activity of the other fuel ports in Israel during non-routine times, and regulation of the chemical terminal for the energy sector's needs. As part of the plan, the possibility of importing LPG will be considered, and any other need of the energy sector. Furthermore, the Israel Ports company should be asked to consider issuing a tender for the construction of the new distillation port, pursuant to the relevant provisions, that will incentivize early construction as much as possible.
- B. The Ministry of Transport and Road Safety should be directed to contact Israel Ports with a request to include the establishment and operation of a new distillation terminal and pier at the Haifa Bay port in Israel Ports' development plan, if possible by 2028.
- C. The Minister of Transport and Road Safety should be directed to order that Israel Ports cease its existing operations at the current distillates terminal in Haifa and the fuel tank farm at the 20 Acres complex, within 90 days of the beginning of operations at the new distillates terminal.
- D. A team should be formed, headed by the Ministry of Transport and Road Safety, the Budget Division, and the Accountant General at the Ministry of Finance, and consulting with the Ministry of Energy and in conjunction with Israel Ports, which will recommend the qualification conditions for the operator who will operate the new distilleries terminal. The team will submit its recommendations to the Minister of Transport and Road Safety and to the Finance Minister within 60 days.
- E. The Ministries of Transportation and Finance will be instructed to apply to the Inter-Ministerial Prices Committee to examine the need for setting supervised prices for filling and storage services for fuels and their products.

6. Storage and import of LPG outside of the Haifa Bay area:

The Minister of Transport and Road Safety, in cooperation with the Planning Administration and the Ministry of Energy, will be charged with examining and planning the construction of buildings maritime (or maritime-linked) port structures for the import and export of ordinary LPG and olefin LPG in the Ashdod port area. If it is decided to promote the plan, it will be submitted to the authorized planning institution.

7. Reducing the use of LPG in the economy:

A team should be formed, headed by the Director General of the Ministry of Energy and with the participation of representatives of the ministries set forth in the decision, which will form a plan to minimize the use of LPG in the residential sector, commercial-business sector, and the industrial sector. This is based on electrification technologies and clean technologies. The team will submit its conclusions to the Economic-Social Cabinet for approval within 180 days.

8. Restoration of contaminated land in Haifa Bay:

- A. Any operation to demolish facilities and infrastructures containing hazardous substances, including fuels and distillates included in the plan, whether above-ground or underground, and restoration of contaminated land, will be performed pursuant to the professional guidelines of the Ministry of Environmental Protection and in coordination with it and with the Negotiating Team prior to its execution.

NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS - cont.

C. Government resolution – cont.

8. Restoration of contaminated land in Haifa Bay: (cont.)

- B. It should be clarified that a decision to act for the treatment of the sites mentioned in the decision does not detract from the responsibility of the parties or of third parties who managed, operated and used these sites, directly or indirectly, among other things under the laws of environmental protection and in accordance with the principle "the polluter pays". Furthermore, this decision does not constitute a waiver of any of the state's rights, including the right to demand indemnification and reimbursement of expenses in respect of operations that are performed by virtue of this decision, or regarding any existing or future demand by third parties that is connected directly or indirectly to the use of land for pollution-causing purposes.

Although the Company does not agree with everything stated in the decision in connection therewith, the Company is negotiating with the government, out of the understanding the importance of the Company's activities to the Israeli energy sector during normal times and even more so during the Iron Swords War. The Company will stand up for its rights and for the rights of its stakeholders, including employees, suppliers and customers, debtors, and shareholders.

The Company has reservations about how the state is negotiating, and it has clarified its position several times to the state's representatives during the negotiations. Due to the complex negotiation process and the conduct of the state representatives, the Company's management is unable to estimate the completion date.

Following on Section 3A above, as from 2022, the National Planning and Building Council is discussing the authorization of NOP 75 for the Haifa Bay area, intended, among other things, to develop the Haifa Bay, while rezoning the areas and clearing the petrochemical industries from them, including the Group's operations. On September 19, 2023, after discussing the comments of the district committees that were submitted to the National Planning and Building Council, the latter decided to approve the draft NOP 75 subject to making changes to the wording and forwarding it to the government for approval. On December 11, 2023, the plan was approved by the Ministerial Committee for Interior Affairs, Services, Planning and Local Government, and on January 16, 2024, the plan was published for approval in the Official Gazette, and a revised and final version of the plan was posted on the Planning Administration's website. It should be emphasized that NOP 75 does not specify a date on which the Group's activity is to be discontinued.

Subsequent to the approval of NOP 75, several meetings of the editors' committee were held regarding the development of the Haifa Bay, from which it emerges that the NOP area was divided into 4 detailed planning sections; at the meeting held on December 19, 2024, the editors' committee decided to adopt the layout of the roads and land designations presented in the discussion as a basis for conducting detailed planning in the amendments and clarifications specified in the decision, and, among other things, it was stipulated that an individual work meeting would be held to discuss steps to be taken under Sections 77 and 78 to the Planning and Construction Law regarding the imposition of building restrictions.

In addition, further to Section 8 above regarding the restoration of contaminated land in the Haifa Bay, and the "polluter pays" principle included in the decision, the Company has significant reservations regarding the application of the said principle, including with regard to the nature, scope and timing of such restoration. It is noted that this issue is unprecedented, and its circumstances are unique; therefore, there is a material difficulty in resolving it. Moreover, Company's management and the professional advisors are of the opinion that in view of the issue's complexity, and as long as the facilities operate properly, it is impossible to reliably estimate the cost of land restoration.

As at the approval date of the report, the Company's management is unable to assess the implications of the Government Resolution, its implementation and derivatives, as detailed above, including its impact on its activities, business, and/or financial results.

NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS - cont.**C. Government resolution – cont.**

The Company's management believes that the decision does not change the assumptions and estimates underlying the Financial Statements, inter alia since the Company's position is that it will be entitled to appropriate indemnification from the state if its rights are infringed.

NOTE 21 – EQUITY**A. Share capital**

The Company has ordinary share capital.

| | December 31, 2024 | December 31, 2023 | December 31, 2022 |
|--|----------------------|----------------------|----------------------|
| | NIS million p.v. | | |
| Authorized share capital | 4,000 | 4,000 | 4,000 |
| Share capital listed for trading | 3,107 | 3,145 | 3,207 |
| Shares purchased by the Company ⁽¹⁾ | 110 | 72 | — |
| Issued and paid-up share capital | 3,217 | 3,217 | 3,207 |

(1) For details, see Section C.

B. Capital reserve for share-based payment**1. Description of the plans**

- A. The key terms and conditions of the Company's 2007 plan for the allocation of Company options are similar to those described in Section B below.
- B. On July 18, 2024, the Company's Board of Directors approved (after approval by the Company's Compensation Committee) a plan for the allocation of options and restricted share units and an outline for the allocation of 60 million options to Group employees and managers and 20 million restricted share units to non-executive Group employees and managers (hereinafter - the "Securities"). The Securities which will be allocated as part of the Plan are without consideration, non-marketable and each security entitles the offeree the right to receive from the Company one ordinary share of NIS 1 par value of the Company, in accordance with the Plan and subject to certain adjustments set out in the Plan. The exercise shares underlying the securities will be registered for trade on the TASE, and from the allocation date will bear equal rights, for all intents and purposes, to the ordinary shares of NIS 1 par value in the Company's share capital. When exercising the options, the offerees will not be allocated all the underlying shares, but rather only the number of shares reflecting the amount of the financial benefit inherent therein. For information about the exercise addition and the vesting terms, see Section 2 below. In the event of termination of the offeree's service, his/her right to exercise the options will be restricted to those options to which the offeree's right was established prior to termination of employment or service, and will be exercisable at the later of: During the 180 day period following the date of termination of employment or service or of the lockup period date, in accordance with the tax laws (but in any event, no later than the expiry date of the options). All the other options allocated to the offeree will expire on the date his/her employment or service ends. Restricted share units which have not yet vested on the date the offeree's employment or service ends will expire and be cancelled immediately.
- C. The plan was written in accordance with Section 102 to the Income Tax Ordinance, which sets out, among other things, a tax track according to which the Securities will be deposited with a trustee for a period of at least two years after their grant date. The Securities were allocated under the capital gains track and recipients thereof shall pay the tax which will arise from the benefit in accordance with the provisions of Section 102 to the Income Tax Ordinance.

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NOTE 21 – EQUITY – cont.

B. Capital reserve for share-based payment - cont.**2. Terms of the grant and other information**

The table below summarizes the terms for allocating the Company's options in 2022-2024, and the information used to determine the fair value of the benefit:

| Year in which options were granted | No. of instruments (in million) ⁽¹⁾ | Average interest rate ⁽²⁾ | Expected volatility | Exercise premium at the grant date ⁽³⁾ | The share price used as a basis for pricing the option ⁽⁴⁾ | Total fair value of total options at the grant date |
|------------------------------------|--|--------------------------------------|---------------------|---|---|---|
| | | % | | NIS | | NIS million |
| 2022 | 3 | 0.39 - 0.46 | 46.0 - 52.0 | 1.379 | 1.337 | 1 |
| 2023 | 13.5 | 1.06 | 35.3 - 48.4 | 1.114 | 1.010 | 3 |
| 2023 | 5 | 0.72 - 0.8 | 38.3 - 47.2 | 1.329 | 1.209 | 2 |
| | | | 32.02 - | | | |
| 2024 | 5 | 4.32 - 4.39 | 35.75 | 1.300 | 1.080 | 1 |
| | | | 32.46 - | | | |
| 2024 | 42.5 | 4.28 - 4.36 | 34.49 | 1.020 | 0.950 | 11 |
| 2024 | 3 | 4.38 - 4.44 | 33.3 - 34.0 | 1.020 | 0.942 | 1 |

- (1) In general, the options allocated until 2023 will vest over three years as from the effective date, in three equal lots at the end of each year for three years. Option warrants that were allocated in 2024 will vest over three years from the effective date, in nine tranches; a third of the options will vest one year after allocation and the remaining options will be divided into 8 equal tranches, which will vest gradually at the end of each quarter.
- (2) The risk-free interest rate was determined on the basis of the yield to maturity of nominal shekel government bonds (in 2022-2023 - based on CPI-linked shekel government bonds), with the time to maturity being equal to the expected lifespan of the options.
- (3) The exercise premium will be adjusted in accordance with the terms of the option warrants plan, including with respect to dividend distribution. Furthermore, with respect to 2022-2023, CPI linkage differences will be added.
- (4) The share price used as a basis for pricing the option was derived from the market price of the share. For fair value measurement, see Note 4D.
- (5) The life of the options was determined on the basis of management estimates regarding the period that the employees will hold the options and is mostly 3-4 years from the allocation date of each of the tranches.

3. Allocation details

- A. In 2024, 2023 and 2022, 36.5 million, 5 million and 3 million option warrants, respectively, were allocated to Company officers.
- B. On July 13, 2020, a shareholders' meeting of the Company approved, after receipt of approval from the Company's Board of Directors, the allocation of 13.5 million Company options according to the Company's 2007 options plan to Mr. Moshe Kaplinsky, who served as CEO of the Company until August 13, 2021 and was appointed Chairman of the Board on that date. In 2022, Mr. Kaplinsky exercised 4.5 million options for Company shares.

Upon the termination of Mr. Kaplinsky term in office as the Company's CEO and his appointment as Chairman of the Board of Directors, as detailed in Note 27B3b, he was allocated 15 million new option warrants under the terms described in the Company's options plan of 2007. At the same time, 9 million options allocated to Mr. Kaplinsky in respect of his service as the Company's CEO, and which have not yet vested, were canceled. In 2023, Mr. Kaplinsky exercised 10 million options for Company shares.

On August 27, 2024, the Company's General Meeting approved (after approval by the Company's Compensation Committee and Board) the allocation of 9 million options to the Chairman of the Company's Board, Mr. Moshe Kaplinsky, under the conditions detailed in the Company's 2024 option plan as stated in Section B1b above.

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NOTE 21 – EQUITY - cont.

B. Capital reserve for share-based payment - cont.**3. Allocation details - cont.**

- C. On August 1, 2021 (after approval by the Company's Compensation Committee and Board of Directors), the Company's General Meeting approved the allocation to Mr. Malachi Alper - who served as the Company's CEO until December 1, 2022 - of 13.5 million options under the terms set out in the Company's 2007 options plan.

When Mr. Alper's tenure had ended, as detailed in Note 27B3d, the vesting of 9 million options granted to him was accelerated in accordance with the options' grant terms. In 2022, an expense was recognized due to a share-based payment due to the above acceleration, at approx. USD 0.2 million. In 2023, Mr. Kaplinsky exercised all options granted to him for Company shares.

- D. On March 28, 2023, the Company's general meeting approved (subsequent to approval by the Compensation Committee and the Company's Board of Directors) the employment terms of Mr. Asaf Almagor, Company CEO, as at December 1, 2022, as specified in Note 27B3c, including an allocation of 13.5 million options at the terms set forth in the Company's 2007 options plan.
- E. On April 21, 2024, the Company's General Meeting approved (after approval by the Company's Compensation Committee and Board) the allocation of options to five Company directors. Each director will be entitled to 333,333 options per year (totaling 1,000,000 options over a term of office of 3 years), in accordance with the terms and conditions detailed in the Company's 2007 option plan.

4. Allocated options

| | For the year ended December 31 | | | | | |
|--------------------------------------|--------------------------------|--|------------------------------|--|------------------------------|--|
| | 2024 | | 2023 | | 2022 | |
| | No. of options (in millions) | Weighted average of exercise price in NIS ⁽¹⁾ | No. of options (in millions) | Weighted average of exercise price in NIS ⁽¹⁾ | No. of options (in millions) | Weighted average of exercise price in NIS ⁽¹⁾ |
| At the beginning of the year | 26.5 | 1.16 | 34.5 | 1.10 | 50.7 | 1.34 |
| Expired or forfeited during the year | (2.5) | 1.02 | (3.0) | 1.91 | (14.7) | 1.97 |
| Exercised during the year | — | — | (23.5) | 1.00 | (4.5) | 1.10 |
| Allocated during the year | 50.5 | 1.05 | 18.5 | 1.17 | 3.0 | 1.38 |
| At the end of the year | 74.5 | 1.09 | 26.5 | 1.16 | 34.5 | 1.10 |

(1) As at the grant date.

(2) As at the reporting date, there are 19.3 million exercisable options.

5. Total salary expenses recognized in the statement of income with respect to share-based payment transactions to employees, directors and the Chairman of the Board of Directors for each of the years 2022-2024 is approx. USD 1 million.

C. Dividends

1. On November 7, 2021, the Company's Board of Directors approved the adoption of a dividend policy that will apply as from the 2021 financial statements and thereafter; under the policy, the Company will distribute to its shareholders a dividend of up to 50% of annual net income as per the Company's audited Consolidated Annual Financial Statements for the previous year, provided that the following financial condition is met:

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NOTE 21 – EQUITY - cont.

C. Dividends - cont.

1. (cont.)

The financial covenants: The ratio between the net financial debt² plus the dividend amount and the consolidated adjusted EBITDA³ published in the Company's Report of the Board of Directors attached to the audited Consolidated Financial Statements according to which the distribution is made, is lower than 2.2.

Subsequent to the reporting period, on March 11, 2025, the Company's Board of Directors approved a dividend policy which will apply to the Financial Statements for 2024 and thereafter, whereby the Company will distribute to its shareholders a dividend according to the audited annual consolidated financial statements for the past year at the following rates: (a) A dividend of up to 50% of the annual net income as long as the financial covenant (as defined above) ranges from 1.8 to 2.2; (b) A higher dividend of up to 75% of the annual net income as long as the financial covenant (as defined above) is lower than 1.8.

A decision to distribute a dividend will be subject to the provisions of any law, including the distribution criteria as per the Companies Law, and to the distribution restrictions applicable to the Company under the deeds of trust for debentures and agreements with the Lenders and credit providers. The Company's Board of Directors will have the power to decide distribution dates and amounts, taking into account the Company's liabilities, liquidity and business plans, including a potential change to distribution dates or amounts.

The dividend distribution policy does not detract from the Board of Directors' power in connection with the actual dividend distribution, including the amount, timing and manner of the distribution, its power to change the dividend distribution policy, as it deems fit from time to time, and no undertaking is made to the Company's shareholders and/or any other third party as to the dividend distribution's amounts and dates and/or as to the dividend distribution itself.

2. The following are details regarding declared dividends:

| Date of approval by the Board of Directors | Payment date | Total dividend distributed In USD millions | Dividend per share In USD |
|---|--------------------|---|------------------------------|
| March 15, 2022 (ex-dividend date: May 2, 2022) ^(a) | May 15, 2022 | 60 | 0.01872 |
| November 10, 2022 (ex-dividend date: November 21, 2022) | December 4, 2022 | 60 | 0.01871 |
| March 8, 2023 (ex-dividend date: March 21, 2023) | March 29, 2023 | 200 | 0.06237 |
| August 16, 2023 (ex-dividend date: August 27, 2023) | September 7, 2023 | 50 | 0.01576 |
| March 13, 2024 (ex-dividend date: March 21, 2024) | April 1, 2024 | 144 | 0.04592 |
| August 25, 2024 (ex-dividend date: September 4, 2024) | September 19, 2024 | 30 | 0.00960 |

(a) The dividend distribution was subject to the approval of a special majority at the general meeting of shareholders, which was passed on April 28, 2022.

Subsequent to the reporting period, on March 11, 2025, the Company's Board of Directors approved a dividend distribution of US 50 million.

² Net financial debt - the amount of: (1) short term borrowings; plus (2) liabilities to banks and debentures - presented at adjusted par value (including current maturities, excluding interest payable); net of (3) cash and cash equivalents and short-term deposits; plus or net of (4) hedges on debentures - presented at adjusted par value (without interest receivable/payable), net of or plus the relating deposits.

³ As defined in Note 28A below.

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NOTE 21 – EQUITY - cont.

C. Dividends - cont.

3. The following are details regarding approved buyback plans:

| Date of approval by the Board of Directors | The ceiling of the approved plan in USD million | Utilization of the plan as at the Report date in USD million | Plan's status As at the report date | No. of ordinary shares acquired, in millions |
|--|---|--|-------------------------------------|--|
| March 8, 2023 | 20 | 20 | Completed | 65 |
| November 26, 2023 | 10 | 8 | Completed | 25 |
| August 25, 2024 | 5 | 5 | Completed | 20 |

D. Shelf prospectus

As at the report's approval date, the Company's shelf prospectus is valid until November 11, 2026.

NOTE 22 – REVENUE

| | For the year ended December 31 | | |
|---|--------------------------------|--------------|---------------|
| | 2024 | 2023 | 2022 |
| Sales in Israel | 4,936 | 5,226 | 6,460 |
| Sales in other countries | 2,597 | 3,086 | 4,357 |
| | 7,533 | 8,312 | 10,817 |
| Supply of services to foreign entities and other income | 9 | 12 | 11 |
| | 7,542 | 8,324 | 10,828 |

NOTE 23 – COST OF SALES

| | For the year ended December 31 | | |
|--|--------------------------------|--------------|---------------|
| | 2024 | 2023 | 2022 |
| Materials consumed ^{(1) (2)} | 6,599 | 7,053 | 9,596 |
| Salary and incidentals | 170 | 173 | 163 |
| Changes in inventory derivatives and margins | (10) | (32) | 16 |
| Depreciation and amortization | 180 | 170 | 153 |
| Other production expenses ⁽³⁾ | 170 | 169 | 178 |
| Decrease (increase) in product inventories | 3 | 27 | (59) |
| | 7,112 | 7,560 | 10,047 |

- (1) In 2024 and 2023 and 2022 - includes approx. USD 25 million, approx. USD 64 million and approx. USD 431 million, respectively, in respect of realization of futures hedging refining margins entered into by the Company. For further details, see Note 29D3c.
- (2) In 2024 - includes income of approx. USD 35 million with respect to termination of hedging transactions regarding inventory realized during the fourth quarter of 2024. For further details, see Note 29D3b.
- (3) In each of the years 2022-2024, the Company recognized expenses in profit and loss for profit-dependent lease payments amounting to approx. USD 12 million. For further details, see Note 12B.

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NOTE 24 – SELLING AND MARKETING AND ADMINISTRATIVE AND GENERAL EXPENSES

A. Selling and marketing expenses

| | For the year ended December 31 | | |
|----------------------------|--------------------------------|------------|------------|
| | 2024 | 2023 | 2022 |
| Salary and incidentals | 8 | 8 | 7 |
| Transportation and storage | 131 | 107 | 108 |
| Other | 6 | 8 | 9 |
| | 145 | 123 | 124 |

B. General and administrative expenses

| | For the year ended December 31 | | |
|-----------------------------------|--------------------------------|-----------|-----------|
| | 2024 | 2023 | 2022 |
| Salary and incidentals | 30 | 31 | 31 |
| Communication and data processing | 12 | 10 | 10 |
| Professional and legal services | 8 | 8 | 9 |
| Depreciation and amortization | 2 | 3 | 2 |
| Other ⁽¹⁾ | 12 | 9 | 6 |
| | 64 | 61 | 58 |

(1) In 2024 and 2023, including a total of approx. USD 5 million and approx. USD 4 million, respectively, for community outreach.

NOTE 25 - OTHER EXPENSES (INCOME), NET

| | For the year ended December 31 | | |
|--|--------------------------------|----------|----------|
| | 2024 | 2023 | 2022 |
| One-off compensation in respect of a settlement agreement ⁽¹⁾ | (16) | — | — |
| Early retirement expenses ⁽²⁾ | 6 | 6 | — |
| Other expenses, net | 7 | 1 | 5 |
| | (3) | 7 | 5 |

(1) For details, see Note 20A1.

(2) For details about the early retirement plan approved in 2023, see Note 18B.

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NOTE 26 - FINANCE INCOME AND EXPENSES

| | For the year ended December 31 | | |
|--|--------------------------------|------------|------------|
| | 2024 | 2023 | 2022 |
| Finance income | | | |
| Interest income from bank deposits | 23 | 27 | 8 |
| Net income from change in exchange rate | 4 | 6 | 37 |
| Finance income | 27 | 33 | 45 |
| Finance expenses | | | |
| Interest expenses for debentures | 48 | 51 | 57 |
| Interest expenses for long-term loans ⁽¹⁾ | 44 | 44 | 29 |
| Interest expenses for short-term loans and borrowings | 2 | 3 | 3 |
| Net interest expenses for working capital items ⁽²⁾ | 10 | 7 | 15 |
| Net change in fair value of debentures and financial derivatives | – | 2 | 7 |
| Changes in fair value of the loan to Early Pension Haifa | – | – | 3 |
| Finance expenses for a lease | 5 | 5 | 5 |
| Finance expenses for employee benefits (actuary) | 3 | 2 | 2 |
| Other finance expenses | – | 2 | 2 |
| Finance expenses | 112 | 116 | 123 |
| Net finance expenses recognized in profit and loss | 85 | 83 | 78 |

(1) For details regarding interest rates and changes to the syndicated loan, see Note 13.

(2) In 2024 - mainly includes costs for extending the credit terms of crude oil suppliers totaling approx. USD 5 million as well as interest payable to institutions totaling approx. USD 5 million. In 2022 and 2023 – mostly consisting of fees for receivables factoring agreements amounting to approx. USD 2 million and approx. USD 7 million, respectively, and the costs of extending the credit terms for crude oil suppliers of approx. USD 3 million and approx. USD 6 million, respectively.

NOTE 27 – RELATED AND INTERESTED PARTIES

A. Transactions and balances with related and interested parties

1. Balances with interested and related parties

| | As at December 31 | |
|--|-------------------|------------|
| | 2024 | 2023 |
| | Liability | |
| Key management personnel (including directors) | | |
| Total balances - employee benefits (mainly in payables and employee benefits) | (6) | (7) |

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NOTE 27 – RELATED AND INTERESTED PARTIES - cont.

A. Transactions and balances with related and interested parties - cont.

2. Transactions with related and interested parties

| | For the year ended December 31 | | |
|---|--------------------------------|-------------|-------------|
| | 2024 | 2023 | 2022 |
| | Revenue (expenses) | | |
| Key management personnel (including directors) | | | |
| Operating expenses (including share-based payment) | (10) | (12) | (11) |
| Other related and interested parties | | | |
| Revenue | – | 1 | 11 |
| Operating expenses ⁽¹⁾ | – | (15) | (83) |
| Finance expenses, net ⁽²⁾ | – | (1) | (4) |
| | – | (15) | (76) |
| Total transactions ⁽³⁾ | (10) | (27) | (87) |

- (1) In 2022-2023 - mainly OPC Rotem Ltd. As at February 13, 2023, OPC Rotem Ltd. ceased to constitute a related party of the Group. For further details, see Sections C and E.
- (2) The Group engages with Bank Mizrahi Group in the ordinary course of business and under market conditions for a wide range of banking activities, including taking out long-term loans from time to time. As at February 13, 2023, the Bank Mizrahi Group ceased to constitute a related party of the Group. For further details, see Sections C and G.
- (3) Transactions with interested and related parties are made during the ordinary course of business and under market conditions.
- (4) Subsidiaries Carmel Olefins and Gadiv purchase most of the raw materials from the Company and therefore they are dependent on the Company.

B. Benefits for key management personnel (including directors)

The salary of the Company's senior executives usually includes the following components: monthly salary linked to the CPI, arrangements for actual work in some or all of the early notice period, various social benefits, including vacation, sick leave, post-employment benefits (including in some cases, increased compensation), insurance, study fund, company car and telephone. The Group's senior executives also participate in option plans for the Company's securities (see Note 21B).

The directors' fees (other than the fees paid to the Chairman of the Board of Directors) are in accordance with the maximum compensation allowed under the Compensation Regulations (Rules Concerning Compensation and Expenses for an External Director), 2000, and as at the Report approval date, all the directors have been defined as expert directors and receive an expert director's compensation in accordance with the abovementioned regulations. In addition, some of the directors also participate in the Company's option plan (see Note 21B).

1. Benefits for key management personnel (including directors), who are employed by the Group include:

| | For the year ended December 31 | | | | | |
|---------------------------------------|--------------------------------|----------|----------------|-----------|----------------|-----------|
| | 2024 | | 2023 | | 2022 | |
| | No. of persons | Amount | No. of persons | Amount | No. of persons | Amount |
| Benefits without share-based payments | 12 | 8 | 11 | 10 | 13 | 9 |
| Share-based payments ⁽¹⁾ | 12 | 1 | 4 | 1 | 5 | 1 |
| | | 9 | | 11 | | 10 |

- (1) See Note 21B.

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NOTE 27 – RELATED AND INTERESTED PARTIES - cont.

B. Benefits for key management personnel (including directors) - cont.**2. Benefits for key management personnel (including directors) in the Group, who are not employed in the Group include:**

| | For the year ended December 31 | | | | | |
|---|--------------------------------|--------|----------------|--------|----------------|--------|
| | 2024 | | 2023 | | 2022 | |
| | No. of persons | Amount | No. of persons | Amount | No. of persons | Amount |
| Benefits for directors who are not employees ^{(1) (2) (3)} | 9 | 1 | 9 | 1 | 13 | 1 |

(1) It should be clarified that directors who are controlling shareholders are entitled to the same benefits (including insurance and indemnification and other than an exemption in advance from liability) to which the other directors are entitled.

(2) Including benefits in respect of the operations of Mr. Alex Passal at the municipal company; for further details see Note 3F.

(3) In 2024, including approx. USD 0.1 million with respect to the allocation of options to five directors as detailed in Note 21B4e above.

3. Compensation for directors and key management personnel

A. On August 27, 2024, the General Meeting of the Company's shareholders approved the Company's compensation policy for a period of three years, as at its approval date, which includes salary and related components, and variable compensation components (such as bonuses and equity compensation), and provisions regarding insurance, indemnification and release of liability. The compensation policy is uniform for the Company and its subsidiaries.

B. On August 13, 2021, Mr. Moshe Kaplinsky (hereinafter - "Mr. Kaplinsky"), - who served as the Company's CEO from June 1, 2020 until that date - was appointed as a director and the Company's Chairman of the Board. The terms of employment of Mr. Kaplinsky as CEO were not materially different than the employment terms of Mr. Malachi Alper, which are detailed in Section D below.

On August 1, 2021, (after approval by the Company's Compensation Committee and Board of Directors), the Company's General Meeting approved the compensation terms of Mr. Moshe Kaplinsky as the Company's Chairman of the Board, and the allocation of options as detailed in Note 21B3b.

According to his employment agreement, Mr. Kaplinsky may serve as an officer in other entities without the Company's approval, provided that the number of hours dedicated to his service in the Company will not fall below a full-time position and that the other businesses do not infringe on his commitments under the agreement. Mr. Kaplinsky's monthly salary will be NIS 145 thousand (linked to the inflation). Mr. Kaplinsky's salary includes and takes into account all his duties and obligations to the Company and/or the subsidiaries. Mr. Kaplinsky will be entitled to standard social benefits, the Company will cover his expenses for the use of communications means and reimburse expenses as is standard in the Company for senior employees. The Company will also provide him with a car.

NOTE 27 – RELATED AND INTERESTED PARTIES - cont.

B. Benefits for key management personnel (including directors) - cont.

3. Compensation for directors and key management personnel - cont.

B. (cont.)

The agreement between the Company and Mr. Kaplinsky has been signed for an indefinite period as from August 13, 2021, and it may be canceled by any of the parties with written notice of six months. In the last three months of this period, Mr. Kaplinsky will not be required to effectively work. Termination or non-renewal of Mr. Kaplinsky's service for a further term by the Company's general meeting will be considered as submission of notice of termination of the agreement. In the notice period, Mr. Kaplinsky is entitled to his full salary and related benefits paid to him in accordance with the provisions of the agreement. The Company may terminate the agreement immediately or at any time during the advance notice period, provided that, at the termination date of his employment, Mr. Kaplinsky is paid all the amounts to which he would have been entitled under the agreement, had he continued his employment in the Company throughout the notice period. Under extraordinary circumstances, the Company may terminate the agreement immediately, as is customary in agreements of this type. If employment is terminated for any reason, other than dismissal under special circumstances, Mr. Kaplinsky will be entitled to severance pay in accordance with the law.

In addition, Mr. Kaplinsky is entitled to bonuses in accordance with the Company's compensation policy as it may apply from time to time.

Subsequent to the reporting period, the Company's Board of Directors approved (after approval by the Compensation Committee), a bonus of approx. NIS 1,180 thousand to Mr. Kaplinsky for 2024 (in the reporting period, a bonus of approx. NIS 1,050 thousand was approved in respect of 2023, and in 2023 - a bonus for 2022 of approx. NIS 2,000 thousand was approved in respect of 2022).

For details regarding the allocation of options to Mr. Kaplinsky in the Reporting Period and the exercise of options in 2023, see Note 21B3b.

- C. On November 23, 2022, the Company's Board of Directors appointed Mr. Asaf Almagor (hereinafter - "**Mr. Almagor**"), who served in the position of VP of the Polyolefins Corporate Unit at that time, as CEO of the Company and Chairman of the Board of the Directors of the subsidiaries, as at December 1, 2022. Mr. Almagor's employment terms and option allocations as set forth below were approved by the general meeting on March 28, 2023 (following approval by the Compensation Committee and the Company's Board of Directors).

Mr. Almagor is entitled to a monthly salary of NIS 172 thousand (linked to the increase in the CPI) and to related benefits as is standard in the Company for senior employees (including vacation, convalescence, deposits in a study fund on the full amount of his salary, sick leave, including the option of redeeming accrued sick leave beyond the limit set, a company car and underlying expenses, including grossing up of tax), as well as allocation of new options, as detailed in Note 21B3d.

NOTE 27 – RELATED AND INTERESTED PARTIES - cont.

B. Benefits for key management personnel (including directors) - cont.

3. Compensation for directors and key management personnel - cont.

C. (cont.)

In addition, Mr. Almagor is entitled to the following terms and conditions: (1) Upon termination of his employment, Mr. Almagor will be entitled to a six-month advance notice period, in which he was entitled to all payments and benefits as if he continued to be employed by the Company during this period. During the last three months of this period, Mr. Almagor will not be obligated to work in practice; (2) Upon termination of his employment, Mr. Almagor will be entitled, in addition to his entitlement to severance payments by law, to an additional benefit at a rate of 50% of his last base salary, multiplied by his years of service at the Company and relative parts of years (hereinafter - "Severance Addition"). Entitlement to the Severance Addition will be accrued in a linear manner over 3 years (until full entitlement at the end of three years of service as CEO), except in the event that he is dismissed (not under circumstances that do not entitle him to severance payments), after which he will be entitled to the full Severance Addition amount regardless of the duration of the employment term in practice; (3) A persistence bonus at a variable rate from his last base salary, multiplied by his years of service at the Company: 10% after one year of service as CEO and another 10% for every additional year of service as CEO until a maximum rate of 50% beginning from the end of the fifth year; (4) a variable annual bonus pursuant to the formula established in the Company's compensation policy for the CEO's bonus, but in any event, the total annual bonus will not exceed NIS 2.1 million.

Upon approval of the terms of his service as Company CEO, Mr. Almagor ceased to be eligible for the retention bonus allocated to him in his position as VP of the Polyolefins Corporate Unit.

Subsequent to the reporting period, the Company's Board of Directors approved (after approval by the Compensation Committee), a bonus of approx. NIS 1,592 thousand to Mr. Almagor in respect of 2024. (in the reporting period, a bonus of approx. NIS 2,100 thousand was approved in respect of 2023).

- D. As at August 13, 2021 and until December 1, 2022, Mr. Malachi Alper (hereinafter - "Mr. Alper") served as CEO of the Company and Chairman of the Board of the subsidiaries. On August 1, 2021, (after approval by the Company's Compensation Committee and Board of Directors), the Company's General Meeting approved the compensation terms of Mr. Alper's employment, as well as the allocation of options, which fully vested upon the end of his tenure, as outlined in Note 21B3c.

Mr. Alper was entitled to a monthly salary of NIS 150 thousand (linked to the increase in the CPI) and to related benefits as is standard in the Company for senior employees (including vacation, convalescence, deposits in a study fund on the full amount of his salary, sick leave, including the option of redeeming accrued sick leave beyond the limit set, on termination, a company car and underlying expenses, including grossing up of tax).

Upon termination of his employment, Mr. Alper is entitled to a six-month advance notice period, in which he was entitled to all payments and conditions as if he continued to be employed by the Company during this period. In the last three months of this period, Mr. Alper was required to effectively work. In addition, on termination of his employment for any reason whatsoever, except termination under special circumstances, Mr. Alper was entitled to compensation in an amount equal to 150% of his last basic salary, multiplied by the number of years that he was employed in the Company, proportionately to part of the year, and all the amounts accumulated in funds on account of the severance account have been deducted, and this amount were deposited in the name of Mr. Alper on termination of his employment.

In addition, Mr. Alper was entitled to a variable annual bonus based on the formula in the Company's compensation policy for a CEO bonus, which will not exceed NIS 2 million.

NOTE 27 – RELATED AND INTERESTED PARTIES - cont.

B. Benefits for key management personnel (including directors) - cont.

3. Compensation for directors and key management personnel - cont.

D. (cont.)

In 2023, the Company's Board of Directors approved (after approval by the Compensation Committee), a bonus of approx. NIS 2,000 thousand to Mr. Alper in respect of 2022.

For details about exercise of options by Mr. Alper in 2023, see Note 21B3c.

- E.** In 2019, the Company's general meeting approved an agreement with Mr. Alex Passal for the provision of services relating to leading the Company's activity regarding services to be provided by the municipal company sharing Bazan's premises to the Company, the development and promotion of joint projects with the local authorities, as well as promotion of the Company's communication with the residents of the cities and towns surrounding Bazan's premises (hereinafter - the "Services"). Mr. Passal will be entitled to payments for his office as a director of the Company and for the Services of up to an average of NIS 50 thousand per month (on an annual basis).

On March 24, 2022, the Company's Board of Directors approved (after approval by the Company's Audit Committee), and subject to the approval of the Company's General Meeting, which was issued on April 28, 2022, the renewal of the services agreement with Mr. Passal. Mr. Passal will be entitled to payments for his office as a director and for the said services of up to an average of NIS 40 thousand per month (on an annual basis). The agreement was approved for a period of one year or until the termination of Mr. Passal's service as a director of the joint municipal company or termination of his service as a director of the Company, whichever is earlier.

On March 8, 2023, the Company's Board of Directors approved (after approval by the Company's Audit Committee), and subject to the approval of the Company's General Meeting, which was issued on May 2, 2023, the renewal of the services agreement with Mr. Passal. Mr. Passal will be entitled to payments for his office as a director and for the said services of up to an average of NIS 50 thousand per month (on an annual basis). The agreement was approved for 3 years provided that at the end of each year the Board of Directors approves the extension of the term of the agreement for the subsequent year or until the termination of Mr. Passal's service as a director of the joint municipal company or termination of his service as a director in the Company, whichever is earlier. On March 13, 2024, the Company's board of directors approved the continuation of the agreement with Mr. Passal until 2024.

Subsequent to the reporting period, the Company's board of directors approved the continuation of the agreement with Mr. Passal until 2025.

- C.** Regarding Sections D-H below, as from February 13, 2023, Israel Corporation does not hold Company shares, and correspondingly, Israel Corporation and Mr. Idan Ofer are no longer Company stakeholders.
- D.** On November 15, 2017, the Company's Board of Directors approved a continuation agreement for routine transactions, which is renewable from time to time until the end of 2020 - which was extended on November 3, 2020 until the end of 2023, for maritime shipping of the Group companies' products with Zim Integrated Shipping Services Ltd. (hereinafter - "Zim"), an investee of Kenon Holdings Ltd., in which Mr. Idan Ofer, who is considered as a controlling shareholder of the Company, is a related party as at the contract approval dates. Accordingly, the transaction was discussed and approved as a transaction in which a controlling shareholder of the Company has a vested interest. The audit committee determined that such agreements do not constitute "an extraordinary transaction" as defined in the Companies Law, since this is acquisition of the Company's routine input, under standard market conditions for maritime shipping, and it is not likely to have a material effect on the Company's assets, liabilities or profits.

NOTE 27 – RELATED AND INTERESTED PARTIES - cont.

D. (cont.)

The audit committee resolved that the agreement will be executed after checking prices as is standard in the Company and after the approval of the relevant VP for the agreement and for the check that was performed. Once every six months, the transactions will be presented to the committee chairman and once a year the committee will discuss the mechanism and will assess whether it needs to be updated or amended and will approve the procedures before executing these agreements in the following year.

The Group's expenses for shipping products by Zim, from January 1, 2023 until date on which it ceased to be a related party and/or interested party in the Company, amounted to approx. USD 0.3 million (in 2022 - approx. USD 1.9 million).

- E.** On August 14, 2011, the Company's Board of Directors approved an agreement to purchase electricity for the Company and subsidiaries from OPC Rotem Ltd. (hereinafter - "OPC"), a company controlled by Kenon Holdings Ltd., in which Mr. Idan Ofer, who is considered as a controlling shareholder of the Company, is a related party at the contract approval date. Accordingly, the transaction was discussed and approved as a transaction in which a controlling shareholder of the Company has a vested interest. The agreement is for 10 years as from July 2013, under terms agreed on by the parties, including a quantity that reflects all the requirements of the Company and its subsidiaries, taking into account production of electricity by the Company and a price that reflects the discount agreed on by the parties, off the regulated price of electricity set by the Israeli Electricity Authority. The audit committee determined that the agreement does not constitute "an extraordinary transaction" as defined in the Companies Law, since this is acquisition of the Company's routine input, under standard market conditions, for the acquisition of electricity from independent power producers, and it is not likely to have a material effect on the Company's assets, liabilities or profits.

The Group's expenses in respect of electricity purchase, from January 1, 2023 until date on which it ceased to be a related party and/or interested party in the Company amounted to approx. USD 13 million (in 2022 - approx. USD 73 million).

In 2023, a settlement agreement was approved pertaining to a motion filed to recognize a derivative claim regarding the abovementioned transaction; the said settlement agreement did not have material effects on the Company's results.

For details regarding the agreement to purchase electricity from OPC Rotem Ltd. dated May 23, 2023, see Note 20B5.

- F.** On May 25, 2020, the Company's Board of Directors approved the execution of the ongoing agreements, until May 2023, for maritime shipping the Company's products with Ace Quantum Tankers, a company related to Mr. Idan Ofer, who is considered a controlling shareholder in the Company as at the date of the agreements' approval. The audit committee determined that such agreements do not constitute "an extraordinary transaction" as defined in the Companies Law, since this is acquisition of the Company's routine input, under standard market conditions for maritime shipping, and it is not likely to have a material effect on the Company's assets, liabilities or profits.

The audit committee resolved that the agreement will be executed after checking prices as is standard in the Company and after the approval of the relevant VP for the agreement and for the check that was performed. Once every six months, the transactions will be presented to the committee chairman and once a year the committee will discuss the mechanism and will assess whether it needs to be updated or amended and will approve the procedures before executing these agreements in the following year.

In 2022-2023, no services were acquired in respect of product shipments by Ace Quantum Tankers.

NOTE 27 – RELATED AND INTERESTED PARTIES - cont.

- G.** On February 28, 2021, the Company's Board of Directors approved the execution of engagements with Bank Mizrahi (a company controlled by a relative of Mr. Idan Ofer, who is considered the controlling shareholder of the Company as at the engagement date) for the purpose of taking long-term loans and other current engagements; the term of those engagements ends at the end of 2023. The transactions were discussed and approved as transactions in which the Company's controlling shareholder has a vested interest. The Audit Committee decided that these engagements do not constitute "extraordinary transactions" as defined in the Companies Law, since they constitute routine banking activity conducted with all banks in Israel (and with a number of foreign banks) in the Company's ordinary course of business and under standard market conditions, and they are not likely to have a material effect on the Company's profits, assets or liabilities.

Net expenses in respect of transactions with Bank Mizrahi, from January 1, 2023 until date on which it ceased to be a related party and/or interested party in the Company, amounted to approx. USD 0.7 million (in 2022 - approx. USD 4.5 million).

- H.** Regarding natural gas purchase agreements and a settlement agreement between Haifa Chemicals Ltd. and Mr. Idan Ofer, who is considered the Company's controlling shareholder at the time of authorizing the engagement, there is a vested interest in them – see Notes 20B1 and 12B4, respectively.

I. Definition of negligible transactions

In the course of its business, the Company may engage in transactions with related parties and interested parties, including companies controlled by any of the controlling shareholders, primarily in purchase and selling agreements of industrial and logistics products and services that are part of the operations of the Group's plants. In general, these transactions are immaterial to the Company, both quantitatively and qualitatively, and they are conducted under market conditions.

Therefore, the Company's audit committee and Board of Directors determined that an interested party transaction that is not an extraordinary transaction will be deemed to be negligible under the following conditions:

1. An agreement for the purchase of products, including raw materials, materials, and equipment used for production or services, including financial services, which is for the benefit of the Company, made during the ordinary course of business of the Company's and under market conditions, with annual expenses that do not exceed 0.75% of the annual selling cost (cost of sales, refining and services) or operating expenses (selling and marketing expenses and administrative and general expenses), or finance expenses and/or finance income, as relevant (i.e., according to the classification of the expense in the Financial Statements), in the most recent annual consolidated financial statements of the Company.
2. An agreement for the sale of products, including raw materials and materials used for production or services, which is for the benefit of the Company, made during the Company's ordinary course of business and under market conditions, with annual revenues that do not exceed 0.75% of the annual selling cost in the most recent consolidated annual financial statements published by the Company.
3. An agreement for the joint purchase of services or products from a third party, together with the controlling shareholders, with controlled companies, which is for the benefit of the Company, made during the Company's ordinary course of business and under market conditions, and the audit committee of the Company determined that distribution of the costs and expenses in the agreement is fair and equal under the circumstances, and the total annual expense for the agreement does not exceed 0.75% of the selling cost or annual operating expenses, (selling and marketing expenses and general and administrative expenses), as relevant, in the Company's most recent annual consolidated financial statements.

The Company's audit committee and Board of Directors also resolved that the market conditions in respect of these transactions will be compared to other transactions that are as similar as possible to those in which the Company engages and/or to the same type of transactions that are made in the market.

NOTE 28 – SEGMENT REPORTING

A. The Company's operating segments

The Group operates through two operating segments, each of which is presented in its financial statements as a separate reportable segment: the Refining Segment and the Polymers Segment. These two reportable segments are managed separately and their results are reviewed regularly by the chief operating decision maker to allocate resources and assess performance.

Summary of the business activity in each operating segment:

1. Refining Segment

In this segment, the Group, through the Company and Gadiv, purchases crude oil and intermediate materials, refines and separates them into different products (some of which are end products and others raw materials for other products), produces aromatics, and sells the finished petroleum products, intermediate products, and aromatics to their customers in Israel (including Carmel Olefins) and abroad. In addition, the Company provides infrastructure services (storage, pumping, and distribution of petroleum products).

2. Polymers Segment

In this segment, the Group, mostly through Carmel Olefins and Ducor (in the Netherlands), manufactures polypropylene and polyethylene, which are used as the main raw materials in the plastics industry.

The "Other" segment includes the other business activities of the Group, which are immaterial, mainly shipping, through Trading and Shipping.

Segment results are reported to the chief operating decision maker on the basis of the reported EBITDA (gross profit less selling, marketing and administrative expenses, plus depreciation and amortization), and in the Refining Segment, also on the basis of adjusted EBITDA⁴ (i.e., the aggregate amount of adjusted EBITDA of the Fuels unit together with reported EBITDA of the Aromatics unit).

Other expenses/income which are not allocated to segments and are not included in EBITDA (including other expenses and income, such as early retirement expenses, impairment losses of assets or reversal thereof, and deducting excess cost) are reviewed by the chief operating decision maker, on a consolidated basis only.

⁴ Adjusted EBITDA = reported EBITDA less 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.

NOTE 28 – SEGMENT REPORTING - cont.

B. Information regarding reportable segments

| | Refining | Polymers | Total reportable segments | Other | Adjust ments to consoli dated | Consoli dated |
|--|---------------------------|--------------|---------------------------------|-------------|--|------------------|
| For the year ended December 31, 2024 | | | | | | |
| Revenue from external sources - Israel | 4,623 | 322 | 4,945 | – | – | 4,945 |
| Revenue from external sources - other countries | 2,104 | 484 | 2,588 | 9 | – | 2,597 |
| Total revenue from external sources | 6,727 | 806 | 7,533 | 9 | – | 7,542 |
| Revenue from inter-segment sales - Israel | 307 | 1 | 308 | 29 | (337) | – |
| Segment revenue | 7,034 | 807 | 7,841 | 38 | (337) | 7,542 |
| Cost of sales (without depreciation) | (6,516) | (740) | (7,256) | (13) | 337 | (6,932) |
| Reported EBITDA | 370 ⁽¹⁾ | 9 | 379 | 24 | – | 403 |
| Depreciation and amortization | (104) | (48) | (152) | (19) | – | (171) |
| Reported EBITDA less depreciation and amortization | | | | | | 232 |
| Amortization of excess cost arising on acquisition of consolidated companies | | | | | | (11) |
| Other income, net | | | | | | 3 |
| Operating profit | | | | | | 224 |
| Finance expenses, net | | | | | | (85) |
| Profit before income tax | | | | | | 139 |

(1) Adjusted EBITDA in the Refining Segment for 2024 - USD 363 million.

| | Refining | Polymers | Total reportable segments | Other | Adjust ments to consoli dated | Consoli dated |
|--|---------------------------|--------------|---------------------------------|-------------|--|------------------|
| For the year ended December 31, 2023 | | | | | | |
| Revenue from external sources - Israel | 5,000 | 238 | 5,238 | – | – | 5,238 |
| Revenue from external sources – other countries | 2,515 | 543 | 3,058 | 28 | – | 3,086 |
| Total revenue from external sources | 7,515 | 781 | 8,296 | 28 | – | 8,324 |
| Revenue from inter-segment sales - Israel | 264 | 1 | 265 | 13 | (278) | – |
| Segment revenue | 7,779 | 782 | 8,561 | 41 | (278) | 8,324 |
| Cost of sales (without depreciation) | (6,911) | (742) | (7,653) | (16) | 279 | (7,390) |
| Reported EBITDA | 745 ⁽¹⁾ | (17) | 728 | 24 | 1 | 753 |
| Depreciation and amortization | (97) | (47) | (144) | (18) | – | (162) |
| Reported EBITDA less depreciation and amortization | | | | | | 591 |
| Amortization of excess cost arising on acquisition of consolidated companies | | | | | | (11) |
| Other expenses, net | | | | | | (7) |
| Operating profit | | | | | | 573 |
| Finance expenses, net | | | | | | (83) |
| Profit before income tax | | | | | | 490 |

(1) Adjusted EBITDA in the Refining Segment for 2023 - USD 719 million.

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NOTE 28 – SEGMENT REPORTING - cont.

B. Information regarding reportable segments - cont.

| | Refining | Poly mers | Total repor table segments | Other | Adjust ments to consoli dated | Consoli dated |
|---|--------------------------------------|--------------|-------------------------------------|-------------|--|------------------|
| | For the year ended December 31, 2022 | | | | | |
| Revenue from external sources - Israel | 6,186 | 285 | 6,471 | – | – | 6,471 |
| Revenue from external sources – other countries | 3,686 | 640 | 4,326 | 31 | – | 4,357 |
| Total revenue from external sources | 9,872 | 925 | 10,797 | 31 | – | 10,828 |
| Revenue from inter-segment sales - Israel | 256 | 1 | 257 | 10 | (267) | – |
| Segment revenue | 10,128 | 926 | 11,054 | 41 | (267) | 10,828 |
| Cost of sales (without depreciation) | (9,302) | (839) | (10,141) | (20) | 267 | (9,894) |
| Reported EBITDA | 702 ⁽¹⁾ | 31 | 733 | 21 | – | 754 |
| Depreciation and amortization | (91) | (41) | (132) | (12) | – | (144) |
| Reported EBITDA less depreciation and amortization | | | | | | 610 |
| Amortization of excess cost arising on acquisition of consolidated companies | | | | | | (11) |
| Other expenses, net | | | | | | (5) |
| Operating profit | | | | | | 594 |
| Finance expenses, net | | | | | | (78) |
| Profit before income tax | | | | | | 516 |

(1) Adjusted EBITDA in the Refining Segment for 2022 - USD 724 million.

C. Entity-level disclosures

1. Information on products and services

The Group's revenue from external sources for each group of similar products and services:

| Revenue from external sources | 2024 | % | 2023 | % | 2022 | % |
|-------------------------------|--------------|-------------|--------------|-------------|---------------|-------------|
| Refining | | | | | | |
| Diesel fuel | 2,698 | 36% | 3,210 | 39% | 4,401 | 41% |
| Gasoline | 1,818 | 24% | 1,941 | 23% | 2,271 | 21% |
| Fuel oil | 743 | 10% | 604 | 8% | 942 | 9% |
| Kerosene | 545 | 7% | 618 | 7% | 780 | 7% |
| Aromatics | 426 | 6% | 465 | 6% | 595 | 5% |
| Other | 497 | 7% | 677 | 8% | 883 | 8% |
| | 6,727 | 90% | 7,515 | 91% | 9,872 | 91% |
| Polymers | | | | | | |
| Polyethylene | 178 | 2% | 179 | 2% | 215 | 2% |
| Polypropylene | 617 | 8% | 594 | 7% | 705 | 7% |
| Other | 11 | (a) | 8 | (a) | 5 | (a) |
| | 806 | 10% | 781 | 9% | 925 | 9% |
| Other | 9 | (a) | 28 | (a) | 31 | (a) |
| | 7,542 | 100% | 8,324 | 100% | 10,828 | 100% |

(a) Less than 1%.

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NOTE 28 – SEGMENT REPORTING - cont.

C. Entity-level disclosures - cont.

2. Information on the basis of geographic regions

Most of the Group's non-current assets are located in Israel.

Group revenue from outside entities for geographical areas are as follows:

| | For the year ended December 31 | | |
|------------------------------|--------------------------------|--------------|---------------|
| | 2024 | 2023 | 2022 |
| Israel | | | |
| Petroleum products | 4,606 | 4,978 | 6,153 |
| Polymers | 322 | 238 | 285 |
| Aromatics | 17 | 22 | 33 |
| Total | 4,945 | 5,238 | 6,471 |
| Asia ^(a) | | | |
| Petroleum products | 233 | 433 | 1,143 |
| Polymers | 22 | 99 | 92 |
| Aromatics | 74 | 157 | 173 |
| Other | 1 | 3 | 5 |
| Total | 330 | 692 | 1,413 |
| Europe ^(b) | | | |
| Petroleum products | 1,307 | 1,509 | 1,981 |
| Polymers | 395 | 389 | 484 |
| Aromatics | 246 | 241 | 339 |
| Other | 7 | 22 | 23 |
| Total | 1,955 | 2,161 | 2,827 |
| Other | 312 | 233 | 117 |
| Total | 7,542 | 8,324 | 10,828 |

(a) In 2024, including sales to Turkey of approx. 91% (in 2023 - approx. 96% and in 2022 - approx. 88%).

(b) In 2024, including sales to Cyprus of approx. 32% (in 2023 - approx. 31% and in 2022 - approx. 36%).

3. Major customers

Group revenue from the major external customers (more than 10%) in the Refining Segment:

| Revenue from external sources | For the year ended December 31 | | | | | |
|-------------------------------|--------------------------------|-----|-------|-----|-------|-----|
| | 2024 | % | 2023 | % | 2022 | % |
| Customer A | 1,237 | 16% | 1,360 | 16% | 1,728 | 16% |
| Customer B | 1,210 | 16% | 1,326 | 16% | 1,606 | 15% |

NOTE 29 - FINANCIAL RISK MANAGEMENT

A. General

The Group has operations that expose it to credit risks, liquidity risks and market risks (including crude oil price and margin risks, foreign currency risk, interest rate risk, and other market price risks). To reduce the exposure to these risks, the Group performs various actions, in particular the use of derivative financial instruments, including forward transactions (mainly futures on crude oil and forwards on foreign currency), margin transactions (in the Refining Segment in respect of the fuels activity and in the Polymers Segment), cross-currency interest rate swap (CCIRS) and interest rate swaps (IRS).

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NOTE 29 - FINANCIAL RISK MANAGEMENT - cont.

A. General – cont.

This Note provides information about the Group's exposure to each of the above risks, the risk management policy, how they are managed, and their supervision.

Most of the Group's income and expenses do not include CPI-linkage components. Therefore, inflation trend changes do not have a direct material impact on the Group's income and expenses.

The management and supervision of the financial risks of the Group companies are carried out as part of the ongoing management of the companies. As part of discussions in the Company, various market and financial matters are reported to the CEO of the Company by those responsible for risk management.

The person responsible for market risks arising from changes in the USD exchange rates against other currencies, changes in interest rates, liquidity risks, and credit risks is the CFO. VP Integrated Planning and Trade is responsible for market risks arising from changes in the price of crude oil and petroleum products, and management of risks arising from the refining margins. The VP of the Polyolefins Business Unit is responsible for market risks arising from changes in the prices of raw materials used to produce polymers (which are mainly derived from crude oil prices) and from polymers margins.

The Company's Board of Directors, including through the finance and investments committee and the trade committee, discuss the Group's exposure to market risks, set market risk management policy, receive reports from the management members responsible for market risk management and monitor implementation of the policy by the Group's management.

The trade committee of the Company's Board of Directors discusses the Group's exposure to changes in the price of crude oil, refining margins, and polymers. Most of the decisions of the trade committee on this matter aim, among other things, to reduce the Group's cash flow exposure from the effect of changes in the price of crude oil and on the raw materials and finished products inventory of the Group companies and changes in margins for refining polymers.

The finance committee of the Company's Board of Directors discusses the Group's exposure to liquidity risk, changes in the exchange rate and interest rate, investment policy, cash balances, and customer credit policy. Most of the resolutions of the finance committee on this subject aim to reduce the Group's exposure to liquidity risk, changes in the USD exchange rate against the NIS and EUR, variable interest rates (mainly SOFR), and credit risks in trade receivables, cash, and deposits.

B. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The main exposure of the Group to credit risk is for the following assets:

Trade receivables

The Group's management regularly reviews the exposure to credit risk for trade receivables and analyzes their financial strength in order to determine the nature and extent of the collateral required in the various sale transactions.

To reduce the exposure to risks arising from customer credit, the Group companies secure some of the trade receivables with credit insurance, with attention to the financial robustness of the insurance companies and obtain appropriate collateral where they believe there is exposure to risk, for example, advances, deposits, letters of credit and bank guarantees, taking into account the financial robustness of the relevant banks. In addition, from time to time, the Group companies sell some of its trade receivables in non-recourse factoring arrangements, as detailed in Note 6B above.

Cash and cash equivalents and deposits

Cash and cash equivalents and deposits are mainly deposited in banks and financial institutes, with attention to their financial stability. Accordingly, the Group believes that no consequent significant credit risk is expected.

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NOTE 29 - FINANCIAL RISK MANAGEMENT - cont.

B. Credit risk – cont.

Derivative financial instruments

Derivative transactions are carried out with banks, investment houses and international trading companies, and with relevant stock exchanges (using clearing services in general provided by the banks), taking into account the financial robustness of these entities. In some cases, derivatives are disposed of on a daily or weekly basis, according to the agreements and credit facilities set with the various entities, which significantly reduces the credit risk.

C. Liquidity risk

Liquidity risk is the risk that the Group companies will not be able to meet their financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due. For the purpose of liquidity management, the Group uses a mix of short- and long-term financing tools, while paying attention to adjusting the scope and average duration of the long-term liabilities and the financial covenants applicable to the Company, and the nature and volume of business activity. Short-term financing tools include mainly secured and non-secured credit facilities, a range of working capital financing tools, including factoring agreements and agreements with suppliers to extend credit days, etc. Long-term financing tools include mainly long-term bank loans, debentures, and working capital financing tools such as an inventory availability transaction. For further details, see Notes 6, 13, 14, 15 and 20B4, respectively.

D. Market risks

Market risk is the risk that changes in market prices, such as the price of crude oil and margins, foreign exchange rates and interest rates, will affect the fair value or future cash flows of the financial instrument.

In the ordinary course of business, the Group buys and sells financial derivatives to manage market risks. The transactions are carried out in accordance with guidelines determined by the Company's Board of Directors and its committees.

1. Currency risk

The functional currency of the Company and most of its subsidiaries is the US dollar. Accordingly, the exposure of the Group companies is measured in relation to changes in the USD exchange rate compared to the other currencies in which they operate.

The Group is exposed to currency risk due to sales, current expenses, and investments denominated in currencies other than the USD. The Group is also exposed to currency risks in respect of the NIS debentures and loans (unlinked). The Group also has equity exposures to balances denominated in NIS, mainly relating to employee benefits, including the loan to Haifa Early Pension (for details, see Note 18C), to payable taxes (for details, see Note 15B) and to leases (for details, see Notes 12 and 17).

To reduce the cash flow exposure arising from the Group's sales denominated in NIS, EUR, and GBP (and other currencies in volumes that are not material), and from the Group's NIS sales under the criteria that are set out and revised from time to time depending on currency market developments, inter alia, the Group uses forwards on exchange rates in the short term, usually for terms of up to one year.

To reduce exposure to currency risk arising from financial management, the Group takes out long-term USD loans, issues USD-linked debentures, and manages the short-term cash and borrowings balances, mainly in USD. In addition, the Group hedges currency exposure for the amounts of the principal and interest of the NIS debentures issued by the Group through long-term cross-currency interest rate swaps (CCIRS) were made through banks. These transactions, which pertain to Debentures (Series J, L, M and O), were accounted for as hedge instruments by applying fair value and/or cash flow hedge accounting.

NOTE 29 - FINANCIAL RISK MANAGEMENT - cont.

D. Market risks – cont.

2. Interest rate risk

The Group is exposed to changes in interest rates (mainly SOFR), to long-term loans bearing variable interest, to various short-term financing channels, and for USD CCIRS transactions bearing interest at a variable rate.

To adjust the exposure to interest rate risk, the Group issues USD-linked debentures at fixed USD interest, engages in cross-currency interest rate swaps (CCIRS) in respect of NIS-denominated debentures bearing fixed or variable interest and, from time to time, enters into USD interest rate swap transactions at fixed USD interest (IRS) for some of the long-term credit. These transactions, which refer to debentures and certain loans, which were accounted for as hedge instruments by applying fair value hedge accounting and/or cash flow hedge accounting.

Further to the decision of Financial Conduct Authority (FCA) in the UK of March 5, 2021 to discontinue the publication of the USD LIBOR interest as from June 30, 2023, in 2023, the Company made adjustments to all of its engagements with financial institutions involving financial instruments bearing variable USD interest whereby the benchmark interest shall be changed from LIBOR to SOFR. As part of the changes to the benchmark interest, these financial instruments shall bear SOFR interest subject to adjusting the original margin by the difference between the LIBOR interest and the SOFR interest, so as to create economic equivalence. Noting the above, the overall interest rate (benchmark interest + margin) did not change, and therefore there was no material impact on the Company's results.

3. Other market price risks

A. Inventories

In accordance with the Company's policy - which aims mainly to reduce its cash flow exposure to fluctuations in the price of crude oil - it does not use futures to hedge inventory, which, according to the Company's estimate as at December 31, 2024, is approx. 730 thousand tons (of which approx. 250 thousand tons were purchased during the reporting period at the inventory availability transaction date, as detailed in Note 20B4) (hereinafter - the "Basic Inventory Quantity").

For the balance of the Company's inventories beyond the basic inventory amounts (crude oil, intermediate materials, and products), the Company is exposed to fluctuations in crude oil prices, which arise when setting the purchase price of crude oil reserves and intermediate materials and exists until the selling price of the products produced from these materials is set. To reduce this exposure, the Company sells marketable Brent futures when setting the purchase price of crude oil and intermediate materials, and purchases futures when setting the selling price of the distillates. In general, the Company uses futures for the shortest period traded on the market.

The inventory value of the subsidiaries is subject to change in the price of raw materials, which are substantially affected by the change in prices of crude oil. The Group reduces this risk by limiting the quantities of inventory that it holds.

B. Cash flow exposure for acquisition of inventory (basic) at the end of the inventory availability transaction

The Company had a cash flow exposure for the expected transaction for acquisition of inventory (basic) of approx. 250 thousand tons (approx. 1.8 million barrels - the volume of inventory underlying the availability transaction which was terminated during the reporting period, as detailed in Note 20B4) at the market prices prevailing on the termination of the availability transaction. The Company hedged the full exposure by purchasing marketable futures on Brent crude, as at the termination date of the availability transaction. These contracts were designated as hedging items for the purpose of cash flow hedge accounting, for exposure to changes in market prices of crude oil until the end of the availability transaction date. Upon the termination of the availability agreement as stated in Note 20B4, the Company discontinued the hedges and recognized in inventories the hedge principal attributed to the transaction, totaling approx. USD 35 million (credit).

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NOTE 29 - FINANCIAL RISK MANAGEMENT - cont.

D. Market risks – cont.

3. Other market price risks – cont.

C. Refining margins

The Company fixes refining margins from time to time for specific refining quantities for periods subsequent to the reporting periods, by using swap transactions that are traded over the counter (OTC), which are adapted to the Company's normal production mix, to the extent possible. In general, the volume of transactions does not exceed 20% of the annual refining volume and for a period not exceeding 24 months.

Futures to hedge refining margins in 2024 covered approx. 9.5 million barrels, reflecting an average refining margin for the Company of approx. USD 11 per barrel (in 2023, futures covered approx. 13.5 million barrels, reflecting an average refining margin for the Company of approx. USD 12 per barrel).

In the reporting period, the Company recognized a loss in respect of the realization of refining margin hedges totaling approx. USD 25 million, which was included in the cost of sales line item (in 2023, the Company recognized a loss of approx. USD 64 million).

During the reporting period, the Company entered into swap transactions aimed at hedging refining margins for 2025 at a volume of approx. 3.5 million barrels and at a level reflecting an average refining margin of approx. USD 11 per barrel for the Company. In addition, as at the report date, the balance of margin calls amounted to an immaterial amount (as at December 31, 2023, the Company deposited approx. USD 15 million in margin calls, which are included in the Other receivables and debit balances line item).

Immediately prior to the report approval date, the balance of derivatives for futures hedging the refining margin in 2025 constitutes an asset of approx. USD 3 per million. The balance of margin calls in respect of which was immaterial.

D. Polymer margins

In addition, from time to time, Carmel Olefins fixes a margin (over naphtha) for specific polymer quantities, through swaps and/or through futures on naphtha, against fixed selling prices for the products in agreements with its customers. Futures on naphtha against the fixed selling prices to customers will remain at up to 25% of Carmel Olefins' sales in the next 12 months and the volume of swaps - together with said naphtha futures - will account for up to 40% of Carmel Olefins' sales in the next 12 months. In addition, the swaps will be performed for a period of up to 24 months. The transactions of Carmel Olefins were designated as hedging items for the application of cash flow hedge accounting 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).

NOTE 30 – FINANCIAL INSTRUMENTS

A. Credit risk

1. The carrying amount of the following financial assets represents the maximum credit exposure, without collateral or other credit consolidation: cash and cash equivalents, deposits, trade and other receivables (including long-term receivables), investments in financial assets at fair value and financial derivatives.
2. **The maximum exposure to credit risk for trade receivables, at the reporting date, by geographic region is as follows:**

| | As at December 31 | |
|------------------------------|-------------------|------------|
| | 2024 | 2023 |
| Customers in Israel | 487 | 450 |
| Customers in other countries | 106 | 170 |
| | 593 | 620 |

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NOTE 30 – FINANCIAL INSTRUMENTS - cont.

A. Credit risk – cont.

3. Aging of debts and impairment losses:

| | As at December 31 | | | |
|--|-------------------|-----------------|------------|-----------------|
| | 2024 | | 2023 | |
| | Gross | Impairment loss | Gross | Impairment loss |
| Not past due | 561 | – | 583 | – |
| Past due up to six months ⁽¹⁾ | 30 | – | 37 | – |
| Past due between six months and one year | 2 | – | – | – |
| Past due more than one year | 1 | (1) | 2 | (2) |
| | 594 | (1) | 622 | (2) |

(1) As at December 31, 2024, an amount of approx. USD 26 million is for debts past due up to 30 days (approx. USD 28 million as at December 31, 2023).

For details regarding the management of the Group's credit risks, see Note 29B.

B. Liquidity risk

The following are the contractual maturities of financial liabilities, in undiscounted amounts, including estimated interest payments, based on forward interest rates. This disclosure does not include the impact of offsetting agreements:

| | As at December 31, 2024 | | | | | |
|--|-------------------------|-----------------------|------------|------------|-------------------|---------------------------------------|
| | Carrying amount | Contractual cash flow | | | | |
| | | Up to 1 year | 1-2 years | 2-5 years | More than 5 years | contractual cash flows ⁽³⁾ |
| Non-derivative financial liabilities | | | | | | |
| Short-term loans and borrowings (without maturities) | 14 | 14 | – | – | – | 14 |
| Trade payables | 866 | 866 | – | – | – | 866 |
| Other payables and credit balances ⁽¹⁾ | 37 | 37 | – | – | – | 37 |
| Debentures ⁽²⁾ | 724 | 167 | 126 | 385 | 189 | 867 |
| Liabilities to banks ⁽²⁾ | 395 | 91 | 103 | 215 | 107 | 516 |
| Lease liabilities ⁽²⁾ | 129 | 26 | 19 | 16 | 329 | 390 |
| Other long-term liabilities | 2 | – | 2 | – | – | 2 |
| | 2,167 | 1,201 | 250 | 616 | 625 | 2,692 |
| Financial liabilities - derivative instruments ⁽²⁾ | | | | | | |
| CCIRS used for hedging | 50 | 15 | 14 | 42 | 2 | 73 |
| Derivatives in respect of margin not used as hedges | 1 | 1 | – | – | – | 1 |
| | 51 | 16 | 14 | 42 | 2 | 74 |
| Total | 2,218 | 1,217 | 264 | 658 | 627 | 2,766 |

(1) Including interest payable.

(2) Including current maturities.

For certain liabilities to banks and debentures, the Company is subject to financial covenants (see Notes 13 and 14). Non-compliance with the financial covenants may result in early repayment of the liabilities before the dates specified in the above table.

Actual interest payments for liabilities at variable interest may differ from the amounts presented in the table above.

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NOTE 30 – FINANCIAL INSTRUMENTS - cont.

B. Liquidity risk - cont.

| As at December 31, 2023 | | | | | | |
|--|-----------------|-----------------------|------------|------------|-------------------|---|
| | | Contractual cash flow | | | | |
| | Carrying amount | Up to 1 year | 1-2 years | 2-5 years | More than 5 years | Total contractual cash flows ⁽³⁾ |
| Non-derivative financial liabilities | | | | | | |
| Short-term loans and borrowings (without maturities) | 13 | 13 | — | — | — | 13 |
| Trade payables | 839 | 839 | — | — | — | 839 |
| Other payables and credit balances ⁽¹⁾ | 52 | 52 | — | — | — | 52 |
| Debentures ⁽²⁾ | 740 | 175 | 168 | 330 | 189 | 862 |
| Liabilities to banks ⁽²⁾ | 447 | 142 | 110 | 293 | — | 545 |
| Lease liabilities ⁽²⁾ | 119 | 18 | 12 | 20 | 301 | 351 |
| Other long-term liabilities | 3 | — | 1 | 2 | — | 3 |
| | 2,213 | 1,239 | 291 | 645 | 490 | 2,665 |
| Financial liabilities – derivative instruments ⁽²⁾ | | | | | | |
| CCIRS used for hedging | 55 | 12 | 13 | 42 | 15 | 82 |
| Derivatives in respect of inventory used as hedges | 2 | 1 | 1 | — | — | 2 |
| Derivatives in respect of margin not used as hedges | 16 | 16 | — | — | — | 16 |
| Forwards | 1 | 1 | — | — | — | 1 |
| | 74 | 30 | 14 | 42 | 15 | 101 |
| Total | 2,287 | 1,269 | 305 | 687 | 505 | 2,766 |

(1) Including interest payable.

(2) Including current maturities.

(3) Not including off balance-sheet liabilities, including for exercise of the put options in the inventory availability transaction as described in Note 20B4.

Interest payments for liabilities at variable interest may differ from the amounts presented in the table above.

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NOTE 30 – FINANCIAL INSTRUMENTS - cont.

C. Exposure to CPI and foreign currencies risks

The following table indicates the Group's exposure to CPI and foreign currency risks:

| | As at December 31, 2024 | | | | |
|---|---|----------------------|----------------------|--------------------|----------------|
| | Non financial and/or non financial | Non linked NIS | CPI linked NIS | USD ⁽¹⁾ | Total |
| Assets: | | | | | |
| Cash and cash equivalents | – | 26 | – | 726 | 752 |
| Deposits | – | – | – | 1 | 1 |
| Trade receivables | – | 89 | – | 504 | 593 |
| Other receivables and debit balances ⁽²⁾ | 18 | – | – | 1 | 19 |
| Financial derivatives, short term | – | (106) | – | 111 | 5 |
| Inventories | 711 | – | – | – | 711 |
| Loan to Haifa Early Pension Ltd. ^{(3) (4)} | – | 12 | 10 | – | 22 |
| Long-term receivables and debit balances | 36 ⁽⁵⁾ | – | – | 4 | 40 |
| Financial derivatives, long term | – | 224 | – | (217) | 7 |
| Property, plant and equipment, net | 2,101 | – | – | – | 2,101 |
| Right-of-use assets, net | 170 | – | – | – | 170 |
| Intangible assets and deferred expenses, net | 31 | – | – | – | 31 |
| Total assets | 3,067 | 245 | 10 | 1,130 | 4,452 |
| Liabilities: | | | | | |
| Short-term loans and borrowings ⁽²⁾ | – | – | – | (14) | (14) |
| Trade payables | – | (68) | (1) | (797) | (866) |
| Other payables and credit balances ⁽²⁾ | (136) ⁽⁶⁾ | (21) | (3) | (13) | (173) |
| Financial derivatives, short term | – | 70 | – | (85) | (15) |
| Provisions | (4) | – | – | – | (4) |
| Liabilities to banks ⁽³⁾ | – | (4) | – | (391) | (395) |
| Debentures ⁽³⁾ | – | (657) | – | (67) | (724) |
| Lease liability ⁽³⁾ | – | – | (80) | (49) | (129) |
| Other long-term liabilities | (10) | – | (2) | – | (12) |
| Financial derivatives, long term | – | 402 | – | (438) | (36) |
| Employee benefits, net | (54) | – | – | – | (54) |
| Deferred tax liabilities, net | (266) | – | – | – | (266) |
| Total liabilities | (470) | (278) | (86) | (1,854) | (2,688) |
| Total equity balance, net | 2,597 | (33) | (76) | (724) | 1,764 |

(1) Including EUR exposure of approx. USD 62 million (credit) and non-material balances in other currencies.

(2) Without current maturities.

(3) Including current maturities.

(4) Asset for employee benefits that does not constitute a financial instrument.

(5) Includes an investment of approx. USD 21 million in shares measured at fair value through other comprehensive income.

(6) Including balances denominated in NIS totaling approx. USD 52 million for liabilities for employees, totaling approx. USD 45 million in payable taxes and approx. USD 20 million for institutions.

This translation of the financial statement is for convenience purposes only.
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NOTE 30 – FINANCIAL INSTRUMENTS - cont.

C. Exposure to CPI and foreign currencies risks - cont.

| | As at December 31, 2023 | | | | |
|---|---|------------------------|----------------------|--------------------|----------------|
| | Non financial and/or non financial | Financial and monetary | | | |
| | | Non linked NIS | CPI linked NIS | USD ⁽¹⁾ | Total |
| Assets: | | | | | |
| Cash and cash equivalents | — | 31 | — | 732 | 763 |
| Deposits | — | — | — | 37 | 37 |
| Trade receivables | — | 79 | — | 541 | 620 |
| Other receivables and debit balances ⁽²⁾ | 74 ⁽³⁾ | — | — | 30 | 104 |
| Financial derivatives, short term | — | 26 | — | (15) | 11 |
| Inventories | 769 | — | — | — | 769 |
| Loan to Haifa Early Pension Ltd. ^{(4) (5)} | — | 21 | 17 | — | 38 |
| Long-term receivables and debit balances | 31 ⁽⁶⁾ | — | — | 22 | 53 |
| Property, plant and equipment, net | 2,071 | — | — | — | 2,071 |
| Right-of-use assets, net | 162 | — | — | — | 162 |
| Intangible assets and deferred expenses, net | 29 | — | — | — | 29 |
| Total assets | 3,136 | 157 | 17 | 1,347 | 4,657 |
| Liabilities: | | | | | |
| Short-term loans and borrowings ⁽²⁾ | — | — | — | (13) | (13) |
| Trade payables | — | (83) | (1) | (755) | (839) |
| Other payables and credit balances ⁽²⁾ | (178) ⁽⁷⁾ | (20) | (3) | (29) | (230) |
| Financial derivatives, short term | — | (156) | — | 127 | (29) |
| Provisions | (9) | — | — | — | (9) |
| Liabilities to banks ⁽⁴⁾ | — | (10) | — | (437) | (447) |
| Debentures ⁽⁴⁾ | — | (606) | — | (134) | (740) |
| Lease liability ⁽⁴⁾ | — | — | (77) | (42) | (119) |
| Other long-term liabilities | (11) | — | (3) | — | (14) |
| Financial derivatives, long term | — | 562 | — | (607) | (45) |
| Employee benefits, net | (53) | — | — | — | (53) |
| Deferred tax liabilities, net | (262) | — | — | — | (262) |
| Total liabilities | (513) | (313) | (84) | (1,890) | (2,800) |
| Total equity balance, net | 2,623 | (156) | (67) | (543) | 1,857 |

(1) Including EUR exposure of approx. USD 54 million (credit) and non-material balances in other currencies.

(2) Without current maturities.

(3) Including balances denominated in NIS in the amount of approx. USD 54 million for institutions.

(4) Including current maturities.

(5) Asset for employee benefits that does not constitute a financial instrument.

(6) Includes an investment of approx. USD 21 million in shares measured at fair value through other comprehensive income.

(7) Including balances denominated in NIS totaling approx. USD 101 million for payable taxes, totaling approx. USD 55 million for liabilities to employees and approx. USD 7 million for institutions.

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NOTE 30 – FINANCIAL INSTRUMENTS - cont.

C. Exposure to CPI and foreign currencies risks - cont.

1. Sensitivity analysis

A change of the USD against the NIS as at December 31, 2024 and a change in the CPI would have increased (decreased) capital and profit or loss by the amounts shown below. The analysis below is based on possible changes in the exchange rate and CPI.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis for 2023 is performed on the same basis.

| For the year ended December 31, 2024 Increase (decrease), before tax, in profit for the period | | | | | |
|--|------|------|--------------|-------|-------|
| Change in the CPI | +10% | +5% | Base value | -5% | -10% |
| Non-derivative instruments (not including leases) | 0.4 | 0.2 | 4 | (0.2) | (0.4) |
| Lease liability ⁽¹⁾ | | | (80) | | |
| | | | <u>(76)</u> | | |
| Change in NIS/USD exchange rate | | | | | |
| Non-derivative instruments | 64 | 33 | (699) | (37) | (78) |
| Derivative instruments - cross-currency interest rate swaps (CCIRS) | (64) | (33) | 733 | 37 | 78 |
| Forwards | 12 | 6 | (143) | (7) | (14) |
| | | | <u>(109)</u> | | |

| For the year ended December 31, 2023 Increase (decrease), before tax, in profit for the period | | | | | |
|---|------|------|--------------|-------|------|
| Change in the CPI | +10% | +5% | Base value | -5% | -10% |
| Non-derivative instruments (not including leases) | 1 | 0.5 | 10 | (0.5) | (1) |
| Lease liability ⁽¹⁾ | | | (77) | | |
| | | | <u>(67)</u> | | |
| Change in NIS/USD exchange rate | | | | | |
| Non-derivative instruments | 60 | 31 | (655) | (35) | (73) |
| Derivative instruments - cross-currency interest rate swaps (CCIRS) | (59) | (31) | 677 | 34 | 72 |
| Forwards | 22 | 12 | (245) | (13) | (27) |
| | | | <u>(223)</u> | | |

(1) The effect of the changes in the CPI on a lease liability is recognized against a right-of-use asset and amortized over its useful life.

2. The Group is exposed to changes in the NIS/USD exchange rate in respect of certain costs in shekels (excluding tax costs). A 1% change in the average exchange rate that applies to shekel-denominated costs in the reporting period would have affected the Company's own capital by approx. USD 5 million.

In accordance with the currency risk management policy as detailed in Note 29D1 above, this effect is offset, in whole or in part, insofar as the Company enters into futures.

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NOTE 30 – FINANCIAL INSTRUMENTS - cont.

D. Interest rate risk

1. Type of interest

Following is a breakdown of the carrying amount of the Group's interest-bearing financial instruments by interest type:

| | As at December 31 | |
|---|-------------------|--------------|
| | 2024 | 2023 |
| Fixed interest non-derivative instruments | | |
| Cash and cash equivalents - bank deposits | 739 | 745 |
| Deposits - bank deposits | – | 36 |
| Total financial assets | 739 | 781 |
| Bank loans ⁽¹⁾ | (32) | (36) |
| USD-linked debentures ⁽¹⁾ | (67) | (134) |
| NIS debentures ^{(1), (2)} | (657) | (606) |
| Lease liability ⁽¹⁾ | (129) | (119) |
| Other long-term liabilities ⁽¹⁾ | (3) | (4) |
| Total financial liabilities | (888) | (899) |
| Total | (149) | (118) |
| Fixed interest non-derivative instruments | | |
| Deposits for financial derivatives - short term | 2 | 31 |
| Deposits for financial derivatives - long term | 3 | 6 |
| Total financial assets | 5 | 37 |
| Short-term loans and borrowings (without maturities) | (14) | (13) |
| Bank loans ^{(1), (3)} | (363) | (411) |
| Liabilities for financial derivatives - short term | (1) | – |
| Total financial liabilities | (378) | (424) |
| Total | (373) | (387) |
| Financial derivatives - hedging transactions on debentures and loans | | |
| <u>Derivatives used for accounting hedging</u> | | |
| Hedging transactions on debentures and loans - NIS component ⁽¹⁾ | 733 | 677 |
| Hedging transactions on debentures and loans - USD component ⁽¹⁾ | (776) | (725) |
| Total derivatives used for accounting hedging | (43) | (48) |

(1) Including current maturities.

(2) As at December 31, 2024, includes a total of approx. USD 28 million (as at December 31, 2023 - approx. USD 40 million), converted through cross-currency interest rate swap contracts to USD debt at variable interest, and the balance converted through principal and interest swap transactions to USD debt at fixed interest.

(3) As at December 31, 2024, includes an amount of approx. USD 9 million (as at December 31, 2023 - approx. USD 22 million), which was converted through cross-currency interest rate swaps and interest swap transactions to USD debt at fixed interest.

Excluding operating liabilities bearing interest as set out in Note 15.

2. Sensitivity analysis of the fair value of hedging transactions on debentures and loans

| | As at December 31, 2024 | | | | |
|--|---|-------|------------|-------|-----|
| | Increase (decrease), before tax, in profit for the period | | | | |
| Change in NIS interest rate | +1% | +0.5% | Base value | -0.5% | -1% |
| Hedging transactions on debentures and loans used for hedging - NIS component ⁽¹⁾ | (23) | (11) | 733 | 12 | 24 |
| | | | 733 | | |

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NOTE 30 – FINANCIAL INSTRUMENTS - cont.

D. Interest rate risk - cont.

2. Sensitivity analysis of the fair value of hedging transactions on debentures and loans - cont.

| As at December 31, 2023 | | | | | |
|--|---|-------|------------|-------|-----|
| | Increase (decrease), before tax, in profit for the period | | | | |
| Change in NIS interest rate | +1% | +0.5% | Base value | -0.5% | -1% |
| Hedging transactions on debentures used for hedging - NIS component ⁽¹⁾ | (20) | (10) | 677 | 10 | 21 |
| | | | <u>677</u> | | |

(1) A change in NIS interest for cross-currency interest rate swaps used to hedge fair value and to hedge cash flows will be recognized at the carrying amount of the hedge fund, respectively.

3. Sensitivity analysis of cash flow regarding non-derivative instruments at variable interest rates and sensitivity analysis of the fair value of hedging transactions on debentures and loans

A change in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular exchange rates, remain constant. It is noted that full exposure is referred to, without taking into account hedges.

| As at December 31, 2024 | | | | | |
|--|---|-------|----------------|-------|------|
| | Increase (decrease), before tax, in profit for the period | | | | |
| Change in USD interest rate | +1% | +0.5% | Base value | -0.5% | -1% |
| Instruments other than variable interest derivatives | (4) | (2) | (369) | 2 | 4 |
| Hedging transactions on debentures and loans used for hedging - USD component ⁽¹⁾ | 23 | 11 | (776) | (12) | (24) |
| | | | <u>(1,145)</u> | | |

| As at December 31, 2023 | | | | | |
|--|---|-------|----------------|-------|------|
| | Increase (decrease), before tax, in profit for the period | | | | |
| Change in USD interest rate | +1% | +0.5% | Base value | -0.5% | -1% |
| Instruments other than variable interest derivatives | (4) | (2) | (375) | 2 | 4 |
| Hedging transactions on debentures used for hedging - USD component ⁽¹⁾ | 21 | 11 | (725) | (11) | (22) |
| | | | <u>(1,100)</u> | | |

(1) A change in USD interest for cross-currency interest rate swap contracts for hedging fair value and hedging cash flows will be recognized at the carrying amount of the hedged debentures and the hedge fund, respectively.

E. Other market price risks

Information about the effect of market price risks on the fair value of derivatives and inventories:

| As at December 31, 2024 | | | | | |
|---|---|------|------------|------|------|
| | Increase (decrease), before tax, in profit for the period | | | | |
| Price change | +20% | +10% | Base value | -10% | -20% |
| Derivatives used for accounting hedging ⁽¹⁾ | | | | | |
| Futures ⁽²⁾ | 7 | 3 | 0.4 | (3) | (7) |
| Derivatives for polymers margin | (4) | (2) | 3 | 2 | 4 |
| Derivatives not used in accounting hedges | | | | | |
| Futures ⁽²⁾ | (11) | (5) | (1) | 5 | 11 |
| Derivatives for refining margin | (10) | (5) | (1) | 5 | 10 |
| Inventory ⁽³⁾ | 85 | 43 | 426 | (43) | (85) |

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NOTE 30 – FINANCIAL INSTRUMENTS - cont.

E. Other market price risks - cont.

| | As at December 31, 2023 | | | | |
|---|---|------|------------|------|------|
| | Increase (decrease), before tax, in profit for the period | | | | |
| Price change | +20% | +10% | Base value | -10% | -20% |
| Derivatives used for accounting hedging ⁽¹⁾ | | | | | |
| Futures ⁽²⁾ | 27 | 14 | (15) | (14) | (27) |
| Derivatives for polymers margin | (3) | (1) | 4 | 1 | 3 |
| Derivatives not used in accounting hedges | | | | | |
| Futures ⁽²⁾ | (21) | (11) | 4 | 11 | 21 |
| Derivatives for refining margin | (25) | (13) | (16) | 13 | 25 |
| Inventory ⁽³⁾ | 95 | 47 | 475 | (47) | (95) |

(1) A change in the fair value of derivatives used to apply cash flow hedge accounting is recognized in capital reserve.

(2) The Company is sensitive to changes in the Brent price and Carmel Olefins - to changes in the naphtha price.

(3) The analysis does not include inventory with a selling price that was set as at the reporting date.

F. Fair value of financial instruments for disclosure purposes only

The carrying amounts of certain financial assets and financial liabilities, including cash and cash equivalents, deposits, trade receivables, other receivables and debit balances, long-term receivables and debit balances, financial derivatives, short-term loans and borrowings, trade payables, Other payables and credit balances, and other long-term liabilities (other than lease liabilities), are the same as or proximate to their fair value.

The fair value of the remaining financial liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| | As at December 31, 2024 | | | | |
|--|--------------------------|-----------------|--------------------|--------------------|---|
| | Balance of adjusted p.v. | Carrying amount | Fair value Level 1 | Fair value Level 2 | Discount rate used for determining fair value |
| Financial liabilities: | | | | | |
| Marketable Debentures (Series I) ⁽¹⁾⁽²⁾ | 67 | 67 | 68 | — | |
| Marketable Debentures (Series J, L, M and O) ⁽¹⁾⁽²⁾ | 674 | 657 | 670 | — | |
| Bank loans ⁽³⁾ | 413 | 395 | — | 420 | 6.78% - 7.66% |
| | 1,154 | 1,119 | 738 | 420 | |

| | As at December 31, 2023 | | | | |
|--|--------------------------|-----------------|--------------------|--------------------|---|
| | Balance of adjusted p.v. | Carrying amount | Fair value Level 1 | Fair value Level 2 | Discount rate used for determining fair value |
| Financial liabilities: | | | | | |
| Marketable Debentures (Series I) ⁽¹⁾⁽²⁾ | 134 | 134 | 135 | — | |
| Marketable Debentures (Series E, J, L and M) ⁽¹⁾⁽²⁾ | 620 | 606 | 610 | — | |
| Bank loans ⁽³⁾ | 462 | 447 | — | 466 | 6.88%- 8.05% |
| | 1,216 | 1,187 | 745 | 466 | |

(1) The carrying amount of Debentures is presented at amortized cost (net of raising costs and premium/discounting) and to the extent relevant after application of fair value hedge accounting.

(2) The fair value of the marketable debentures is based on the quoted price on the TASE as at the report date.

(3) The carrying amount is presented net of raising costs and net of adjustments for changes in the loan terms, as detailed in Note 13C3.

See Note 4 regarding the basis for determining the fair value of these financial liabilities on Level 2.

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NOTE 30 – FINANCIAL INSTRUMENTS - cont.

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

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

| | December 31, 2024 | December 31, 2023 |
|--|----------------------|----------------------|
| <u>Financial assets</u> | | |
| Non-derivative | | |
| Investments in stocks at fair value through other comprehensive income (Level 3) | 21 | 21 |
| Derivatives used for accounting hedging ^{(1) (2)} | | |
| Cross-currency interest rate swaps and interest rate swaps (Level 2) | 7 | 7 |
| Derivatives for polymers margin (Level 3) | 3 | 4 |
| Derivatives not used in accounting hedges | | |
| Forward contracts (Level 2) | 2 | – |
| | 33 | 32 |
| <u>Financial liabilities</u> | | |
| Derivatives used for accounting hedging ^{(1) (2)} | | |
| Cross-currency interest rate swaps and interest rate swaps (Level 2) | 50 | 55 |
| Derivatives for inventory (Level 2) | – | 2 |
| Derivatives not used in accounting hedges | | |
| Derivatives for refining margins (Level 2) ⁽³⁾ | 1 | 16 |
| Forward contracts (Level 2) | – | 1 |
| | 51 | 74 |

- (1) The fair value of marketable derivatives for inventory and as at December 31, 2023 - cash flow exposure for acquisition of inventory (basic) at the end of the inventory availability transaction, classified at Level 1, is presented in the statement of financial position net of the relating calculated amounts.
- (2) In 2024, other comprehensive income at an immaterial amount was recognized in a hedge fund for the effective part of the change in the fair value of futures on Brent. Upon the termination of the availability agreement as stated in Note 20B4, the Company discontinued the hedges and recognized in inventories the hedge principal attributed to the transaction, totaling approx. USD 35 million (credit). For further details, see Note 29D3B.
- (3) For further details, see Note 29D3C.

Following are the main assumptions used to measure the fair value of cross-currency swaps (Level 2):

| | December 31, 2024 | December 31, 2023 ⁽¹⁾ | December 31, 2022 |
|---|----------------------|-------------------------------------|----------------------|
| NIS interest (used for discounting the NIS component) | 2.79% - 3.30% | 2.45% - 3.86% | 2.42% - 2.95% |
| USD interest (used for discounting the USD component) | 4.04% - 4.30% | 3.47% - 5.33% | 3.64% - 5.12% |
| Exchange rate (NIS/USD) | 3.647 | 3.627 | 3.519 |

- (1) For details regarding changing the benchmark interest from USD LIBOR to SOFR, due to discontinuation of LIBOR in 2023, see Note 29D2.

NOTE 31 – SIGNIFICANT SUBSEQUENT EVENTS

- A. For details about the developments in legal claims, other contingencies, contracts, and other significant events subsequent to the reporting period, see Note 20.
- B. For details about developments in engagements with related and interested parties, see Note 27B.
- C. For details regarding the revision of the dividend distribution and decision on the dividend distribution subsequent to the reporting period, see Note 21C.
- D. For details regarding the partial settlement of the liability to pensioners subsequent to the Reporting Period, see Note 18B1B.

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Bazan Ltd.

Periodic Report for 2024

Name of Company: **Bazan Ltd.**
Number of Company: **520036658**
Address: **P.O.B 4 Haifa Bay 3100001**
Telephone: **+972-4-8788111**
Fax: **+972-4-8788850**
Email: **info@bazan.co.il**
Date of Statement of Financial Position: **December 31, 2024**
Date of approval of the financial statements: **March 11, 2025**

Regulation 10A - Condensed Statements of Comprehensive Income by Quarters

For the condensed statements of comprehensive income of the Company, by quarter, in 2024, see Section D, Chapter 2 of the Company's Report of the Board of Directors, in Chapter B of the Periodic Report.

Regulation 10C - Use of the Proceeds from Securities

On January 4, 2024, the Company published a shelf offering report, based on the shelf prospectus dated January 11, 2022, according to which Debentures (Series M) were issued to the public by way of a series expansion. The Company received a net consideration for the issuance of the additional Debentures (Series M) under the shelf offering report in the amount of approx. USD 81 million, net of issuance costs. For further details, see Note 14B to the Company's consolidated financial statements as of December 31, 2024, attached in **Chapter C of this report** (hereinafter – the “**Consolidated Financial Statements**”). The proceeds of the issuance were used and will be used by the Company to recycle existing debt and for its current business operations, in accordance with the decisions of the Company's management, as may be from time to time.

On September 30, 2024, the Company published a shelf offering report, based on the shelf prospectus dated January 11, 2022, according to which new Debentures (Series O) were issued to the public (on October 1, 2024). The Company received a net consideration for the issuance of the Debentures (Series O) under the shelf offering report in the amount of approx. USD 54 million, net of issuance costs. For further details, see Note 14B to the Consolidated Financial Statements. The proceeds of the issuance were used and will be used by the Company to recycle existing debt and for its current business operations, in accordance with the decisions of the Company's management, as may be from time to time.

Regulation 11 - Investments in Material Subsidiaries and Associates

For details, see Note 9 to the Consolidated Financial Statements and Notes 3 and 7 to the separate financial information in Chapter E to this Report.

Regulation 12 - Changes in Investments in Material Subsidiaries

During the Reporting Period, there were no changes in the Company's investments in material subsidiaries.

Regulation 13 - Income of Material Subsidiaries and Associates and the Company's Income Therefrom

For details, see Note 3B to the Company's separate financial information as at December 31, 2024.

Regulation 20 - TASE Trading – Listed Securities – Dates and Reasons for Suspended Trading

Further to the provisions of Regulation 10C above, additional Debentures (Series M), p.v. NIS 300,000 thousand, and Debentures (Series O), p.v. NIS 217,788 thousand, were listed in the reporting period.

In addition, during the reporting period, 38,428,423 ordinary shares in the Company, p.v. NIS 1, became dormant following the Company's share buyback; for details, see Notes 21A and 21C to the Consolidated Financial Statements.

Trading of the Company's securities was not suspended during the Reporting Period, other than for regular breaks in trading due to the publication of reports in the MAGNA system.

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Bazan Ltd.

Regulation 21 – Compensation of Interested Parties and Senior Officers

A. Below is a breakdown of the compensation given in 2024 to each of the five highest paid of the Company's senior officers and information on the compensation given to interested parties in the Company (in NIS thousands):

| Total | | Royalties | Compensation for services ⁽¹⁾ | | | Compensation recipient's details | | | | |
|------------------------------------|------------------------------------|----------------------|--|-------------------------|--------|----------------------------------|-------------------------|------------------------|---|--------------------------------|
| Including share based compensation | Excluding share based compensation | Other | Share based payment ⁽²⁾ | Bonuses ⁽¹⁰⁾ | Salary | Ownership stake | | Appointment percentage | Position | Name |
| | | | | | | Fully diluted | In corporation's equity | | | |
| 4,199 | 3,577 | - | 622 | 1,180 | 2,397 | 0.53% | 0.09% | 100% | Chairman of the Board of Directors | Moshe Kaplinsky ⁽³⁾ |
| 7,085 | 5,965 | 1,099 ⁽⁵⁾ | 1,120 | 1,592 | 3,274 | 0.42% | - | 100% | CEO | Asaf Almagor ⁽⁴⁾ |
| 3,364 | 2,838 | - | 526 | 659 | 2,179 | 0.16% | - | 100% | Deputy CEO, VP Safety, Security, Environment, Procurement and Contracts | Shlomo Basson ⁽⁶⁾ |
| 2,472 | 2,012 | - | 460 | 525 | 1,487 | 0.09% | - | 100% | CFO | Guy Liberman ⁽⁷⁾ |
| 2,169 | 2,056 | - | 113 | 620 | 1,436 | 0.09% | - | 100% | VP - Head of Fuels and Aromatics Business Unit | Yariv Gretz ⁽⁸⁾ |
| 3,774 | 3,496 | - | 278 | - | 3,496 | 0.15% | - | | Directors ⁽⁹⁾ | |

- (1) The compensation amounts are presented at cost to the Company.
- (2) The share-based payment to the Company's officers is presented above according to a linear division of the benefit over the expected vesting period; for details, see Note 21B to the consolidated financial statements. Salary expenses recognized in the income statement for share-based payment transactions in accordance with GAAP are as follows: Moshe Kaplinsky - approx. NIS 761 thousand, Asaf Almagor - approx. NIS 932 thousand, Shlomo Basson - approx. NIS 469 thousand, Guy Liberman - approx. NIS 352 thousand, Yariv Gretz - approx. NIS 222 thousand, directors - approx. NIS 533 thousand.
- (3) For details regarding the terms of employment of Mr. Moshe Kaplinsky, see Notes 21B and 27B3b to the Consolidated Financial Statements.
- (4) For details regarding the terms of employment of Mr. Asaf Almagor, see Notes 21B and 27B3c to the Consolidated Financial Statements.
- (5) Amounts recognized according to generally accepted accounting principles to the Company's profit and loss in the reporting period, mainly in respect of termination benefits.
- (6) For details regarding his terms of employment, see Section C below; the compensation amounts do not include a one-off netting of approx. NIS 164 thousand in respect of pension adjustments for past periods.
- (7) For details regarding his terms of employment, see Section C below.
- (8) For details regarding his terms of employment, see Section C below; it is noted that Mr. Gretz has concluded his term as VP of the Fuels and Aromatics Unit and as an officer of the Company at the end of November 2024; the salary amounts in the table cover his term as a VP and officer.

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Regulation 21 – Compensation of Interested Parties and Senior Officers - cont.

A. (cont.)

- (9) The aggregate compensation amount for all Directors (except the Chairman of the Board of Directors). It is clarified that this amount includes additional compensation for Mr. Alex Passal, in accordance with his service provision agreement, which is in addition to directors' compensation (as stated in Note 27B3e to the Consolidated Financial Statements). For further details on the Company directors' compensation terms, see Note 27B to the Consolidated Financial Statements.
- (10) Under the Company's compensation policy, the bonus is entirely or partially determined according to the Company's performance (the bonus to the Chairman of the Board of Directors is entirely based on the Company's performance, whereas the bonus for the CEO and the other officers is partially based on the Company's performance). In 2024, there is eligibility for the bonus component - which is determined based on the Company's performance, 80% of which is determined based on the EBITDA target and 20% - based on the net income target.

B. Compensation of senior officers

- (1) The terms of employment of Mr. Shlomo Basson - the engagement to employ Mr. Basson is for an unlimited time and either party may terminate it by a six months' prior notice. When his employment is terminated for any reason whatsoever other than dismissal under special circumstances as set out in the employment agreement, Mr. Basson will be entitled to a retirement bonus of 50% of the severance pay under the law, beside the amounts accrued in his favor for severance pay. In addition, Mr. Basson is eligible to a persistency bonus, which will be calculated as the product of the number of years he served in the Company multiplied by a certain rate which will increase from year to year but will not exceed 50% of his last basic salary upon termination of his employment by the Company.
- (2) The terms of employment of Mr. Guy Liberman - the engagement to employ Mr. Liberman is for an unlimited time and either party may terminate it by a six months' prior notice.
- (3) The terms of employment of Mr. Yariv Gretz - the engagement to employ Mr. Gretz is for an unlimited time and either party may terminate it by a six months' prior notice. When his employment is terminated for any reason whatsoever other than dismissal under special circumstances as set out in the employment agreement, Mr. Gretz will be entitled to a retirement bonus of 50% of the severance pay under the law, beside the amounts accrued in his favor for severance pay. During the reporting period, Mr. Gretz was allocated 3 million options under the outline the Company published on July 21, 2024 (Ref. No.: 2024-01-076429), whose content is included herein by way of reference. As stated above, Mr. Gretz's term as VP and officer ended at the end of November 2024.

The terms of the officers' employment include different benefit components in accordance with the Company's compensation policy.

Regulation 21A - Controlling Shareholder of the Company

As from September 15, 2022 until the Report approval date, the only controlling shareholder of the Company is Israel Petrochemical Enterprises Ltd. (hereinafter - "IPE"), a publicly-traded company traded on the TASE that holds (directly and via a company wholly-owned and controlled by it) approx. 25% of the issued capital of the Company. Mssrs. Yaakov Gutenstein, Alex Passal, David Federman and Adi Federman, the controlling shareholders of IPE have a control permit for the Company. For details regarding IPE's announcement regarding agreements signed between its shareholders (including regarding a voting agreement with respect to the appointment of the Company's directors) subsequent to the reporting period, see the Company's reports of February 16, 2025 and February 23, 2025 (Ref. Nos.: 2025-01-010777 and 2025-01-012111, respectively), the details of which are included herein by way of reference.

For further details, see Sections 1.3.2-1.3.4 and Section 1.18.9.3 to Chapter A of the Periodic Report.

Bazan Ltd.

Regulation 22 - Transactions with a Controlling Shareholder

Below is a breakdown, to the best of the Company's knowledge, of transactions with a controlling shareholder, or in the approval of which a controlling shareholder has a vested interest, and which are not negligible transactions as defined in Note 27I to the Consolidated Financial Statements, in which the Company engaged in 2024 and through to the reporting date:

- A. Directors who serve in the Company and who are controlling shareholders received an identical letter of indemnification undertaking from the Company as that given to the other directors serving in the Company, with the exclusion of exemption from liability.
- B. Assignment of Directors' Compensation In accordance with the Compensation Policy approved by the Company, directors may assign the compensation that they are entitled to receive for their term of office, to other parties, including to the controlling shareholders of the Company, at their discretion.
- C. On August 27, 2024, the general meeting approved the Company's compensation policy for the three-year period starting on its approval date, stipulating that the Company's policy is to obtain officer insurance, with customary coverage terms noting the Company's characteristics and subject to the applicable restrictions by law and under the Company's Articles of Association. It was further decided that the Compensation Committee may approve, from time to time, the purchase of an officers' liability insurance under the following terms: (a) The liability limit of the officers' liability insurance policy will be up to USD 250 million per claim; (b) The insurance policy, including the annual premium amount and deductible shall be made under prevailing market conditions at the policy issuing date and is not expected to have a material effect on the Company's profitability, assets or liabilities. For further details regarding the Compensation Policy, see amending general meeting summons report published by the Company on August 21, 2024 (Ref. No.: 2024-01-086433), the details of which are included herein by way of reference, and for details regarding the existing insurance arrangements in the Company, see Regulation 29A4.
- D. Engagement with Company director and controlling shareholder, Mr. Alex Passal, in an agreement for providing services for payment, in addition to directors' compensation. For details, see Note 27B3E to the Consolidated Financial Statements.
- E. Further to Regulation 22 of Chapter D of the Company's Annual and Periodic Report for 2023, published by the Company on March 14, 2024 (Ref. No.: 2024-01-022150) (hereinafter – the “**2023 Annual Report**”), on information that had been brought to the Company's attention in 2023 suggesting that shareholders of the Company's controlling shareholder, Israel Petrochemical Enterprises Ltd., might have a vested interest in engagements with one of the Company's raw material suppliers, an international trade company with whom the Company has been trading for many years (hereinafter – the “**Trade Company**”), included herein by way of reference – in the reporting period, the Company was presented with additional information suggesting that the controlling shareholders' vested interest in these engagements with the Trade Company is minor and negligible, and therefore, out of reliance on the opinion of the Company's legal counsel, the Audit Committee approved the non-classification of transactions with the Trade Company as transactions in whose approval the controlling shareholders have a vested interest, starting from March 13, 2024.
- F. It is noted that – subsequent to the reporting period – the Company's Compensation Committee and Board of Directors approved additional compensation in favor of expert external directors Adi Federman and Yaakov Gutenstein, who are included among the Company's controlling shareholders and whose wages are linked to the external directors' fees, in accordance with Regulation 1B(3) to the Exemption Regulations. For details, see the Company's immediate report dated January 28, 2025 (Ref. No.: 2025-01-007296), whose content is included herein by way of reference. Furthermore, subsequent to the reporting period, the Company's Compensation Committee and Board of Directors approved Mr. Rafi Arad's directors' fees, whose wages are linked to the external directors' fees; and furthermore, approved such compensation for the period commencing on the end date of the three-year period between the latest approval and the current approval, in accordance with Regulation 1A(2) of the Exemption Regulations, as detailed in the Company's immediate report dated March 11, 2025 (Ref. No.: 2025-01-016280), included herein by way of reference.
- G. For further details, see Note 27 to the Consolidated Financial Statements.

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Regulation 24 - Securities Held by Interested Parties and Senior Officers in the Company or in Any of Its Investees which Have Operations that Are Material to the Operations of the Company, as of the Report's Approval Date

For details regarding Company officers' and interested parties' holding stakes as of the report approval date, see the interested party and senior officer holdings report published by the Company on January 7, 2025 (Ref. No.: 2025-01-002527), as well as the immediate (supplementary) report on a person who has become an interested party in the corporation, published by the Company on January 30, 2025 (Ref. No.: 2025-01-007935), whose content is included herein by way of reference.

Regulation 24A – Registered and Issued Share Capital, and Convertible Securities

For details, see Note 21 of the Consolidated Financial Statements, as well as the report on corporate equity and securities registers and changes thereto, which the Company published on December 31, 2024 (Ref. No.: 2024-01-628631), and whose content is included herein by way of reference.

Regulation 24B - The Company's Register of Shareholders

The Company's Register of Shareholders is presented in this report by way of reference to the Company's report regarding its equity and listed securities and changes therein, published by the Company on December 31, 2024 (Ref. No.: 2024-01-628631).

Regulation 25A - Registered Address

For details regarding the Company's address and contact information, see the introduction to this report.

Bazan Ltd.

Regulation 26 - The Directors of the Corporation as of the Report Approval Date

| | Moshe Kaplinsky, Chairman of the Board | Rafael Arad, Director | Yaakov Gutenstein, Director | Alexander Passal, Director | Itay Simkin, External Director |
|---|--|--|---|---|--|
| ID No.: | 054679550 | 059259408 | 51176063 | 042540195 | 56816978 |
| Date of birth | January 20, 1957 | April 7, 1965 | March 2, 1952 | February 28, 1949 | February 7, 1961 |
| Address | 6 Nissim Aloni, Tel Aviv | 37 Ahim Yitkovsky, Petach Tikva | 35A Bustenay St., Ramat Hasharon | Bnei Binyamin 1/44, Netanya | 3 Hanna Rubina St., Tel Aviv |
| Citizenship | Israeli | Israeli | Israeli | Israeli | Israeli and British |
| Membership on Board of Directors Committees | Environment, Safety and ESG Committee, Security Committee (Chair), Committee for Negotiations with the Government (Chair), Executive and Strategy Committee (Chair) | Environment, Safety and ESG Committee, Trade and Hedging Committee, Investment in Existing Activity Committee, Finance and Financial Investments Committee (Chair), Innovation Committee | Innovation Committee (Chair); Trade and Hedging Committee, Investment in Existing Activity Committee, Trade and Hedging Committee, Committee for Negotiations with the Government, Executive Committee (Chair), Committee for Negotiations with the Government, Executive and Strategy Committee | Finance and Financial Investments Committee, Trade and Hedging Committee, Security Committee, Environment, Safety and ESG Committee, Investment in Existing Activity Committee (Chair), Executive and Strategy Committee, Committee for Negotiations with the Government. | Balance Sheet and Audit Committee, Compensation Committee, Trade and Hedging Committee, Innovation Committee, Security Committee. |
| Is he/she an independent director / external director | No | No | No | No | Yes |
| Does he/she have accounting and financial expertise or professional qualifications | No | He/she has accounting and financial expertise | No | He/she has accounting and financial expertise | Has professional qualifications; expert external director |
| Is he/she an employee of the Company, its subsidiaries, affiliates or of an interested party | Company's Chairman of the Board | CEO of Israel Petrochemical Enterprises | No | Director in the joint municipal company for the Bazan compound | No |
| Date of commencement of office as director | August 13, 2021 | November 4, 2020 | April 28, 2014 | April 28, 2014 | April 21, 2024 |

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Bazan Ltd.

| | Moshe Kaplinsky, Chairman of the Board | Rafael Arad, Director | Yaakov Gutenstein, Director | Alexander Passal, Director | Itay Simkin, External Director |
|--|---|--|--|---|---|
| Education | Academic (BA in Economics and Business Administration, Bar Ilan University; MBA, Tel Aviv University) | BA in Economics and Accounting, Tel Aviv University | BA in Economics and Political Science, Bar Ilan University | B.A. in Economics and Business Administration, Bar Ilan University | BA in Geography and Political Science, Haifa University |
| Occupation during the past five years | CEO of Bazan Group; CEO of Nesher Cement Enterprises. | CEO of Israel Petrochemical Enterprises; Arad Finance Ltd - provision of financial and accounting consulting services. | Chairman of Israel Petrochemical Enterprises Ltd. | CEO and owner of Bargal Financial Enterprises Ltd.; Gima Investments Ltd.; Bargal Research and Development Investments (1996) Ltd.; Passal Investments Ltd. | Founder and CEO of SEA Global Commodities AG |
| Companies in which he/she serves as a director | Kaplina K.P.L. Ltd.; Electreon Wireless Ltd. | Tnuport (1990) Ltd.; Apex Issuances Ltd.; Arad Finance Ltd.; R. Arad Management and Development Ltd.; Netanel Menivim Ltd. | Israel Petrochemical Enterprises Ltd. (Chairman); Modgal Group; Bargal Financial Enterprises Ltd.; Bargal Research and Development Investments (1996) Ltd.; Got (Y.R.N) Ltd.; Hudson Industries Ltd.; Interna Ltd. | Israel Petrochemical Enterprises Ltd.; Modgal Ltd.; Modgal Metals Ltd. | SEA Global Commodities AG |
| Is he/she a family member of other interested parties in the Company | No | No | No | No | No |
| Is he/she a director the Company regards as having accounting and financial expertise for the purpose of meeting the minimum number set by the Board of Directors in accordance with Section 92(a)(12) to the Companies Law | No | Yes | No | Yes | No |

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Bazan Ltd.

| | Ron Hadassi, Director | Nira Dror, Independent Director | Orna Hozman Bechor, External Director | Adi Federman, Director |
|---|--|---|--|--|
| ID No.: | 059258269 | 052726551 | 024570202 | 014680789 |
| Date of birth | March 24, 1965 | November 25, 1954 | November 12, 1969 | May 19, 1972 |
| Address | 13 Yigael Yadin., Hod HaSharon | 7 Dvora HaNevi'a, Ramat HaSharon | 7 Haprachim, Ramat HaSharon | Ramat Yam 12, Herzliya Pituach |
| Citizenship | Israeli | Israeli | Israeli | Israeli and British |
| Membership on Board of Directors Committees | Balance Sheet and Audit Committee, Compensation Committee, Finance and Financial Investments Committee, Environment, Safety and ESG Committee. | Finance and Financial Investments Committee, Balance Sheet and Audit Committee, Environment, Safety and ESG Committee (Chair), Investment in Existing Activity Committee, Security Committee. | Balance Sheet and Audit Committee (Chair), Compensation Committee (Chair); Investment in Existing Activity Committee, Innovation Committee, Committee for Negotiations with the Government | Finance and Financial Investments Committee, Trade and Hedging Committee (Chair), Committee for Negotiations with the Government, Executive Committee, Innovation Committee. |
| Is he/she an independent director / external director | No | Yes | Yes | No |
| Does he/she have accounting and financial expertise or professional qualifications | He/she has accounting and financial expertise | Does he/she have accounting and financial expertise | Has accounting and financial expertise, expert external director | No |
| Is he/she an employee of the Company, its subsidiaries, affiliates or of an interested party | No | No | No | No |
| Date of commencement of office as director | June 21, 2021 | June 21, 2021 | January 16, 2023 | October 6, 2022 |

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Bazan Ltd.

| | Ron Hadassi, Director | Nira Dror, Director | Orna Hozman Bechor, External Director | Adi Federman, Director |
|---|---|---|--|--|
| Education | BA Economics, Political Science and Law, Tel Aviv University; MBA - Finance and Marketing | BA Economics, Tel Aviv University; MBA Tel Aviv University, graduate of the Israeli Insurance Institute. | BA Business Administration, Thames Valley University; MBA Business Administration, Bar Ilan University | |
| Occupation during the past five years | Chairman of Elbit Imaging (served as CEO until the end of 2024); Chairman and CEO of Elbit Medical Technologies Ltd.; Executive Director at Plaza Centers NV; trustee attorney in Rockland April Limited, trustee attorney at Westerswest Limited. Lecturer on banking and financing at various institutes of higher education | Director at S. Shlomo Holdings; Director at S. Shlomo Insurance Company Ltd.; External Director at Meshek Energy Ltd.; External Director at Amot Investments Ltd.; Director at Union Bank of Israel; Nira Dror Owners Ltd. | Chairman of the Board of Ashdod Port; Director General of the Ministry of the Interior; Director General of the Ministry of Energy and Infrastructure | Director at Modgal Ltd., Modgal Industries 99 Ltd., Alverstone Ltd., Hudson Ltd., Fedanco Ltd., I.D. Federman Holdings Ltd.; Dynamics ID Enterprises and Construction Ltd.; Green Alaska Ltd. and Fedanco UK |
| Companies in which he/she serves as a director | Chairman of the Board at Elbit Imaging Ltd.; Chairman of the Board at Elbit Medical Technologies Ltd.; Director at Plaza Centers NV; Director at Bareket Real Estate Finance Ltd; Director at Brack Capital Properties NV; Director at Qualitau Ltd.; Director at Hertz Properties Group Ltd.; Director at Carmel Corp and at subsidiary Carmel Winery Ltd.; Director as Shaniv Industries Nir Ltd.; Director at Iskoor Metals and Steels Ltd.; Director at Liguy Hadassi Management and Investments Ltd. | Director at S. Shlomo Holdings Ltd.; Director at S. Shlomo Insurance Company Ltd.; external director at Amot Investments Ltd.; External Director at Meshek Energy Ltd.; The Israeli Cancer Society - Audit Committee; Tel-Hai College - board member and member of the Audit Committee. | Director at Migdal Holdings Ltd., Energix Renewable Energies Ltd., Global Knafaim Ltd., Megureit Israel Ltd., College of Management - Director and member of the Audit Committee; Rafael Advanced Defense Systems. | Modgal Ltd., Modgal Industries 99 Ltd., Green Alaska Ltd; Hudson Ltd., Fedanco Ltd., Crithmun Industries Ltd., and I.D. Federman Holdings Ltd. |

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Bazan Ltd.

| | Ron Hadassi, Director | Nira Dror, Director | Orna Hozman Bechor, External Director | Adi Federman, Director |
|--|------------------------------|----------------------------|--|---|
| Is he/she a family member of other interested parties in the Company | No | No | No | Yes - a relative of David Federman and Irit Federman, who are among the Company's controlling shareholders. |
| Is he/she a director the Company regards as having accounting and financial expertise for the purpose of meeting the minimum number set by the Board of Directors in accordance with Section 92(a)(12) to the Companies Law | Yes | Yes | Yes | No |

For details regarding the late Mr. Mordehai Zeev Lipshitz, whose term as external director ended during the reporting period, see Regulation 26 of Chapter D of the 2023 Annual Report, whose content is included herein by way of reference.

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Regulation 26A - Senior Officers of the Company as at the Date of the Report

| | Asaf Almagor | Shlomo Basson | Shmuel Holzkan | Guy Liberman | Mark Hana |
|---|--|--|--|--|--|
| ID No.: | 022193411 | 059033514 | 022364244 | 060938032 | 011459005 |
| Date of birth | November 18, 1965 | September 30, 1964 | February 15, 1969 | June 16, 1982 | September 17, 1976 |
| Date of commencement of term of office | December 1, 2022 | January 14, 2014 | April 1, 2022 | November 1, 2022 | July 1, 2014 |
| Position | CEO | Deputy CEO, VP Safety, Security, Environment, Procurement and Contracts | VP Human Resources | CFO | VP Marketing and Sales |
| An interested party in the Company or a relative of a senior officer and/or an interested party in the Company | No | No | No | No | No |
| Education | Academic: <ul style="list-style-type: none"> Bsc and Msc Chemical Engineering, Technion - Israel Institute of Technology. | Academic: <ul style="list-style-type: none"> BA in Middle Eastern Studies, Haifa University. MBA - Haifa University PhD candidate. | Academic: <ul style="list-style-type: none"> BA in Political Science and Middle Eastern Studies - Hebrew University MA in Political Science and Social Sciences and National Security, Haifa University | Academic: <ul style="list-style-type: none"> BA in Accounting and Law - The College of Management - Academic Studies MBA <p>Hebrew University of Jerusalem.</p> | Academic: <ul style="list-style-type: none"> BA in Business Administration - University of Southern California MBA studies at Mercer University, Atlanta. |
| Business experience in the past five years | Company's CEO and Chairman of the Board of Carmel Olefins and Gadiv; VP - Head of Polyolefins Business Unit (until November 2022); Head of Aromatics Business Unit (until December 2020); Acting CEO (Interim) (from June 2019 through May 2020); Director at Ducor. | Deputy CEO, VP Safety, Security, Environment, Procurement and Contracts; Acting CEO (Interim) (from June 2019 through May 2020); Chairman of the Board of Haifa Basic Oils (until 2020), Carmel Olefins and Gadiv. | VP Human Resources; Chief Human Resources Officer and Head of Casualties Division with the rank of Brigadier General (until August 2020). | CFO; Deputy CEO and VP Finance of Solegreen Ltd (2019-2022); VP Finance of Alon Gas Exploration Ltd. (2017-2019). | VP Marketing and Sales VP Procurement and Contracts (from 2018 through 2022); Director at Haifa Basic Oils (until 2020) and Carmel Olefins (UK) and Ducor |

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| | Yoav Katz | Limor Fasher Cohen | Orit Barkhorder | Yonatan Gershon |
|---|--|---|---|---|
| ID No.: | 022339733 | 024339541 | 312677685 | 040142119 |
| Date of birth | May 25, 1966 | April 11, 1969 | August 22, 1977 | September 15, 1980 |
| Date of commencement of term of office | December 1, 2024 | August 28, 2013 | December 1, 2022 | February 1, 2022 |
| Position | VP - Head of Fuels and Aromatics Business Unit | VP Integrated Planning and Trade | VP - Head of Polyolefins Business Unit | VP, Chief Legal Counsel |
| An interested party in the Company or a relative of a senior officer and/or an interested party in the Company | No | No | No | No |
| Education | Academic: <ul style="list-style-type: none"> • B.Sc. in Mechanical Engineering - Technion - Israel Institute of Technology. • MBA - Tel Aviv University | Academic: <ul style="list-style-type: none"> • B.Sc. in Chemical Engineering - Technion - Israel Institute of Technology. • MBA, Haifa University. | Academic: <ul style="list-style-type: none"> • B.Sc. in Chemical Engineering - Technion - Israel Institute of Technology. | Academic: <ul style="list-style-type: none"> • BA in Law - The College of Management. • MBA - College of Management. |
| Business experience in the past five years | CEO of Paz Oils and Chemicals Ltd. (2021-2024); Chief Operating Officer at Ambar Feed Mill (2018-2021). | VP Integrated Planning and Trade in the Company; Director at Carmel Olefins. | VP, Polyolefins Business Unit; Plant Manager of the Polyolefins Unit (until November 2022); Operations Manager of the Polyolefins Unit (until June 2022). | VP, Chief Legal Counsel; Chief Legal Counsel at Equital Ltd., Naphtha Israel Petroleum Corp. Ltd., Isramco Negev 2 Ltd., and private companies in Equital Group (2020-2022); Chief Legal Counsel and Corporate Secretary at GP Global Power Ltd. (2015-2020). |

For details regarding Mr. Yariv Gretz, who served as VP – Head of Fuels and Aromatics Unit and an officer until the end of November 2024, see Regulation 26A of Chapter D of the 2023 Annual Report, whose content is included herein by way of reference.

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| | Eliahu Mordoch | Orly Abramovitch | Eli Tzarfati | Shlomo Ben Shimol |
|---|--|---|--|---|
| ID No.: | 024433260 | 025044140 | 038144986 | 012308789 |
| Date of birth | July 28, 1969 | January 28, 1973 | November 20, 1985 | July 2, 1956 |
| Date of commencement of term of office | July 1, 2011 | January 16, 2022 | April 4, 2023 | December 1, 2024 |
| Position | Company Secretary | VP IT&OT | Manager, Accounting Department | Internal Auditor |
| An interested party in the Company or a relative of a senior officer and/or an interested party in the Company | No | No | No | No |
| Education | Academic: <ul style="list-style-type: none"> • LLB - Haifa University. • BA in Economics, Haifa University. • MBA - Tel Aviv University | Academic: <ul style="list-style-type: none"> • B.Sc. in Industrial Engineering and Management, major in Information Systems - Ben Gurion University of the Negev. • MBA - Ben Gurion University | Academic: <ul style="list-style-type: none"> • CPA. • BA in Economics and Accounting, Haifa University. • MBA - Open University. | Academic: <ul style="list-style-type: none"> • BA in Economics and Accounting, Tel Aviv University. • CPA. • Certified internal auditor. |
| Business experience in the past five years | Company Secretary. | VP IT & OT; Director of IT and Innovation at Bank of Jerusalem. | Manager, Accounting Department; Director at Carmel Eco Ltd., United Petroleum Export Co. Ltd., and Kamor Shipping Services Ltd.; Head of Financial Reporting Department of the Company (until 2023). | Partner at Deloitte Israel and Internal Auditor in several entities. |

For details regarding Mr. Ronen Artzi, whose term as the Company's internal auditor ended in the reporting year, see Regulation 26A of Chapter D of the 2023 Annual Report, whose content is included herein by way of reference.

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Regulation 26 B - Independent Authorized Signatories

The Company has no independent authorized signatories.

Regulation 27 – The Company's Independent Auditors

Kost Forer Gabbay & Kasierer, CPAs, 144A Menachem Begin Road, Tel Aviv.

Regulation 28 – Changes to the Memorandum or Articles of Association

In the reporting period, no changes were made to the memorandum or articles of association.

Regulation 29(a) – Recommendations and Resolutions of the Board of Directors during the Reporting Period

- A. Resolutions regarding dividend distribution and share buyback as specified in Notes 21C to the Consolidated Financial Statements.
- B. On April 21, 2024, the Company's General Meeting approved (after approval by the Company's Compensation Committee and Board) the allotment of options to five Company directors. For details, see the general meeting summons report published by the Company on March 18, 2024 (Ref. No. 2024-01-023260), which is included herein by way of reference.
- C. On July 18, 2024, the Company's Board of Directors approved (subsequent to the approval of the Company's Compensation Committee) the publication of an outline for an offering of up to 60,000,000 unlisted options and up to 20,000,000 unlisted RSUs, and for the pursuant grant of 33.5 million options to Company officers and managers. For details, see the outline on issuing RSU options to employees and managers that the Company published on July 21, 2024 (Ref. No.: 2024-01-076429), whose content is included herein by way of reference.
- D. On August 27, 2024, the Company's general meeting approved (subsequent to the approval of the Company's Compensation Committee and Board of Directors) the issuance of 9,000,000 options in favor of the Chairman of the Company's Board of Directors, subject to the terms described in the (amended) general meeting summons report the Company published on August 21, 2024 (Ref. No.: 2024-01-086433), whose content is included herein by way of reference.
- E. On October 6, 2024, the Company's Board of Directors approved (subsequent to the approval of the Company's Compensation Committee) issuing 3,000,000 options in favor of a Company officer. For details, see the private placement report the Company published on October 7, 2024 (Ref. No.: 2024-01-608188), whose content is included herein by way of reference.

Regulation 29(b) - General Meeting Resolutions Adopted not in accordance with the Recommendations of the Board of Directors

During the reporting year, no resolutions were adopted by the general meeting that were not in accordance with the recommendations of the Board of Directors.

Regulation 29(c) - Resolutions Adopted at an Extraordinary General Meeting

- A. The resolution dated April 21, 2024, regarding the approval of Mr. Itai Simkin's appointment as an external Company director.
- B. The resolution dated April 21, 2024, regarding issuing options in favor of serving directors not holding a control permit. For details regarding the said two resolutions, see the general meeting summons report (Amendment) published by the Company on March 18, 2024 (Ref. No. 2024-01-023260), which is included herein by way of reference.
- C. Resolution dated August 27, 2024 regarding approval of replacing the Company's independent auditor and appointing Kost Forer Gabbay & Kasierer EY, as the Company's independent auditor.
- D. The resolution dated August 27, 2024, regarding the approval of the Company's compensation policy.
- E. The resolution dated August 27, 2024, regarding issuing 9,000,000 options to the Chairman of the Company's Board of Directors.

For further details regarding the said three resolutions, see the general meeting summons report (Amendment) published by the Company on August 21, 2024 (Ref. No. 2024-01-086433), which is included herein by way of reference.

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Regulation 29(a)(4) - Exemption, Insurance or Undertaking of Indemnification of Officers

- A. The Company has an effective officer and director liability insurance policy in the Company and in directly and indirectly held subsidiaries, for USD 220 million limits of liability (the limit of liability for the Company's own liabilities is at USD 180 million); the policy also covers claims regarding securities. The insurance also applies, under the conditions described above, to directors on behalf of the controlling shareholders. For further details regarding the terms of the insurance policy, see Regulation 22 above. The Company also has a run-off policy with a liability limit of USD 190 million for a period of seven years (from September 15, 2022) to cover claims filed in the insurance period in respect of acts that occurred up to the insurance purchase date.
- B. The Company granted prior exemption to directors and officers of liability for damage resulting from a breach of their fiduciary duty towards the Company, subject to the provisions of the Companies Law, as well as a letter of undertaking to indemnify directors and officers of the Company, including directors who are controlling shareholders of the Company, Msrs. Yaakov Gutenstein, Alex Passal, and Adi Federman, according to which, subject to the terms of the letter of undertaking, the Companies Law and the Securities Law, the Company undertook to indemnify all its officers for any liability or expense, that may be imposed on them or that they may incur as a result of actions that they took or may take as part of their position as officers of the Company or of another company in which the Company holds at least 5%, (including actions taken prior to the date of the letter of undertaking) that are directly or indirectly related to one or more of the events set out in the addendum to the letter of undertaking, which the Board of Directors of the Company assessed may occur in view of the Company's operations as at the date of issue of the letter of indemnity, or any part thereof or related thereto, directly or indirectly, provided that the maximum amount of the indemnification will not exceed an amount equivalent to 25% of the Company's equity (consolidated) as per the last financial statements published by the Company prior to the actual indemnification.
- The undertaking to indemnify officers as provided in this section will apply (a) with regard to any monetary liability, if such is imposed on an officer in Israel and/or abroad in favor of another person and/or entity pursuant to a judgment, including a judgment rendered in a settlement or an approved arbitrator's award; (b) for reasonable litigation costs, including legal fees, incurred by officers in consequence of an investigation or proceeding conducted against them by an authority competent to conduct such investigation or proceeding, and which ended without the filing of an indictment against them, and without the imposition of a financial sanction as an alternative to a criminal proceeding; or that ended without filing an indictment against them but rather with the imposition of a financial sanction as an alternative to a criminal proceeding for an offense that does not require proof of criminal intent, as set out in Section 260 (1a) of the Companies Law; (c) for any reasonable litigation expenses, including attorney's fees, incurred by an officer or imposed by a court in a proceeding filed against the officer by the Company or on its behalf or by a person and/or another entity; (d) any expenses incurred with regard to an administrative proceeding (as defined below) that was conducted with regard to an officer, including reasonable litigation expenses, including attorney's fees; (e) any other liability or expense that is permitted or will be permitted for indemnification under any law.
- In this section, "administrative proceeding" will mean - proceedings pursuant to Chapter H3 (Imposing A Monetary Sanction by the Israel Securities Authority), H4 (Imposing Administrative Enforcement Measures by the Administrative Enforcement Committee) or I1 (Conditioned Arrangement for Avoidance of Taking Action or for Stopping Action) of the Securities Law.

March 11, 2025

Bazan Ltd.

Names and Titles of Signatories:

Moshe Kaplinsky
Asaf Almagor

Positions:

Chairman of the Board
CEO

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

To
The Shareholders of Bazan Ltd.

Dear Madam/Sir,

Special Independent Auditor's Report on the Separate Financial Information pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the Separate Financial Information presented pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970, of Bazan Ltd. (hereinafter - the "Company") as of December 31, 2024 and for the year ended on that date. The Separate Financial Information is the responsibility of the Company's management and board of directors. Our responsibility is to express an opinion on the Separate Financial Information based on our audit.

The Company's separate financial information as of December 31, 2023 and for each of the two years in the period ended December 31, 2023, was audited by other independent auditors, whose reports thereon dated March 13, 2024, included an unqualified opinion, and emphasis of matter to Note 5B to the separate financial information (including by way of reference to Note 20C to the Company's Consolidated Financial Statements) regarding the Government of Israel's resolution of March 6, 2022 with respect to the strategy for the development and advancement of the Haifa Bay, which includes the formation of a government taskforce for negotiating with the Company an outline for discontinuing the petrochemical industry activity of Group companies, while maintaining the energy security and regular fuel supply to the Israeli economy; and emphasis of matter to Note 5B to the separate financial information (including by way of reference to Note 20A(4) to the Company's Consolidated Financial Statements regarding proceedings conducted against the Company with regard to environmental laws and regulations.

We have not audited the separate financial information from the financial statements of an investee, the net assets less liabilities attributed thereto amounted to USD 33 thousand as of December 31, 2024. The Company's share in the losses of the abovementioned company amounted to USD 11 million for the year then ended. The financial statements of the Company were audited by other independent auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to these amounts, which were included for the company, are based on reports of the other independent auditors.

We conducted our audit in accordance with the generally accepted auditing standards in Israel. These standards require that we plan and perform the audit to obtain reasonable assurance that the Separate Financial Information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and items included in the Separate Financial Information. An audit also includes assessing the accounting principles used in drafting the Separate Financial Information and significant estimates made by the board of directors and management of the Company, as well as evaluating the overall presentation of the Separate Financial Information. We believe that our audits and the reports of other independent auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of other independent auditors, the Separate Financial Information is prepared, in all material respects, in accordance with Regulation 9 C of the Securities Regulations (Periodic and Immediate Reports), 1970.

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Without qualifying our said opinion, we draw attention to Note 5B to the Separate Financial Information (including by way of reference to Section 20C to the Company's consolidated financial statements) regarding the Government of Israel's resolution dated March 6, 2022 on the strategy for the development and advancement of the Haifa Bay, which includes forming a government team to negotiate with the Company, with the aim of reaching an arrangement to discontinue the activity of petrochemical manufacturing of the Group companies, while maintaining the energy security and regular fuel supply to the Israeli economy; in the opinion of the Company's management, at this stage, it is impossible to evaluate the significance and impact on its activity, business and financial results; as well as that said in Note 5B to the Separate Financial Information (including by way of reference to Note 20A(5) to the Consolidated Financial Statements of the Company) regarding proceedings against the Company in connection with environmental laws and regulations; in the opinion of the Company's management, which is based, among other things, on the opinion of its legal counsel, the effect of some of those proceedings on the financial statements, if any, cannot be assessed at this stage; therefore, no provisions were included with regard to this issue in the financial statements.

Tel Aviv,
March 11, 2025

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Bazan Ltd. - Data on the Separate Financial Position, in USD million

| | | As of December 31 | |
|--|------|-------------------|-------------------|
| | Note | December 31, 2024 | December 31, 2023 |
| Current assets | | | |
| Cash and cash equivalents | | 529 | 529 |
| Deposits | | 1 | 37 |
| Trade receivables | | 454 | 486 |
| Other receivables and debit balances | | 107 | 186 |
| Financial derivatives | | 3 | 11 |
| Inventories | | 582 | 627 |
| Total current assets | | 1,676 | 1,876 |
| Non-current assets | | | |
| Investments with respect to investees, net | 3A | 1,021 | 1,093 |
| Loan to Company for Early Pension Haifa Ltd. | | 19 | 22 |
| Long-term receivables and debit balances | | 4 | 22 |
| Long-term loans to an investee | 7F | 10 | 10 |
| Financial derivatives | | 7 | — |
| Property, plant and equipment, net | | 1,336 | 1,256 |
| Right-of-use assets, net | | 115 | 114 |
| Intangible assets and deferred expenses, net | | 24 | 21 |
| Total non-current assets | | 2,536 | 2,538 |
| Total assets | | 4,212 | 4,414 |

Moshe Kaplinsky

Chairman of the Board
of Directors

Asaf Almagor

CEO

Guy Liberman

CFO

Approval date of the financial statements: March 11, 2025

Bazan Ltd. - Data on the Separate Financial Position, in USD million (cont.)

| | Note | As of December 31 | |
|---|------|-------------------|-------------------|
| | | December 31, 2024 | December 31, 2023 |
| Current liabilities | | | |
| Loans and borrowings (including current maturities) | | 204 | 260 |
| Suppliers | | 835 | 801 |
| Other payables and credit balances | | 155 | 222 |
| Financial derivatives | | 15 | 28 |
| Provisions | | 4 | 4 |
| Total current liabilities | | 1,213 | 1,315 |
| Non-current liabilities | | | |
| Liabilities to banks, net | | 333 | 339 |
| Debentures, net | | 582 | 588 |
| Other long-term liabilities | | 82 | 80 |
| Financial derivatives | | 36 | 45 |
| Employee benefits, net | | 32 | 32 |
| Deferred tax liabilities, net | 4C | 170 | 158 |
| Total non-current liabilities | | 1,235 | 1,242 |
| Total liabilities | | 2,448 | 2,557 |
| Equity | | | |
| Share capital | | 811 | 811 |
| Share premium | | 31 | 31 |
| Capital reserves | | 13 | 45 |
| Retained earnings | | 909 | 970 |
| Total equity | | 1,764 | 1,857 |
| Total liabilities and equity | | 4,212 | 4,414 |

**The additional information attached to the Separate Financial Information
is an integral part thereof**

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Bazan Ltd. - Profit and Loss and Separate Other Comprehensive Income Data, in USD million

| | Note | For the year ended December 31 | | |
|--|------|--------------------------------|-------------|-------------|
| | | 2024 | 2023 | 2022 |
| Revenues | | 6,959 | 7,731 | 10,071 |
| Cost of sales | | (6,572) | (6,990) | (9,361) |
| Gross profit | | 387 | 741 | 710 |
| Selling and marketing expenses | | (63) | (43) | (42) |
| General and administrative expenses | | (33) | (33) | (34) |
| Other income (expenses), net | | 10 | (3) | 2 |
| Operating profit | | 301 | 662 | 636 |
| Finance income | | 28 | 27 | 35 |
| Finance expenses | | (114) | (118) | (125) |
| Finance expenses, net | | (86) | (91) | (90) |
| Company's share in losses of investees, net of tax | | (65) | (70) | (31) |
| Profit before income tax | | 150 | 501 | 515 |
| Expenses for income tax | 4B | (37) | (93) | (74) |
| Net income | | 113 | 408 | 441 |
| Items of other comprehensive income (loss) transferred to profit and loss: | | | | |
| Other comprehensive income (loss) for investees, net of tax | | 3 | (9) | 19 |
| Effective share of the change in fair value of cash flow hedges, net of tax | | 7 | (17) | 20 |
| Other, net | | – | (1) | – |
| Other comprehensive income (loss), transferred to profit and loss, net of tax | | 10 | (27) | 39 |
| Items of other comprehensive income not transferred to profit and loss: | | | | |
| Remeasurement of defined benefit plan, net of tax | | – | 2 | 7 |
| Other comprehensive income in respect of investees, net of tax | | – | 1 | 3 |
| Other comprehensive income, not transferred to profit and loss, net of tax | | – | 3 | 10 |
| Total other comprehensive income (loss) for the year, net of tax | | 10 | (24) | 49 |
| Comprehensive income for the year | | 123 | 384 | 490 |

The additional information attached to the Separate Financial Information is an integral part thereof

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Bazan Ltd. - Data on the Separate Cash Flows, in USD million

| | For the year ended December 31 | | |
|--|--------------------------------|--------------|--------------|
| | 2024 | 2023 | 2022 |
| Cash flows from operating activities | | | |
| Net income for the year | 113 | 408 | 441 |
| Adjustments required to present cash flows from operating activities: | | | |
| Revenue and expenses not involving cash flows (Appendix A – Section A) | 224 | 312 | 328 |
| | 337 | 720 | 769 |
| Changes in assets and liabilities items (Appendix A - Section B) | 168 | (17) | (140) |
| Income tax paid, net ⁽¹⁾ | (72) | (1) | (1) |
| Net cash provided by operating activities | 433 | 702 | 628 |
| Cash flows used in investing activities | | | |
| Interest received | 22 | 26 | 8 |
| Interest received from investees | 6 | 4 | 2 |
| Change in deposits, net | 66 | (13) | (22) |
| Dividend received from investees | – | – | 200 |
| Repayment of long-term loans from investees | – | – | 10 |
| Provision of long-term loans to investees | – | – | (10) |
| Change in cash provided by investing activities with investees, net | (9) | (20) | (81) |
| Repayment of a loan from Early Pension Haifa | 15 | – | – |
| Purchase of property, plant & equipment (including periodic maintenance work) ⁽²⁾ | (165) | (135) | (109) |
| Net cash used in investing activities | (65) | (138) | (2) |
| Cash flows used in financing activities | | | |
| Change in deposits, net | 6 | (26) | (1) |
| Interest paid ⁽³⁾ | (99) | (110) | (95) |
| Interest paid to investees | (9) | (9) | (4) |
| Derivative transactions, net | (2) | (1) | 5 |
| Change in cash provided by financing activities with investees, net | (12) | 11 | 11 |
| Repayment of a short-term loan from an investee | – | – | (50) |
| Repayment of long-term loans from an investee | – | (100) | – |
| Receipt of long-term loans from banks ⁽⁴⁾ | 152 | 120 | 40 |
| Repayment of long-term bank loans, including early repayment ⁽⁴⁾ | (201) | (97) | (87) |
| Repayment of debentures | (149) | (203) | (209) |
| Issue of debentures, less issuance expenses | 135 | 57 | 117 |
| Share buyback | (10) | (23) | – |
| Dividend paid | (174) | (250) | (120) |
| Net cash used in financing activities | (363) | (631) | (393) |
| Net increase (decrease) in cash and cash equivalents | 5 | (67) | 233 |
| Effect of exchange rate fluctuations on balances of cash and cash equivalents | (5) | – | 3 |
| Cash and cash equivalents at the beginning of the year | 529 | 596 | 360 |
| Cash and cash equivalents at the end of the year | 529 | 529 | 596 |

(1) During the reporting period, includes tax payments of approx. USD 55 million in respect of 2022-2023.

(2) During the Reporting Period and in 2023 - includes direct costs (before capitalization of salary costs and other costs) totaling approx. USD 55 million and approx. USD 40 million, respectively, in respect of periodic maintenance works in the Company's main refining facility and in adjacent facilities. Furthermore, during the Reporting Period - includes direct costs (before capitalization of salary and other costs) totaling approx. USD 23 million with respect to periodic maintenance work in the hydrocracker, hydrogen production facilities, CDU 3 and ancillary facilities, which commenced subsequent to the Reporting Period. In 2022, includes direct costs (before capitalization of salary and other costs) totaling approx. USD 45 million with respect to periodic maintenance work in some of the Company's production facilities, in particular the fluid catalytic cracker (FCC).

(3) As of December 31, 2022, interest payments for debentures in the amount of approx. USD 8 million, were deferred pursuant to the provisions of the deeds of trust to January 1, 2023, as their contractual maturity date was not a business day.

(4) During the reporting period, includes repayment of loans of approx. USD 101 million against receipt of new loans. In 2023, includes repayment of a loan of approx. USD 36 million against receipt of a new loan. For details, see Note 13A3 to the Consolidated Financial Statements.

Bazan Ltd. - Data on the Separate Cash Flows, in USD million (cont.)**Appendix A - Adjustments Required to Present Cash Flows from Operating Activities**

| | For the year ended December 31 | | |
|--|--------------------------------|-------------|--------------|
| | 2024 | 2023 | 2022 |
| A. Revenue and expense items not involving cash flows | | | |
| Depreciation and amortization | 92 | 85 | 79 |
| Other expenses (income), net | (10) | 3 | (2) |
| Finance expenses, net | 90 | 89 | 102 |
| Change in the balance of inventory and margins derivatives | (50) | (28) | 41 |
| Share in losses (profits) of investees, net | 65 | 70 | 31 |
| Expenses for income tax | 37 | 93 | 74 |
| Other | — | — | 3 |
| | 224 | 312 | 328 |
| B. Changes in assets and liabilities items | | | |
| Change in trade receivables | 31 | (26) | (8) |
| Change in other receivables and debit balances | 66 | (32) | (1) |
| Change in inventories | 45 | (34) | (47) |
| Change in trade payables | 25 | 100 | (46) |
| Change in other payables, credit balances and provisions | 1 | (25) | (34) |
| Change in employee benefits, net | — | — | (4) |
| | 168 | (17) | (140) |

**The additional information attached to the Separate Financial Information
is an integral part thereof**

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NOTE 1 - GENERAL

A. The Separate Financial Information of the Company as of December 31, 2024 are presented in accordance with the provisions of Regulation 9C and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970. This information should be read in conjunction with the consolidated financial statements as of December 31, 2024 (hereinafter - the "Consolidated Financial Statements").

B. Definitions:

The Company - Bazan Ltd.

Consolidated companies - companies and partnerships, the financial statements of which are fully consolidated with the financial statements of the Company.

Investees - consolidated companies and partnerships and companies and partnerships in which the Company's investment is stated in the financial statements on the equity basis.

NOTE 2 – ACCOUNTING POLICY

The Separate Financial Information has been prepared and presented in accordance with the accounting policies set out in Notes 2 and 3 to the consolidated financial statements, except for the amounts of assets, liabilities, income, expenses and cash flows for investees, as detailed below:

- A. The assets and liabilities are stated at their value in the Company itself as a parent company and according to their classification in the Consolidated Financial Statements attributable to the Company itself as the parent company, excluding the net asset and liabilities balances attributed to investees and presented in this report under the line item balances with respect to investees.
- B. Balances with respect to investees reflect the net amount, based on the Consolidated Financial Statements, attributable to the Company out of the total assets less the total liabilities with respect to the investees.
- C. The amounts of the income and expenses reflect income and expenses included in the consolidated financial statements attributable to the Company itself as a parent company, with breakdown between profit or loss and other comprehensive income, excluding income and expenses for investees, with breakdown according to classification of the income and expenses.
- D. The Company's share in the results of the investees is presented as a net amount of the total revenue less total expenses based on the consolidated financial statements for the operating results of investees.
- E. The cash flow amounts include a breakdown of the cash flows included in the consolidated financial statements attributable to the Company itself (excluding investees), taken from the consolidated statement of cash flows, with breakdown according to cash flow from operating, investing and financing activities, and details of their components. Cash flows for operating activities, investing activities and financing activities for transactions with investees are presented separately, in net figures, under the relevant item based on the nature of the transaction.
- F. Balances, income and expenses for transactions with investees, which were derecognized in the consolidated financial statements, are measured and stated under the relevant items in the statements of financial position and comprehensive income, in the same way they would have been measured and stated had they been carried out with third parties. Deferred net income (losses) are stated net (with the addition) of the Company's share in the profits (losses) of investees and investments in investees.

NOTE 3 - INVESTEEES

For details regarding investees see Note 9 to the consolidated financial statements.

It is noted that for the purpose of disclosure in this note, the financial data pertaining to the investment in Ducor, which is held through a wholly-owned subsidiary of Carmel Olefins, are presented separately from the Company's direct investments in Carmel Olefins.

A. Investments in investees

| Company name | Share of capital, voting rights and authority to appoint directors | No. of shares ⁽¹⁾ | Total par value | Balance of investment | |
|----------------|--|------------------------------|-----------------|-------------------------|-------------------------|
| | | | | As of December 31, 2024 | As of December 31, 2023 |
| | | | In NIS | In USD millions | |
| Carmel Olefins | 100% | 31,200,000 | 312,000,000 | 861 | 888 |
| Ducor | 100% | 11,211 | 19,152,648 | 28 | 42 |
| Gadiv | 100% | 4,500,000 | 45,000,000 | 94 | 122 |
| Other | | | | 38 | 41 |
| Total | | | | 1,021 | 1,093 |

(1) Ordinary shares.

B. Additional Data on the Investments in Investees

| Company name | For the year ended December 31, 2024, in USD million | | | | |
|----------------|--|--|--|---------------------------|---|
| | Company's share of net income (loss) ⁽¹⁾ | Amortization of excess costs, net of tax | Company's share in other comprehensive income (loss), net of tax | Repayment of capital note | Interest income (expenses) ⁽³⁾ |
| Carmel Olefins | (21) | (8) | 2 | — | (9) |
| Ducor | (11) | (1) | 1 | — | — |
| Gadiv | (26) | — | — | — | 6 |
| Other | 2 ⁽²⁾ | — | — | (7) | (1) |
| Total | (56) | (9) | 3 | (7) | (4) |

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NOTE 3 – INVESTEEES (cont.)**B. Additional Data on the Investments in Investees (cont.)**

| For the year ended December 31, 2023, in USD million | | | | | |
|--|---|--|--|------------|---|
| Company name | Company's share of net income (loss) ⁽¹⁾ | Amortization of excess costs, net of tax | Company's share in other comprehensive income (loss), net of tax | Investment | Interest income (expenses) ⁽³⁾ |
| Carmel Olefins | (36) | (8) | (9) | — | (8) |
| Ducor | (11) | (1) | — | — | — |
| Gadiv | (20) | — | — | — | 5 |
| Other | 6 ⁽²⁾ | — | 1 | 4 | (1) |
| Total | (61) | (9) | (8) | 4 | (4) |

(1) Excluding amortization of excess costs.

(2) Including unrealized gains.

(3) Interest income (expenses) in respect of balances between the Company and the subsidiaries.

NOTE 4 – INCOME TAX**A. General**

The Company is assessed in Israel under the provisions of the Income Tax Ordinance (New Version), 1961. For further details regarding the tax environment in which the Company operates, and the provisions of the law and the standards affecting it, see Note 16(A) to the consolidated financial statements.

B. Expenses (income) for income tax components

| | For the year ended December 31 | | |
|--------------------------------|--------------------------------|-----------|-----------|
| | 2024 | 2023 | 2022 |
| Current tax expenses | 20 | 95 | 12 |
| Deferred tax expenses (income) | 17 | (2) | 62 |
| Expenses for income tax | 37 | 93 | 74 |

C. Recognized deferred tax assets and liabilities and movements therein:

| | Property, plant and equipment | Employee benefits | Other | Total |
|---|-------------------------------|-------------------|------------|--------------|
| Deferred tax asset (liability) as of January 1, 2023 | (169) | 13 | (7) | (163) |
| Changes recognized directly in other comprehensive income | — | — | 3 | 3 |
| Changes recognized directly in profit and loss | 1 | (1) | 2 | 2 |
| Deferred tax asset (liability) as of December 31, 2023 | (168) | 12 | (2) | (158) |
| Changes recognized directly in other comprehensive income or equity | — | — | 5 | 5 |
| Changes recognized directly in profit and loss | (10) | (1) | (6) | (17) |
| Deferred tax asset (liability) as of December 31, 2024 | (178) | 11 | (3) | (170) |

D. For further details concerning the Company's income tax and tax assessments, see Note 16 to the Consolidated Financial Statements.

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NOTE 5 – CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS, AND OTHER SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

- A.** For details about guarantees and liens, see Note 19 to the Consolidated Financial Statements.
- B.** For details regarding contingent liabilities, commitments and developments and other significant events in the reporting period, including in connection with the government resolution to develop and advance Haifa Bay, see Note 20 to the Consolidated Financial Statements.
- C.** For details about loans and credit from banks and others, including changes therein in the reporting period and financial covenants that apply to the Company, see Note 13 to the Consolidated Financial Statements.
- D.** For details about the Company's debentures, including issuance of debenture series during the reporting period and financial covenants applicable to the Company, see Note 14 to the Consolidated Financial Statements.
- E.** For details about the impact of the war in Ukraine and the Iron Swords War on the Company's operating results, see Notes 1C and 1D to the Consolidated Financial Statements.

NOTE 6 – FINANCIAL INSTRUMENTS

A. Liquidity risk

As of December 31, 2024 and 2023, the long-term financial liabilities (for which contractual cash flows exceed on year) taken by the Company (separate) constitute more than 90% of the Group's long-term financial liabilities. Consequently, in the opinion of the Company's management, the liquidity analysis presented in Note 30B of the Consolidated Financial Statements provides sufficient information for understanding and analysis of the Company's liquidity risk.

B. Index and foreign currency risks

As of December 31, 2024 and 2023, a major part of the Group's exposure to index risk and foreign currency risk stems from the Company. Consequently, in the opinion of the Company's management, the exposure analysis presented in Note 30C of the Consolidated Financial Statements provides sufficient information for understanding and analysis of the Company's CPI and foreign currency risks.

NOTE 7 – MATERIAL AGREEMENTS WITH INVESTEEES

A. Inventory agreement for spare parts, chemicals and supplementary materials

The Company engaged in an agreement with subsidiaries operating in Israel that came into force on January 1, 2012, under which the Company manages the inventory of spare parts, chemicals and supplementary materials for all the Group companies, and service agreements with various service providers and contractors. For this purpose, the subsidiaries sold to the Company, on said date, their inventories as described above. Items are purchased from the Company's inventory at the price of the item in the Company's books on the date of each future sale. Contractor services are provided at the actual cost basis to the Company. Inventory financing and maintenance costs are allocated among the Bazan Group companies pro rata to the inventories held by each company on the date of sale of the inventories and an updated mechanism was set for determining the pro rata percentage.

B. Agreement of the Division of Headquarters Expenses

The Company engaged in an agreement with subsidiaries operating in Israel that came into force on January 1, 2011, to regulate provision of management services and head office running functions between Bazan Group companies, and attribution of payroll costs paid to third parties by the head office units of the Group companies, to the company receiving the relevant service. The agreement benefits the companies, in the ordinary course of business and at market conditions. The transaction was approved by the Board of Directors of the Company.

NOTE 7 – MATERIAL AGREEMENTS WITH INVESTEEES (cont.)

C. Agreements to supply feedstock to Carmel Olefins

The Company engaged in feedstock supply agreements with Carmel Olefins that include the Company's undertakings to supply raw material based on a price formula agreed upon between the companies and based on, as applicable, global prices. As of 2013 (since the switch to full use of natural gas) the Company and Carmel Olefins reached understandings regarding updating and changing prices for some of the raw materials that Carmel Olefins buys from the Company and for byproducts that Carmel Olefins sells to the Company, so that they will be based on the weighted price per energy unit at the Company's plants while taking the mix of energy sources actually used (natural gas or fuel oil) and their prices into account. The agreements are valid for one year and are renewed automatically for additional periods of one year each, unless prior notice is given by either of the parties concerning non-renewal of the agreements. The foregoing right to give prior notice is not applicable to the existing agreements for the supply of raw materials and byproducts between the companies, in which defined periods and quantities were set.

The agreements were approved by the boards of directors of Carmel Olefins and of the Company.

D. Processing and raw material purchase agreement with Gadiv

Under agreements between the Company and Gadiv, reformat produced by the Company and dripolene that the Company purchases from Carmel Olefins are supplied to Gadiv for processing in its plant. In exchange for processing and returning of flows, such as C-9, raffinate, toluene and Xylene to Bazan, Gadiv receives processing fees from the Company, which is calculated according to a formula set by the parties. Gadiv purchases from the Company all the benzene that it uses and the entire quantity of toluene and xylene that was not returned to the Company, as well as naphtha, C-9 and raffinate, in certain quantities, based on price formulas agreed upon between the companies and on global prices.

The term of the agreements is one year, and they are renewed automatically for one-year periods each, unless one of the parties gave advance notice regarding non-renewal of the agreement, and/or if Bazan stops being Gadiv's only shareholder.

E. Receipt of loans from Carmel Olefins

In 2021, the Company and Carmel Olefins signed an agreement whereby the Company will receive loans from Carmel Olefins, as follows: (1) Loan at the principal amount of USD 50 million to be repaid in a single installment on March 31, 2022, with an option to extend the term of the loan to December 31, 2022. The loan bore annual interest at the rate of 2.7% per year, which, in management's opinion, reflected prevailing market rates as of the inception date. On March 31, 2022, the loan was fully repaid; (2) Loan at the principal amount of USD 100 million to be repaid in a single installment on June 30, 2023, with an option to extend the term of the loan to December 31, 2023. The loan bore annual interest at the rate of 3.35% per year, which, in management's opinion, reflected prevailing market rates as of the inception date. On December 31, 2023, the loan was repaid in full.

F. Long-term loan made to Gadiv

1. In 2017, the Company provided Gadiv with a long-term loan in the amount of approx. USD 10 million, that was revised from time to time; the loan will be repaid in a single installment on June 30, 2022. The loan bore interest at the rate of LIBOR plus 3%, which, in management's opinion, reflected prevailing market rates as of the inception date. The loan was repaid in full IN 2022.
2. In 2022, the Company provided a long-term loan to Gadiv totaling approx. USD 10 million, to be repaid in a single installment on December 31, 2024, with an option to extend the term of the loan to December 31, 2026. The loan bears fixed interest at the rate of 8%, which reflected, in the opinion of the Company's management, prevailing market rates as of the inception date. In 2023, the loan's repayment date was extended until December 31, 2026.

NOTE 7 – MATERIAL AGREEMENTS WITH INVESTEES (cont.)**G. Borrowings by the Group companies**

As of December 31, 2024 and December 31, 2023, the short-term borrowings balances between the Group companies (presented in the separate information on the financial position under other receivables and debit balances and/or other payables and credit balances, as applicable) bear a SOFR rate plus 2.1% interest.

H. Dividend

1. For details concerning the dividend distribution policy, dividends that were declared and paid by the Company and share buyback during the reporting period and thereafter, see Note 21C to the Consolidated Financial Statements.
2. Subsequent to the reporting period, Carmel Olefins' Board of Directors approved a dividend distribution totaling approx. USD 100 million.
3. For details on the restrictions that apply to the Company in connection with the distribution of dividends under the financing agreements and the deeds of trust, see Notes 13 and 14 to the Consolidated Financial Statements.

I. Leasing of land

With regard to the land leased by the Company to Carmel Olefins and Gadiv, see Notes 11B and 12B to the Consolidated Financial Statements.

J. Guarantees provided by the Company to consolidated companies

With regard to guarantees provided by the Company to Group companies and receipt of guarantees from Group companies, see Note 13B to the Consolidated Financial Statements.

K. Balances with consolidated companies

| | As of December 31 | |
|--------------------------------------|-------------------|------------|
| | 2024 | 2023 |
| | Asset (liability) | |
| Trade receivables | 67 | 56 |
| Other receivables and debit balances | 91 | 75 |
| loans granted | 10 | 10 |
| Suppliers | (5) | (2) |
| Other payables and credit balances | (8) | (18) |
| Total balances | 155 | 121 |

L. Transactions with consolidated companies

| | For the year ended December 31 | | |
|-----------------------------------|--------------------------------|------------|------------|
| | 2024 | 2023 | 2022 |
| Revenues | 658 | 682 | 794 |
| Operating expenses ⁽¹⁾ | (71) | (48) | (49) |
| Interest expenses, net | (4) | (4) | (3) |
| Total transactions | 583 | 630 | 742 |

- (1) Due to the state of war in Israel (see Note 1D to the Consolidated Financial Statements), during the Reporting Period increased use was made of the vessels, which Trading leases for the Company's activity.

NOTE 8 – ADDITIONAL SIGNIFICANT EVENTS SUBSEQUENT TO THE REPORTING PERIOD

See Note 31 to the Consolidated Financial Statements

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