



**Oil Refineries Ltd.**



**BAZAN GROUP**  
OIL REFINERIES LTD

# **Periodic Report**

## **2022**

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## Chapter A - Description of the Company's Businesses

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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 Terms**

- 1.1.1.1 **Orthoxylene** – An aromatic material made from refined products. For information, see Section 1.7.8 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, the most common plastic in the world.
- 1.1.1.3 **Bitumen** – One of the refined products of crude oil; used mainly as a principal component in road building and for insulation.
- 1.1.1.4 **Gasoline** – One of the refined products of crude oil; used as fuel for transport.
- 1.1.1.5 **Benzene** – An aromatic material made from refined products. For information, see Section 1.7.8 below.
- 1.1.1.6 **Natural Gas** – A gaseous substance that forms naturally underground (similarly to oil), 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.
- 1.1.1.7 **LPG** - Liquefied Petroleum Gas, also known as cooking gas, and one of the refined products of crude oil.
- 1.1.1.8 **Consolidated Financial Statements** – The Company's Consolidated Financial Statements as of December 31, 2022, attached to **Chapter C of this Report**.
- 1.1.1.9 **Ducor** - Ducor Petrochemicals B.V.
- 1.1.1.10 **Raw Materials** – Materials purchased by the Company and used by it in the production process: including, but not limited to, crude oil.
- 1.1.1.11 **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.
- 1.1.1.12 **Toluene** – An aromatic material made from refined products. For information, see Section 1.7.8 below.
- 1.1.1.13 **Carmel Olefins** - Carmel Olefins Ltd.
- 1.1.1.14 **Fuel oil** – A product obtained after the initial refining processes; used mainly for heating and fueling ships.
- 1.1.1.15 **Very-Low Sulfur Fuel Oil** - Fuel oil with a sulfur content of up to 0.5%.
- 1.1.1.16 **The Refining Margin** – Is the difference between revenue from the sale of the Company's product mix and the ex-refinery cost of the feedstock purchased by the Company (mainly various kinds of crude oil, atmospheric bottoms, diesel fuel and HVGO) and energy costs.
- 1.1.1.17 **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 in which they are produced.
- 1.1.1.18 **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.
- 1.1.1.19 **Solvents** – Materials made from refined products. For information, see Section 1.7.8 below.
- 1.1.1.20 **Diesel Fuel** – One of the refined products of crude oil; used for transport and heating.

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- 1.1.1.21 **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 naphtha.
- 1.1.1.22 **Paraxylene** – An aromatic material made from refined products and by production processes in Gadiv. For information, see Section 1.7.8 below.
- 1.1.1.23 **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, office equipment), fibers and threads for making carpets, for use in the vehicle industry, and others.
- 1.1.1.24 **Polyethylene** – A polymer, the main uses of which are for manufacturing plastic products, such as products for agricultural use (such as sheeting for greenhouses), for making flexible and hard packaging (such as bags and bottles), insulation products and household utensils.
- 1.1.1.25 **Paz Ashdod** - Paz Ashdod Refinery Ltd.
- 1.1.1.26 **Phthalic Anhydride** – A solid material produced from orthoxylene, which is made from refined products. For information, see Section 1.7.8 below.
- 1.1.1.27 **Petroleum or PCH** - Petroleum Capital Holdings Ltd.
- 1.1.1.28 **Propylene** – A colorless, odorless gas at room temperature, used as a Raw Material in the petrochemical industry, mainly for the production of polypropylene.
- 1.1.1.29 **Kerosene/jet fuel** – one of the refined products of crude oil; used mainly as jet fuel and for heating.
- 1.1.1.30 **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 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.

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### **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 Oil Company Ltd. (hereinafter - “**Paz**”), in February 2007, the State of Israel sold all of the Company's issued and paid share capital, such that following the sale, the Company ceased being a governmental company, and its shares were listed for trade on the Tel Aviv Stock Exchange Ltd. (hereinafter - “**TASE**”) (hereinafter - “**Privatization of the Company**”). As of the report date, the controlling shareholder of the Company is Israel Petrochemical Enterprises Ltd. (hereinafter - “**IPE**”) (directly and via a wholly-owned subsidiary).

On September 15, 2022, IPE completed the acquisition of the 534,953,382 shares of the Company (that constituted 16.68% of the Company's shares at the time), held by Israel Corporation (which up to that date was part of the controlling shareholder group in the Company). Subsequent to the reporting Date, on February 13, 2023, Israel Corporation sold the remainder of its holdings in the Company (7.3% of the Company's issued and paid-up share capital). For information about the sale of the shares to IPE, following which Israel Corporation ceased being part of the controlling shareholder group in the Company, see Section 1.3.4 below. For the holding rates of the controlling shareholder in the Company as of the report date, see Note 1 of the Consolidated Financial Statements. For information about IPE's control permit in the Company, see Section 1.16.1 below.

The Company and its subsidiaries (hereinafter - the “**Companies**” or the “**Group**” or “**Bazan Group**”) are industrial companies operating mainly in Israel<sup>1</sup> and are engaged primarily in the production of fuel products and aromatics used as feedstock for the chemical and petrochemical industry, as well as the production of polymers used as feedstock for the plastics industry. The facilities of the Israel-based material subsidiaries are integrated with those of the Company.

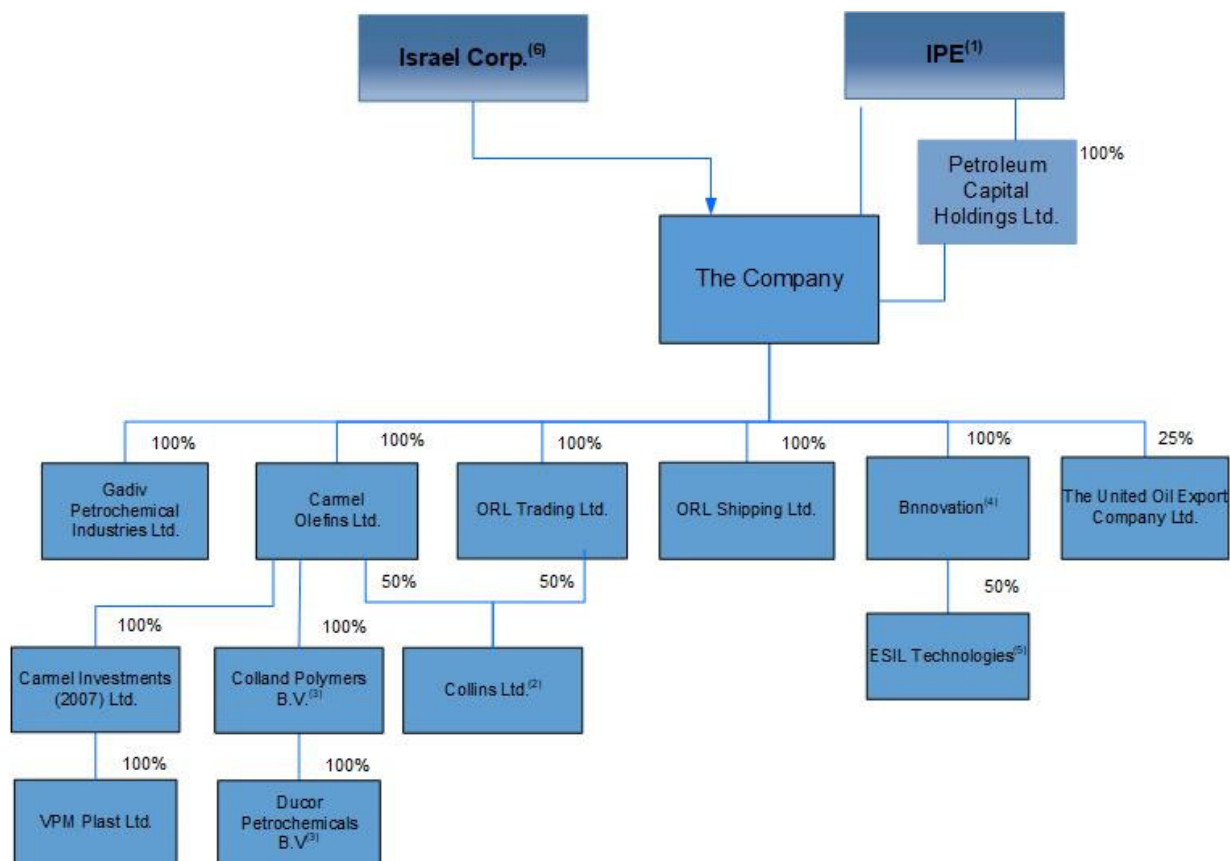
As part of the implementation of the Company's strategic plan for the Polymers Segment, on March 30, 2022, a wholly owned subsidiary of Carmel Olefins entered into an agreement to acquire control (76%) in VPM Plast Ltd. (hereinafter - “**VPM**”) which, upon completion of the transaction in August 2022, became a subsidiary of Carmel Olefins. For further information about the acquisition of control see Section 1.8.1.2 below.

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<sup>1</sup> With the exception of Ducor Petrochemicals BV, which operates in the Netherlands, and with the exception of additional companies whose operations are not material and which are not involved in production.

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### 1.1.3 Chart of the Company's holding structure as of December 31, 2022<sup>2</sup>



- (1) The Company and IPE are public companies and their shares are listed for trading on the TASE. For the holdings of IPE in the Company as at the report date, see Note 1 to the Consolidated Financial Statements. For further details about the holdings in the Company subsequent to the Report date, see Sections 1.3.4 and 1.3.7 below and Note 1 to the Consolidated Financial Statements.
- (2) A company registered in Guernsey.
- (3) Companies registered in the Netherlands.
- (4) Limited partnership wholly owned by Bazan Group (the Company is the limited partner), where its innovation function's operations are concentrated.
- (5) Limited partnership – For more information, see Section 1.11.2 below.
- (6) Israel Corporation is a public company whose shares are listed on the TASE. For the holdings of Israel Corporation in the Company as at the report date, see Note 1 to the Consolidated Financial Statements. On December 31, 2022, Israel Corporation held 7.3% of the Company's shares. Subsequent to the Reporting Period, Israel Corporation sold its shares and was no longer a shareholder in the Company.

<sup>2</sup> The chart includes active 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.

**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:

**1.2.1 Refining Segment (mainly through the Company and Gadiv):**

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 feedstock for the manufacture of other products. As part of this area of activity, the Group sells finished fuel products, intermediate materials and aromatic products to its customers in Israel<sup>3</sup> (including Carmel Olefins) and abroad.

For more information on refinement operations, see Section 1.7 of this Chapter;

**1.2.2 Polymers (mostly via Carmel Olefins and Ducor):** As part of its polymer activity, the Company is engaged, through Carmel Olefins Ltd., a private company wholly owned by the Company, and via Ducor Petrochemicals B.V., 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 feedstock in the plastics industry and through VPM (for a description of the activities of Carmel Olefins, Ducor and VPM, see Section 1.8 to this Chapter);

**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 marine transportation 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 additional information, see Section 1.9 of this Chapter.

In addition, the Company has investees that are engaged in additional activities that are not material to the Company, and are therefore not described in detail.

**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 In 2021, IPE sold Company shares on the TASE, in an immaterial amount.

1.3.3 On November 11, 2021, Israel Corporation completed the sale of 9% of its issued and paid-up share capital to several qualified entities (hereinafter - the “**Qualified Investors**”) in consideration for a total of NIS 262.5 million (reflecting a price of NIS 0.91 per Bazan share). Furthermore, as part of the transaction Israel Corporation granted the qualified investors, without additional consideration, non-marketable call options exercisable by purchasing additional ordinary Company shares from Israel Corporation, for a period of 22 months from the acquisition date, at a total rate of 7.3% of the Company's issued and paid share capital, in exchange for an exercise price of NIS 1.15 per share (hereinafter - the “**Qualified Investors Option**”).

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<sup>3</sup> 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 (storage, pumping and truck loading of fuel products).



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- 1.3.4 On September 15, 2022, IPE completed (through PHC) the acquisition of 534,953,382 shares of the Company from the Israel Corporation, under a first right of refusal granted to IPE under the joint control agreement between IPE and between Petroleum and Israel Corporation. In consideration for these shares, IPE paid NIS 554 million. When exercising the right of first refusal, the agreement between IPE and PCH and Israel Corporation for joint control in the Company expired and the control permit granted to each of them under the Government Companies Order (Declaration of Essential Interests for the State in Bazan Ltd.), 2007 also expired.<sup>4</sup>
- 1.3.5 In addition, as part of the said transaction, Israel Corporation granted IPE an option to acquire the remaining shares of Israel Corporation in the Company, which it still held subsequent to the right of first refusal, amounting to 7.3% of the Company's issued and paid-up share capital, which underly the Qualified Investors Option (hereinafter - the "**Additional Shares**") if the Additional Shares are not acquired by the qualified investors by virtue of the Qualified Investors Option, which is valid until September 11, 2023. The price of the Company's shares in this option is set as the higher of: (a) 91 agorot (91/100 of Israeli shekel), with standard adjustments; or (b) 90% of the average closing price of the Company's shares in the last 15 trading days on the TASE prior to the end of the option period for the qualified investors.
- For further information see the immediate report of August 18, 2022 (Ref. No. 2022-01-095826), which is included by way of reference. This option expired after the sale of the balance of the Company's shares to Israel Corporation as set out in Section 1.3.7 below.
- 1.3.6 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 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, see Note 1 to the Consolidated Financial Statements.
- 1.3.7 Subsequent to the Report date, the Qualified Investors Option was exercised and the Israel Corporation sold the Qualified Investors its remaining shares in the Company (7.3%) for NIS 0.97 per share.
- 1.3.8 For the holdings of IPE in the Company as of the date of this Report, see Note 1 to the Consolidated Financial Statements.
- 1.3.9 For additional information about the Company's capital, see Note 21 to the Consolidated Financial Statements.

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<sup>4</sup> 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 1.16.1 below.

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### **1.4 Dividend Distribution**

- 1.4.1 On November 7, 2021, the Company's Board of Directors resolved to adopt a dividend policy applicable from the financial statements for 2021 onwards. For information about the dividend policy see Note 21C to the Consolidated Financial Statements.
- 1.4.2 A decision to distribute a dividend will be subject to the provisions of any law, and to the distribution restrictions applicable to the Company under the deeds of trust for debentures and agreements with financing entities and credit providers.
- 1.4.3 No dividends were distributed by the Company in 2020-2021.
- 1.4.4 For information about the dividends distributed in 2022, see Note 21C to the Consolidated Financial Statements. The corporation's retained earnings as of December 31, 2022, as defined in Section 302 of the Companies Law was USD 817 million.
- 1.4.5 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. Additionally, 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.

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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:

<b>2022</b>					
	<b>Refining</b>	<b>Polymers</b>	<b>Other<sup>(1)</sup></b>	<b>Adjustments</b>	<b>Total</b>
<b>In USD millions</b>					
<b>External Sources Revenue</b>					
Revenues in Israel	6,186	285	-	-	6,471
Revenue from other countries	3,686	640	31	-	4,357
<b>Total revenue from external sources</b>	<b>9,872</b>	<b>925</b>	<b>31</b>	<b>-</b>	<b>10,828</b>
<b>Total inter-segment revenues (in Israel)</b>	<b>256</b>	<b>1</b>	<b>10</b>	<b>(267)</b>	<b>-</b>
<b>Total revenues</b>	<b>10,128</b>	<b>926</b>	<b>41</b>	<b>(267)</b>	<b>10,828</b>
<b>Costs for Operating Segment – External Sources</b>					
Variable - feedstock	8,189	277	-	-	8,466
Variable - other	981	222	19	-	1,222
Fixed	245	139	1	-	385
Depreciation Expenses	91	42	12	-	145
<b>Total</b>	<b>9,506</b>	<b>680</b>	<b>32</b>	<b>-</b>	<b>10,218</b>
<b>Costs for Area of Activity – Inter-Segment Costs</b>					
Variable - feedstock	11	256	-	(267)	-
<b>Profit (loss) from operating activities in the segments</b>	<b>611</b>	<b>(10)</b>	<b>9</b>	<b>-</b>	<b>610</b>
Other expenses, net	-	-	-	(16)	(16)
<b>Profit (loss) from operating activities attributed to shareholders of the Company</b>	<b>611</b>	<b>(10)</b>	<b>9</b>	<b>(16)</b>	<b>594</b>
<b>Total assets attributed to area of activity</b>	<b>3,399</b>	<b>1,158</b>	<b>45</b>	<b>(75)</b>	<b>4,527</b>
<b>Total liabilities attributed to area of activity</b>	<b>2,681</b>	<b>222</b>	<b>64</b>	<b>(184)</b>	<b>2,783</b>

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

For explanations concerning the developments in the above financial data, see the Board of Directors' explanations on the state of the corporation's business as of December 31, 2022, in Chapter B of the Periodic Report (hereinafter - the "Report of the Board of Directors").

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2021					
	Refining	Polymers	Other <sup>(1)</sup>	Adjustments	Total
In USD millions					
<b>External Sources Revenue</b>					
Revenues in Israel	3,193	428	-	-	3,621
Revenue from other countries	2,268	663	25	-	2,956
<b>Total revenue from external sources</b>	<b>5,461</b>	<b>1,091</b>	<b>25</b>	<b>-</b>	<b>6,577</b>
<b>Total inter-segment revenues (in Israel)</b>	<b>316</b>	<b>1</b>	<b>3</b>	<b>(320)</b>	<b>-</b>
<b>Total revenues</b>	<b>5,777</b>	<b>1,092</b>	<b>28</b>	<b>(320)</b>	<b>6,577</b>
<b>Costs for Operating Segment – External Sources</b>					
Variable - feedstock	4,864	119	-	-	4,983
Variable - other	401	208	16	-	625
Fixed	223	148	1	-	372
Depreciation expenses	113	32	17	-	162
<b>Total</b>	<b>5,601</b>	<b>507</b>	<b>34</b>	<b>-</b>	<b>6,142</b>
<b>Costs for Area of Activity – Inter-Segment Costs</b>					
Variable - feedstock	4	316	-	(320)	-
<b>Profit (loss) from operating activities in the segments</b>	<b>172</b>	<b>269</b>	<b>(6)</b>	<b>-</b>	<b>435</b>
Reversal of an impairment loss of fixed assets	-	-	-	8	8
Other expenses, net	-	-	-	(33)	(33)
<b>Profit (loss) from operating activities attributed to shareholders of the Company</b>	<b>172</b>	<b>269</b>	<b>(6)</b>	<b>(25)</b>	<b>410</b>
<b>Total assets attributed to area of activity</b>	<b>3,104</b>	<b>1,389</b>	<b>35</b>	<b>(141)</b>	<b>4,387</b>
<b>Total liabilities attributed to area of activity</b>	<b>2,940</b>	<b>260</b>	<b>79</b>	<b>(256)</b>	<b>3,014</b>

(1) “Others” includes the Trade Segment as set forth in Section 1.2.3 above.

For explanations concerning the developments in the above financial data, see the Board of Directors' explanations on the state of the corporation's business as of December 31, 2022, in Chapter B of the Periodic Report (hereinafter - the “**Report of the Board of Directors**”).

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2020					
	Refining	Polymers	Other <sup>(1)</sup>	Adjustments	Total
	In USD millions				
External Sources Revenue					
Revenues in Israel	1,970	263	1	-	2,234
Revenue from other countries	1,293	498	39	-	1,830
Total revenue from external sources	3,263	761	40	-	4,064
Total inter-segment revenues (primarily in Israel)	191	1	3	(195)	-
Total revenues	3,454	762	43	(195)	4,064
Costs for Operating Segment – External Sources					
Variable - feedstock	3,099	173	-	-	3,272
Variable - other	249	158	11	-	418
Fixed	188	128	-	-	316
Depreciation expenses	130	47	22	-	199
Total	3,666	506	33	-	4,205
Costs for Area of Activity – Inter-Segment Costs					
Variable - feedstock	4	181	9	(194)	-
Profit (loss) from operating activities in the segments	(216)	75	1	(1)	(141)
Impairment loss of assets	-	-	-	(19)	(19)
Other expenses, net	-	-	-	(45)	(45)
Profit (loss) from operating activities attributed to shareholders of the Company	(216)	75	1	(65)	(205)
Total assets attributed to area of activity	3,067	1,159	27	(333)	3,920
Total liabilities attributed to area of activity	2,968	248	76	(452)	2,840

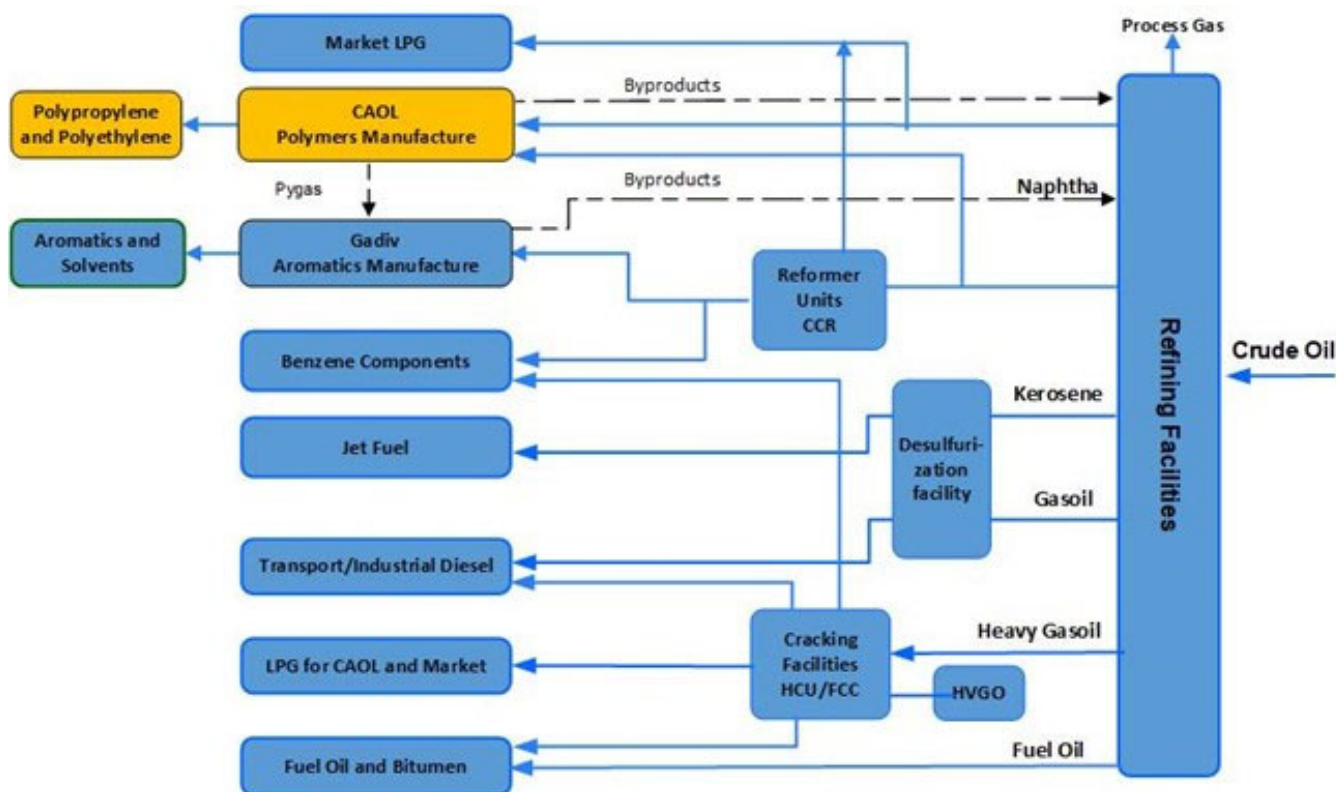
(1) “Others” includes the Trade Segment as set forth in Section 1.2.3 above.

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## 1.6 Description of Operations by Operating Segment

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 refinement operations are integrated with its polymers operations, primarily in Israel, which enables the members of the Group 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 Company:



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

The Companies 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 additional 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.

In order to determine the types of crude oil that are to be purchased by the Company and the composition of the products that are 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: the prices of various kinds of crude oil and the prices of the various products that the companies produce: prices of

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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 the mix of products produced using it) that maximize the Group's profitability. This system is used by the Company for the purpose of long-term future planning and for its ongoing operations.

Notably, 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 cannot influence 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, as well as the polymer product prices, by the Companies to its customers are set based on international prices,<sup>5</sup> 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 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.

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 use of gases produced in the refining process as feedstock in Carmel Olefins and the Companies are constantly examining possibilities for new projects.

### Headquarters of the Company

As a rule, the Company's headquarters provides most of the Group Companies with head office services in a concentrated manner, pursuant to the respective existing agreement between the Group's companies.

Headquarters services include: operation of an optimization system for production planning, financial and accounting services, IT systems, human resources services, safety, environmental issues, security, overall quality, purchasing, agreements, and legal services; the Company also purchases various inputs such as Natural Gas and electricity for most of the Group Companies operating in Israel.

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<sup>5</sup> Other than LPG and two types of bitumen that the Company supplies, whose price in Israel is subject to price control and is set under the order as aforesaid.

## **Part B – The Refining Segment**

### **1.7 Refining Segment**

#### **1.7.1 General**

As part of this segment, the Company purchases crude oil and intermediate materials, distills and separates them into end products and feedstock that are used for the manufacture of other products, including fuels and aromatic products, as described at length in Section 1.7.8 below.

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.

#### **1.7.2 General – 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 500°C) and at high pressures (up to 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 processes, 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 Paz Ashdod.

#### **1.7.3 General Information Concerning the Refining Operating Segment**

##### **1.7.3.1 Structure of the Operating Segment and Changes therein**



**1.7.3.1.1 General**

The Refining Margin is the major factor that affects the operating results in the operating segment (in addition to the utilization of the production facilities). The key factors that affect the Company's refining margin are the margins in the international markets.

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 2020 the Refining Margin was significantly impacted by the consequences of the outbreak of the Covid-19 pandemic and the ensuing plunge in demand for products. During 2021, there has been a moderate increase in refining margins due to increased demand for transportation fuels. In 2022, there was a substantial increase in the Refining Margin due mainly to the consequences of the war in Ukraine, a trend that continued also subsequent to the report date. For further information about the business environment, which affected the Company's operations, see Chapter 1, Section B of the Report of the Board of Directors.

For further information regarding significant developments in the business environment in which the Company operates, particularly in the refining sector, see Chapter 1, Section B of the Report of the Board of Directors.

**1.7.3.1.2 Factors and Trends that Affect Supply and Demand of Crude Oil**

As set out in Section 1.7.15.1, 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. In addition, 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 2021, demand for oil recovered gradually compared with 2020, and accordingly - Brent barrel price increased significantly. In addition, in 2022, there was an increase in the Brent price, mainly due to the Russia-Ukraine war and the increasing demand in the East (mainly in China). For further details, see Note 1D to the Financial Statements.

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 1.7.3.1.3) and global refining capacity. For details on crude oil prices (Brent) in and subsequent to the Reporting Period, see Note 1D to the Financial Statements.

In the long term there may be a downward trend in demand for crude oil due to the trends of minimizing the use of fossil fuels, given the environmental impacts of their use.

**1.7.3.1.3 Factors and Trends that Affect the Supply and Demand of Fuel Products**

The supply of refined products is mainly influenced, aside from the supply of crude oil, by international refining capacities, which dictate the ceiling of world supply for end products, which varies in accordance with the changes that occur from time to time in the capacities of the existing facilities (such as construction of new facilities, closure of refineries around the world, etc.) and with temporary factors such as breakdowns, renovation of facilities, etc.

Demand for refined products is affected, mainly, by the following factors: the rate of growth of large economies, 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.

In 2022, there was an increase (compared with 2021) in the demand for transportation fuels - gasoline and diesel fuel - which rebounded to pre-Covid-19 levels. The aforementioned increase in demand in 2022 continues the strengthening demand trend, along with the limited supply resulting mainly from the Russia-Ukraine war. This gap between supply and demand was reflected in peak margins, mainly in diesel fuel.

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 information see Section 1.7.7.2 below. For information about the Company's strategy and activity in the field of hydrogen-powered vehicles, see Section 1.22.3.3 below.

As at the report date, the transition to the use of private vehicles powered by such alternative energies is relatively small, however it is growing, particularly for private vehicles powered by electricity and a small portion - by hydrogen. 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. The paper also sets out goals for reducing 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 fuel products, especially heavier products, primarily fuel oil. At the beginning of 2020, changes in the marine fuel standard (IMO 2020) came into effect, requiring ships to meet stringent emissions standards and to consume fuels with a maximum sulfur content of 0.5% compared to 3.5% before, or to install exhaust gas treatment facilities in ships.

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The Company prepared for the standard coming into effect by exploiting the complexity and flexibility of its refining facilities and adjustment of the Raw Material mix it uses. It should be noted that also in Israel, due to stricter environmental requirements, plants that use fuel oil are required to use Very-Low Sulfur Fuel Oil - which is produced in Israel, only by the Company - or to use Natural Gas.

- (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.
- (d) Production of Fuel Substitutes from Renewable Sources - Production of transportation fuel components from renewable (plant) resources, such as ethanol and biodiesel, can lower the demand for fuel products for transportation. This trend is based on decreasing dependence on oil and reducing greenhouse gas emissions and pollutants into the environment. As at the report date, the scope of such operations is immaterial. The development of this trend in the future depends, among other things, on the prices of the oil products, compared with the alternatives that will be available on the market.

According to international publications,<sup>6</sup> notwithstanding the expected increase in the use of alternative fuels, due to the increase in the overall demand for fuel products, the demand for fuels derived from oil and in particular intermediate distillates and gasoline, is expected to continue to grow in the coming decade and to stabilize at a similar level in the following decade.

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. For information about the Company's strategic plan and the steps it takes to adapt its activities to the relevant changes, see Section 1.23 below.

**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 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 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 estimates are based, among other things, on publications on the subject in Israel and other countries, on the directives of the relevant authorities on this subject to date, 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 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 the increase of state and private action in the sector, and due to other risk factors to which the Company is subject, as set out in Section 1.23 below.**

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<sup>6</sup> Based on IHS forecasts.

**1.7.3.1.4 Factors and Trends that Affect the Supply and Demand of Aromatic Products**

1.7.3.1.5 Most of the aromatic products are commodities, the prices of which are set on a competitive supply and demand market. The development 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 operating in the aromatics segment are being established and are expected to be established worldwide, mostly in Asia, which are expected to add considerable production capacity in the near future and affect the supply of products.

1.7.3.1.6 **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.**

**1.7.3.1.7 Factors and Trends Affecting the Refining Margin**

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

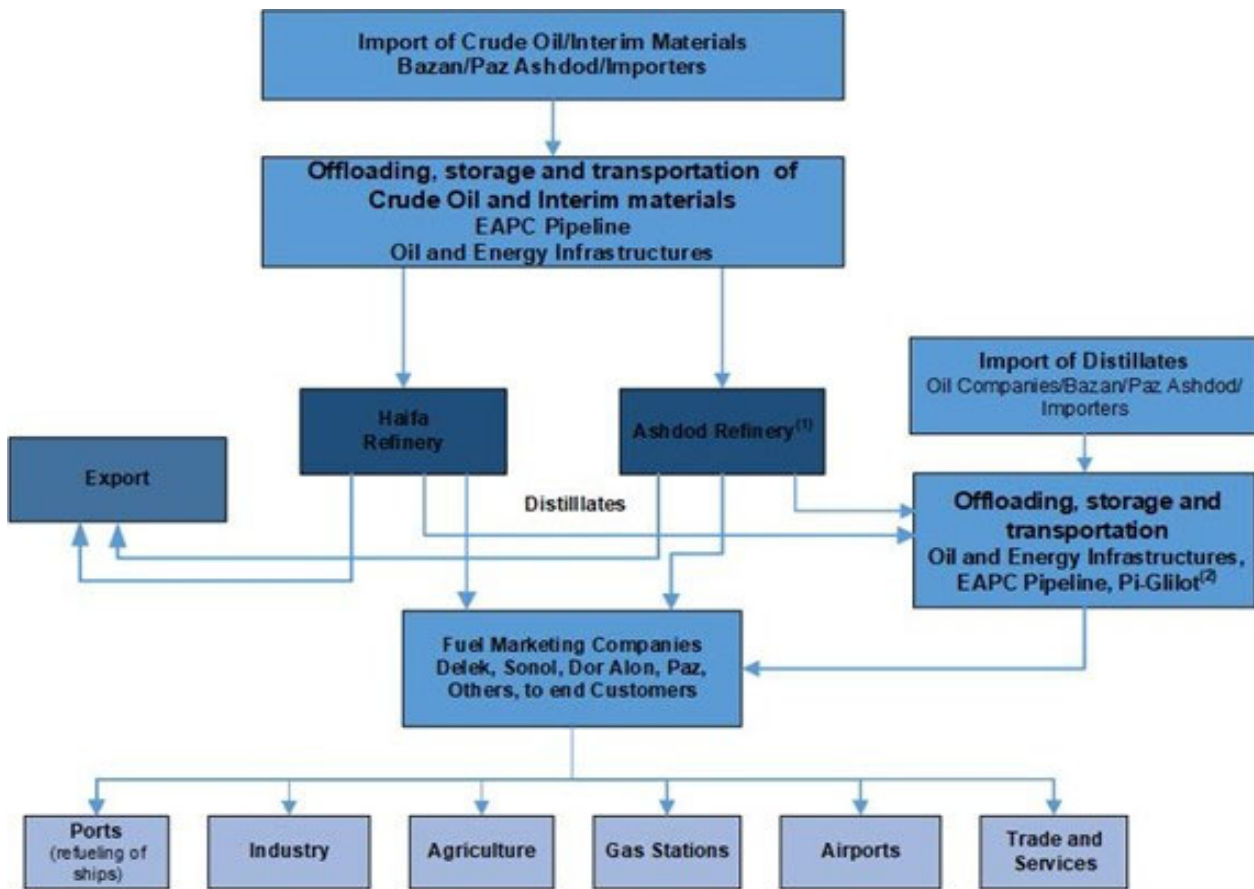
For information about the adjusted refining margins of the refining sector in 2021-2022, the changes that occurred and the main reasons for them and the emerging trends at the beginning of 2023, see Chapter 1, Section B and Chapter 2, Section A to the Company's Report of the Board of Directors.

Assuming a 97% availability and utilization rate of the crude oil refining facilities, the Company refines 70 million barrels of crude oil per year (see Section 1.7.14.4 of this chapter). In addition, assuming processing of 6 million barrels of Heavy Vacuum Gasoil per year, the Company processes a total of 76 million barrels of crude oil and intermediate materials per year. Accordingly, a change of 1USD in the adjusted refining margin could affect the Company's operating margin and EBITDA by 76 USD million per year.

\*Average volume of Heavy Vacuum Gasoil in 2021-2022. For further information, see Chapter 1, Section B of the Report of the Board of Directors of the Company.

1.7.4 **Domestic Market for Fuel Products**

Chart describing the structure of the petroleum sector in Israel:



<sup>1</sup> As at the report date, it is owned by Paz Oil Company Ltd.

<sup>2</sup> Operated by Delek the Israel Fuel Corporation Ltd.

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 information concerning the changes in distillate consumption in the domestic market in 2020-2022, see below as well as Chapter 1, Section B of 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 further information with regard to restrictions applicable to the Company, including in the Refining Segment, see Section 1.16 in this chapter.

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### Breakdown of the Company's figures <sup>(1)</sup> with respect to Israel's domestic consumption of fuel products in 2020-2022 (in thousands of metric tons):

Year	Transport Diesel Fuel	Gasoline	Kerosene (Jet Fuel)	LPG	Bitumen	Fuel Oil	Diesel Fuel for Heating	Petrochemical Feedstock	Total
2020	3,111	2,876	429	569	310	510	57	1,165	9,027
2021	3,124	3,256	533	559	290	489	70	1,133	9,454
2022	3,686	3,441	919	606	306	598	105	952	10,613

<sup>(1)</sup> These figures were taken from the Israeli Ministry of Energy and Infrastructures publications as published from time to time and do not include military use and the Company's own consumption. Consumption of diesel fuel for transportation includes the use of diesel fuel for generation of power.

#### 1.7.5 **Critical Success Factors**

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 feedstock, high-quality employees, 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:

- 1.7.5.1 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.
- 1.7.5.2 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.
- 1.7.5.3 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.
- 1.7.5.4 State-of-the-art technological capabilities and high operating capacities, 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 1.7.14.5 below.
- 1.7.5.5 Maximum utilization of the synergy between overlapping and complementary operations to increase competitiveness, increase production flexibility to match changes in demand for aromatic and fuel products (when demand for aromatic products decreases, Gadiv increases the flow of feedstock back to the Company for the production of benzene and vice versa) and the production of value-added and environmentally friendly products.
- 1.7.5.6 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.
- 1.7.5.7 Maintaining maximum commercial flexibility when purchasing feedstock so that it will be possible to exploit the technological capabilities and business opportunities, based on the changes taking place in the various markets.
- 1.7.5.8 Assembling teams of employees and executives who are highly professional and motivated.

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1.7.5.9 Building capabilities, 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 on the background of multiple changes and developments in the markets and in ESG regulation.

### **1.7.6 Key Entry Barriers**

In the Company's assessment, the following factors constitute the main entry barriers to the operating segment:

- 1.7.6.1 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;
- 1.7.6.2 The relatively long time required for constructing a plant;
- 1.7.6.3 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;
- 1.7.6.4 Dependence upon port, transportation and supply infrastructures;
- 1.7.6.5 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;
- 1.7.6.6 Dependence on the supply of Feedstock, and with regard to aromatics production, having a refinery located close to the plant, is also an advantage for the Company;
- 1.7.6.7 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.
- 1.7.6.8 For further details on competition in the refining segment and the Company's risk factors, see Sections 1.7.12 and 1.23.5 of this chapter.

### **1.7.7 Alternatives for Segment Products and Changes therein**

- 1.7.7.1 Natural Gas - Substituting some fuel products with Natural Gas is a global trend. Natural Gas has become a significant source of energy in Israel, that has replaced most of the consumption of crude oil, and is expected, in the coming years, to also replace most of the consumption of fuel oil and industrial LPG and part of 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 profile to the changing market conditions. For further information concerning the use of Natural Gas in the Company's plants and the Company's agreements for the purchase of Natural Gas, see Note 20B1 to the Consolidated Financial Statements, and Section 1.7.16 in this chapter.

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 information see Section 1.16.6 of this chapter). For information about the Competition Commissioner's position on, inter alia, restrictions dealing in Natural Gas, see Section 1.16.5 of this Chapter.

- 1.7.7.2 Decline in Fuel Oil and Fuel Oil Consumption - For further information concerning this trend see Section 1.7.3.1.3 above. Following are the steps the Company has been taking to adjust its operations to the downward trend in the consumption of fuel oil and diesel fuel for heating and to the IMO 2020 Standard:



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- (1) The hydrocracker facility for producing clean fuels,<sup>7</sup> which began operating at the beginning of 2013, enables the Company to process heavy crude oil and to achieve products with higher added value.
- (2) Expanding diesel production capacity, while maintaining flexibility to export diesel fuel for heating.
- (3) Modifying the crude refining facilities for the possibility of increasing processing of light crude oil, with low fuel oil content, if market conditions indicate that this would be worthwhile.
- (4) Modifying the crude refining facilities for reducing refining residue and increasing the volume of intermediate products that enable production of high added value products.
- (5) Improving the Company's capacity for blending various interim components and products, enabling production of a range of products with the required standards.
- (6) Adapting and diversifying the types of crude oil that the Company processes.

As set out above, the Company implements the various alternatives for dealing with the changes that have occurred.

1.7.7.3 Vehicles Powered by Alternative Energies - The widespread introduction of electric powered and hybrid cars, that combine fuel and electric systems, and the introduction of renewable fuel alternatives 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 information see Section 1.7.3.1.3, with special attention to the paper on Energy Economy Objectives for 2030. As part of the strategic plan adopted by the Company in order to deal with this trend, the Company intends to invest in hydrogen fuels and in the production of alternative fuels, such as biodiesel. For additional information, see Section 1.22 below.

**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 different 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, and due to the other risk factors facing the Company, as specified in Section 1.23 below.**

## 1.7.8 Products of the Key Operating Segments

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<sup>7</sup> The clean fuels facility (hereinafter - the "hydrocracker") produces mainly diesel fuel and kerosene. Since it became operative, the facility significantly increased the complexity of the Haifa refinery, enabling production of higher added-value products from each barrel of oil, and increasing the refinery's flexibility in selecting Raw Materials and product mix adapting them to the variable market conditions.



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- 1.7.8.1 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:
- 1.7.8.1.1 **Light Gases** - For energy and as feedstock for industry.
- 1.7.8.1.2 **Liquefied Petroleum Gas (LPG) (a propane and butane mixture)** - Used for domestic cooking, as Raw Material for industry and for combustion in adapted vehicle engines (automotive LPG).
- 1.7.8.1.3 **Naphtha** - as a Raw Material for industry.
- 1.7.8.1.4 **Various Kinds of Gasoline** – For combustion in gasoline engines.
- 1.7.8.1.5 **Kerosene (Jet Fuel, Oil)** - Fuel for jet airplanes, and for heating.
- 1.7.8.1.6 **Various Kinds of Diesel Fuel** - For combustion in diesel engines, heating for homes and in industry, and as a component of marine fuel.
- 1.7.8.1.7 **Various Kinds of Fuel Oil** - Heavy fuel used in industrial furnaces and in power generation overseas and marine fuel.
- 1.7.8.1.8 **Waxy substances** – Substances that bind at relatively high temperatures, used as feedstock for the HVGO plants.
- 1.7.8.1.9 **Bitumen** - Used for tarring roads and manufacturing sealing products.
- 1.7.8.2 **Aromatic Materials**, are produced, through Gadiv, from feedstock supplied by the Company as set out in Section 1.7.5.5 of this chapter, the main ones being:
- 1.7.8.2.1 **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., but it is not used as an end product consumed directly by end consumers.
- 1.7.8.2.2 **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.
- 1.7.8.2.3 **Xylene** – Is used as a Raw Material in the production of paraxylene, and as an organic solvent in the paint and insecticide industries.
- 1.7.8.2.4 **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. This is Gadiv's main product.
- 1.7.8.2.5 **Orthoxylene** – Is used as a Raw Material for the production of phthalic anhydrides.
- 1.7.8.2.6 **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.
- 1.7.8.2.7 **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.
- 1.7.8.3 In addition to the above, the Company manufactures hydrogen from Natural Gas in a dedicated facility. The hydrogen is expected to be used to power vehicles in the future and for various industrial applications.
- 1.7.9 **Breakdown of Revenues from Products**

For information regarding the distribution of the Company's revenues from external customers by its principal

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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 feedstock 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),<sup>8</sup> in amounts that are not material to the Company.

### **1.7.10 Customers**

#### **1.7.10.1 Fuel Products:**

Most of the refined products produced by the Company are sold mainly on the domestic market to fuel and gas marketing companies registered with the Fuel Administration, or licensed as gas supply licenses by the Israeli Ministry of Energy. The Company has long-standing contracts with various customers (mainly annual, often monthly, or for other periods, based on the negotiations conducted with the customers). With regard to the Company's marketing of fuel and gas (LPG), the annual agreements set out the volumes 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.

For further information pertaining to the price of the products sold on the domestic market, see Sections 1.16.2 and 1.16.3 of this report.

The rest of the sales are to various customers worldwide (primarily in the Mediterranean region). 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, which could also include advance payments to the Company. Export prices of the Company's products on global markets, whether in "Spot" purchases or under such contract, are set according to a price formula that is based on market prices shortly before 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.

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<sup>8</sup> The prices of storage and pumping services and part of petroleum product supply depot services provided by the Company are fixed in the Supervision of Prices of Commodities and Services (Infrastructure Tariffs in the Fuel Industry) Order, 1995. This Order 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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The various products exported by the Company are, in part, of a similar quality to that of the products sold by the Company in the domestic market, and some of lower quality. Lower quality of product does not necessarily mean low profitability from its sales. The differences in prices between sale to the domestic market and export sale for products of a similar quality sold at the same time stem mainly from the cost of transportation to export targets. The Company has ties and access to markets, some of which are emerging markets, such as: Turkey, Cyprus, Greece and the Black Sea region, which import transportation fuels.

Of the products exported by the Company in the past two years, the Company's exports to the principal markets were as follows: In 2022 - 31% to Turkey and 33% to Cyprus and in 2021 - 44% to Turkey and 24% to Cyprus.

### **1.7.10.2 Aromatics:**

As at the report date, most sales of aromatic products were executed by Gadiv - 94% in 2022 (81% in 2021), to customers overseas, mainly in the Mediterranean Basin, Europe and the US.

Due to the properties of the aromatic products, the primary customers for these products are manufacturers in the textile, paint, 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 feedstock 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. The prices of the products are set in accordance with known formulas and/or prices that are published in international publications. Most of the agreements with its various customers set out fixed quantities and dates of supply, Gadiv being required to manufacture the products and supply them in accordance with acceptable international specifications.

### **1.7.10.3** 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.

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- 1.7.10.4 The following are details of the Company's Segment Products sales in the local and export market, according to quantities sold (in thousands of tons):

	2022		2021		2020	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
<b>Domestic market</b>	6,572	63%	5,620	60%	5,399	61%
<b>Sales in other countries</b>	3,931	37%	3,709	40%	3,390	39%
<b>Total</b>	<b>10,503</b>	<b>100%</b>	<b>9,329</b>	<b>100%</b>	<b>8,789</b>	<b>100%</b>

- 1.7.10.5 The product mix obtained from each barrel of crude oil depends on the nature of the that 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.
- 1.7.10.6 For further information regarding the Company's revenues from its key customers (customers which account for 10% or more of the Group's sales turnover) and credit risk, see Notes 28C and 29B to the Consolidated Financial Statements, respectively.
- 1.7.10.7 The Company and Gadiv have debt discountagreements with certain customers. For information, see Note 6B to the Consolidated Financial Statements.
- 1.7.10.8 For a breakdown of sales for the Refining Segment by geographic region out of Carmel Olefins' total revenues, see Section Note 28C to the Consolidated Financial Statements.

### 1.7.11 **Marketing and Distribution**

#### 1.7.11.1 **Marketing and Distribution in Israel**

- 1.7.11.2 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. For the Competition Commissioner's position on marketing and distribution of refined products to customers that are not fuel companies, see Section 1.16.5 of this Chapter. A minor part of the aromatic products sold by the Company are sold in Israel, yet Gadiv is a major manufacturer in the Israeli market. For further information about the Company's marketing channels, see Sections 1.7.15.4 and 1.7.15.5 below in this chapter.

#### 1.7.11.3 **International Marketing and Distribution**

Most marketing and distribution of the segment'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.

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The Company markets and distributes its products through its employees at the Company's headquarters in Haifa Bay and Gadiv sells aromatic products outside Israel through agents and distributors abroad according to sales areas (each agent has exclusivity in his sales area). 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 information on leasing petroleum and crude oil products transportation tankers, see Section 1.9 of this Chapter.

### **1.7.11.4 Order Backlog**

The order backlog in this segment as at December 31, 2022 for customers of the Company and Gadiv in Israel and abroad came to a total volume 6.8 million tons (mainly diesel fuel and gasoline, for which sales volumes are agreed in advance) and in an amount of USD 5,952 million,<sup>9</sup> compared with 6.5 million tons and USD 4,636 million, as at December 31, 2021. In 2023, the order backlog is expected to be spread evenly throughout the year. The bulk of this year-on-year total increase in the order backlog as of December 31, 2022, compared to December 31, 2021, stems mostly from an increase in distillates prices. Close to the date of approval of the Report, the order backlog is 5.7 million tons and amounts to USD 4,720 million, the decrease in order backlog compared to December 31, 2022 is mainly due to the passage of 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 on "spot" sales agreements, and are supplied within a short period of time after the date of contracting. Revenues from such "spot" sales agreements are lower compared with the revenue from the annual sales.

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 to the order backlog, the uniform spreading of orders over 2023 and the scope of monthly and spot sales is forward-looking information based primarily on the companies' experience in previous years. The factors that affect the companies are set out above, consequently, the uniform spread of orders at the plant throughout 2023 and the scope of the monthly and spot orders during 2023 is uncertain.**

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<sup>9</sup> The amounts of future order backlog described in this section are based on known prices of the products close to the date that the backlog relates to.

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### **1.7.12 Competition**

- 1.7.12.1 There are two refineries operating in Israel which compete against each other, the Company and Paz 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.
- 1.7.12.2 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 for 2022 was 66% compared to 62% in 2021 in the domestic market.<sup>10</sup>
- 1.7.12.3 The fuel storage and supply depots located in the areas of demand (Ashdod and Ashkelon), that enable, in addition to the fuel products produced at the Paz Oil Refinery Ashdod, 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 impact on the Company's ability to compete in those areas. Company's customers use those depots to import gasoline. However, since 2019 the scope of use of those depots has decreased.
- 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.
- Additionally, to the best of the Company's knowledge,<sup>11</sup> subsequent to the report date, Paz is expected to complete the separation and split of Paz Ashdod such that subsequent to the report date, Shafir Energy will hold 15% of Paz Ashdod shares, Paz 4.9%, and the remaining 80.1% by the public. At the transaction completion date, and as part thereof, an oil and distillate agreement is expected to be signed, according to which Paz will continue to purchase most of its fuel consumption from Paz Ashdod until the end of 2025 (Paz Ashdod has the option to terminate the agreement at the end of 2024). These changes in Paz Ashdod could increase competition in Israel for the products of this operating segment that are also sold by Paz Ashdod.
- 1.7.12.4 The cost of supply to the center and the south increased due to changes in exchange rates. 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. The Company maintained its positioning in the market and even improved it, despite the infrastructure costs that confer an advantage upon the competing refinery. In 2022, there was a change in infrastructure costs with EAPC and subsequent to the Reporting Date, a hearing was published on a significant increase in the fees of Energy Infrastructures. The Company is considering its legal measures against the increases detailed in the hearing.
- 1.7.12.5 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

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<sup>10</sup> For information pertaining to the volume of the entire market, see Section 1.7.4 of this chapter.

<sup>11</sup> Based on the Paz's General Meeting Summons Report of February 9, 2023 (Ref. No.: 2023-01-013609), which is scheduled to convene on March 16, 2023 to approve the transaction.

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share in the international market is minor. In the Mediterranean Basin, Bazan is a significant player both as a manufacturer and as an active player in commercial operations.

- 1.7.12.6 Gadiv operates in a very 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 7% of the market.
- 1.7.12.7 Gadiv is the only aromatic products manufacturer in Israel and has been declared a monopoly pursuant to the Economic Competition Law. As set out in Section 1.7.11.2 of this chapter, 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 above, is 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, 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.**

1.7.13 **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.

1.7.14 **Production Capacity**

- 1.7.14.1 The plant facilities at Haifa 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 asphalt), and facilities for treatment of sulfur.



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- 1.7.14.2 The production capacity of the companies at Reporting Date, is distillation of crude oil (carried out in the crude distillation facilities) of 197 thousand barrels of crude per day (9.8 million tons per year) and 3.2 thousand tons per day of feedstock to the Aromatics facilities. Refining capacity is measured in barrels of crude oil per day that a refinery has the capacity to process in its 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 information regarding the breakdown of the Company facilities' output by main product groups in the fuel sector, see Chapter 1, Section B of the Report of the Board of Directors.
- 1.7.14.3 The plant operates 24 hours a day every day of the year, apart from planned shutdowns of various facilities for the purpose of ongoing maintenance work, based on a work plan for Company and its subsidiaries, and on account of malfunctions. In 2022, the Company carried out periodic maintenance work in some of its facilities involved in this activity, and is also carrying out, near the approval date of this report, periodic maintenance in some of its facilities, particularly the FCC facility. For further information, see Chapter 2, Section B2 of the Report of the Board of Directors.
- 1.7.14.4 The Group's production facilities, 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 normal course of business, to malfunctions that may result in the shutdown of a malfunctioning facility and the shutdown of other production facilities operating in conjunction with or near the facility in which the malfunction occurred. Suspending the operation of the Company'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 Company's operations (for further information about this risk factor, see Section 1.23.3.8 on the risk factors, below). However, the Company manages these events wisely, 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 Company's facilities for preventive maintenance and enhancement of systems, to minimize damage and to ensure proper management, and the Company is also ready to repair malfunctions, both through implementation of procedures for effective handling of malfunctions and through work plans that include, as a working assumption, possible shutdown of the Company's facilities due to unexpected malfunctions.
- 1.7.14.5 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. For further information regarding the master plan applicable to the Bazan complex and the planning restrictions thereunder, see Section 1.10.7 below.
- For further information regarding the rate of utilization of the crude oil facilities in 2021 and 2022, and the factors that affect it, see Chapter 1, Section B of 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).



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### 1.7.14.6 Breakdown of production capacities of the major refining facilities listed in Section 1.10 of this chapter:

	<b><u>Production Capacity</u></b> <b>(barrels per day)</b>	<b><u>Year of Establishment</u></b>	<b><u>Date of Last Upgrade</u></b>	<b><u>Date of Last Maintenance</u></b>
Crude refining facilities (including vacuum):				
Crude Refining Plant 1	27,000	1939	1995	2019
Crude Refining Plant 3	57,000	1944	1979	2018
Crude Refining Plant 4	113,000	1985	2009	2016
Viscosity-breaking Facilities (3/4)	43,500	1944/1945	1982	2016/2018
Fluid Catalytic Cracking (FCC) Facility	25,500	1979	2005	2022
Mild Hydrocracker (MHC) <sup>(1)</sup>	31,000	1964	2009	2022
Continuous Catalytic Reformer (CCR)	33,000	1995	2017	2017
Isomerization Facility	12,000	2006	N/A	2017
Hydrocracker	36,000	2012	N/A	2018
Hydrogen Production Facility <sup>(2)</sup>	120	2012	N/A	2018
<u>Desulfurization Facilities:</u>				
Naphtha	40,000	1995	N/A	2017
Kerosene <sup>(3)</sup>	16,500	1962	2007	2022
Diesel Fuel	72,000	2002	N/A	2016
FCC Gasoline	15,500	1962	2002	2022
Aromatics facilities	3,200 <sup>(4)</sup>	1977	2010	2017

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

(2) Ton of hydrogen per day.

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

(4) Gadiv has annual processing capacity of 1,100,000 tons reformat<sup>12</sup> and 100,000 tons dripolene<sup>13</sup> (aromatic byproduct produced at Carmel Olefins).

As detailed above, during the reporting period, the Company carried out a renovation, including the fluid catalytic cracker (FCC), the mild hydrocracker, and the kerosene and gasoline desulfurization facilities.

1.7.14.7 The Company has a cogeneration power plant with upgraded power generating capacity of 40 megawatts and 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 of July 2013, the Company purchases the remaining power it requires from OPC Rotem Ltd. (hereinafter - "OPC"), a private company, under an agreement signed between the Company and OPC in 2011, for a period of ten years from the date on which OPC began to supply electricity to the Company. 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 information about the agreement with OPC and the settlement agreement in respect of the motion to certify a derivative claim relating to this transaction, see Notes 27E and 20A3 to the Consolidated Financial Statements.

<sup>12</sup> A high-octane material produced in the Company's catalytic reformer (CCR), which contains high concentrations of aromatic substances.

<sup>13</sup> A by-product in the naphtha cracking process at Carmel Olefins plants, that contains a high concentration of benzene.

This translation of the financial statement is for convenience purposes only.

The only binding version of this document is the Hebrew version

**1.7.15 Feedstock and Suppliers**

1.7.15.1 The Company's feedstock are crude oil, condensate (a byproduct of Natural Gas production), 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 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.

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.

The Company purchases crude oil from various suppliers worldwide mainly international and national trading companies, and refineries and other companies that specialize in trading of oil and its products. 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. In 2022 and 2021, most purchases were on the basis of "spot" transactions, and the Company estimates that this trend is expected to continue in 2023. In 2021-2022, the Company purchased 30% of its crude oil and intermediate materials through Periodic Purchase transactions. In the Reporting Year, the Company continued engaging in agreements mainly with suppliers of crude oil allowing it, in general, to obtain credit terms of 60-90 days, enabling the Company flexibility in managing the working capital needed for its operations. For further information, see Note 15A to the Consolidated Financial Statements.

In the Reporting Period, the Company sourced crude oil (and other feedstock) from a range of sources that change from time to time, in accordance with the economic viability of buying each type of crude oil.

As at the report date, the Company is party to a crude oil inventory availability transaction for a period of 5 years, terminating in 2025, for a volume of 1.8 million barrels. For further information, see Note 20B4 to the Consolidated Financial Statements.

The Company purchases Heavy Vacuum Gasoil (hereinafter - "**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 2022, 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. Similar agreements in similar volumes were also signed in 2023. 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 Bazan,

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originates in Russian refineries. Bazan 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 these products from a Russian source is according to sanctions that are updated from time to time. As at the reporting period and based on external legal advice, trade in these products from a Russian source according to the latest sanctions, is permitted to non-EU destinations, and as long as the price is lower than the relevant price ceiling for each product, it can also be transported and insured by European and G7 entities.

For more information about the potential effects of the imposition of sanctions on Russia on the purchase of feedstock from Russian sources, see Chapter 10A to the Report of the Board of Directors.

1.7.15.2 In the Reporting Period, condensate constituting 1.3% of the quantity of crude oil for refining was delivered to the Company; for further information, see Note 20B2 to the Consolidated Financial Statements.

1.7.15.3 Breakdown of percentage of feedstock purchased by the Company from its three largest suppliers: In 2022 – 25%, 16% and 13% and in 2021 – 32%, 16% and 10%. In the Company's assessment, it is not dependent upon suppliers of crude oil.

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.

1.7.15.4 The Company is operationally dependent on Petroleum and Energy Infrastructures Ltd. (hereinafter - "**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 Order, 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 might 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 governmental 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 a description of the relevant risk factor, see Section 1.23.3.7 below.

The Company is operationally dependent upon Europe Asia Pipeline Company Ltd. (hereinafter - "**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.

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In the Company's assessment, should EAPC cease providing services to the Company, the Company's operations might 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 a regulatory order, etc., is unreasonable, due to, among other things, the fact that EAPC is a governmental 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.

- 1.7.15.5 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 National Gas Lines Ltd. (hereinafter - "INGL") with which it has engaged in an agreement, as set out in Note 20B1 to the Consolidated Financial Statements. For information regarding the risks involved in the failure to supply Natural Gas to the Company - see Section 1.24.3.2 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, and as such, it is uncertain and may not materialize, in whole or in part, or materialize differently than expected. These assessments are based, inter alia, on assessment of the status and characteristics of the infrastructure service providers as governmental 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 and due to the other risk factors facing the Company, as specified in Section 1.23 below.**

- 1.7.15.6 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 Company does not receive a continuous supply of Natural Gas, this may have a significant effect on the Company's operations that use Natural Gas as energy in the many refining processes and as a Raw Material.
- 1.7.15.7 Gadiv's operations are synergistic with those of the Company, which is the only supplier of Gadiv's Feedstock. Therefore, Gadiv and the Company are co-dependent. The Feedstock required to manufacture of Gadiv's products are supplied to it by the Company under a Feedstock processing and purchase agreement dated August 12, 2001, and the amendments thereto, which is renewed annually.
- 1.7.16 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 thereof allows them to comply with the provisions of the emission permits issued for them by the Israeli Ministry of Environmental Protection.

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1.7.17 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). The Company uses Natural Gas purchased from the Karish,<sup>14</sup> Tamar,<sup>15</sup> and Leviathan<sup>16</sup> reservoirs and under agreements with a PEP and Natural Gas distributors that are signed from time to time. For further information, see Note 20B1 to the Consolidated Financial Statements.

1.7.18 In 2018, the Company engaged with Energean Israel Ltd. (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, as from commencement of operation of these reservoirs. As at the approval date of the report, the Company purchases a substantial quantity of Natural Gas from Energean on a non-binding basis, and the Company is waiting for notification of the start of binding supply, which - as of the approval date of the Report - is expected to take place in the second half of 2023. For further information about this transaction, see Note 20B1 to the Consolidated Financial Statements.

**The Company’s foregoing assessments (including by way of reference) regarding receiving the notice on the commencement of binding supply from Energean and the continuity of Natural Gas supply are all 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.**

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<sup>14</sup> Energean Israel Ltd. is the owner of the leases in the Karish and Tanin gas reservoirs.

<sup>15</sup> The Tamar Group includes Chevron Mediterranean Limited, Dor Oil Explorations L.P., Everest Infrastructure Limited Partnership, Isramco Negev 2 Limited Partnership, Tamar Investments RSC 1 Ltd., Tamar Investments RSC 2 Ltd., and Tamar Petroleum Ltd.

<sup>16</sup> The Leviathan Partnership includes Chevron Mediterranean Ltd., NewMed Energy L.P. (formerly Delek Drilling), and Ratio Energies L.P. (formerly Ratio Oil Exploration).

## Part C - Polymers Segment

### **1.8 Polymers Segment (mostly through Carmel Olefins and Ducor)**

#### **1.8.1 General information**

##### **1.8.1.1 General**

The Company conducts its polymer operations (manufacturing Feedstock for the plastics industry) through its holdings in Carmel Olefins.

Carmel Olefins was established in 1988, as a private company by virtue of an agreement between the Company and IPE.

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 Feedstock for the plastics industry.**

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

As part of the implementation of the Company's strategic plan for the Polymers Segment, on March 30, 2022 Carmel Olefins entered into an agreement to acquire control (76%) in VPM Plast Ltd. (hereinafter - "VPM") which, upon completion of the transaction in August 2022, became a subsidiary of Carmel Olefins. VPM engages in the mechanical recycling of plastic and is one of the main manufacturers of recycled plastic in Israel, specializing in plastic recycling in an annual volume of 12,000 ton and supplying 15 types of recycled plastic according to customer demand, in Israel and abroad. Control in VPM was acquired as part of implementation of the Company's strategic plan for the Polymers Segment,<sup>17</sup> constituting another step towards the realization of Carmel Olefins' vision of leading Israel's plastic recycling market and gaining an important foothold in mechanical and chemical recycling and in biopolymers, and it will allow the Company to supply a wide range of solutions to all Group customers (for further information see the immediate report of March 31, 2022 (Ref. No. 2022-01-033960) included by way of reference).

##### **1.8.1.3 Polymers Segment - Segment Structure and Developments therein**

As noted above, Segment Products are used as Raw Material in the plastics industry.

These products are viewed globally as commodities, bought at more or less identical prices from all manufacturers. The prices of Raw Materials - and mainly naphtha and ethane-rich gases, propylene purchased by the Company, Ducor, and Carmel Olefins Products - fluctuate and are affected, among other things, by global supply and demand cycles.

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<sup>17</sup> For further information see Section 1.22 below (the Company's strategic plan) and the investor presentation published on July 22, 2021 (Ref. No. 2021-01-120867).

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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 the cost of Feedstock, which have gone down for some manufacturers due to new Feedstock used on the production of olefins (shale oil in North America, coal and methanol in China). The Company believes that in the future, the use of Feedstock 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.

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 may increase, which may affect product prices and competition in the area of activity. The Company is continuously studying market developments, including potential opportunities offered by these developments.

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 a dedicated tax on all plastic packaging, manufactured or imported into its territory that is not recyclable, as of January 1, 2021, and in Israel purchase tax on disposable tableware made of plastic was increased significantly at the end of 2021; subsequent to the Report date, the said tax increase was revoked (effective through 2023). This trend is also supported by the announcement of the United Nations Environment Assembly, of March 2, 2022, whereby it was decided to promote an international environmental treaty for the prevention of plastic pollution. The resolution calls for the establishment of an inter-governmental negotiating committee that began working by the end of 2022, with the aim of formulating a draft of a binding treaty by the end of 2024. As part of the resolution, it is noted that the future treaty will address the full lifecycle of plastic, and will aim, among other things, to promote sustainable production and consumption of plastic, including plastic design and sound management of waste through a circular economy approach; the treaty will promote collaboration for reducing plastic waste in the sea and the development and implementation of plans to prevent and reduce plastic waste and to apply sound treatment thereof.

Currently, market penetration of recycled plastics remains low, among other things due to technological and economic barriers and availability of these products. 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. The Company is studying market developments, including potential opportunities offered by these developments. For information about leading the Israel Innovation Authority consortium on plastic recycling and the Company's strategy for coping with changes in the area of activity, see Section 1.11.2 below.



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International publications<sup>18</sup> indicate that demand for the various types of polyethylene is expected to grow at an annual rate of 3.6% in 2022 to 2026. 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 3.4% 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 is 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.**

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 Feedstock used by Carmel Olefins and Ducor to produce their products, see also Section 1.8.2 in this Chapter.

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

### **1.8.1.4 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 down time, and the utilization of efficient production facilities and advanced technologies.

Critical success factors in the sale of Carmel Olefins Products are the economic conditions prevalent in Israel and around the world, demand for the products, the existence of a well-developed local 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

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<sup>18</sup> Based on IHS forecasts.



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 1.8.1.3 above.

**1.8.1.5 Principal Entry Barriers to the Polymers Segment, and Changes thereto**

The main entry barriers to polymer manufacturing are: (a) availability of Feedstock 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.

For more information concerning competition in Carmel Olefins' segment and risks in Carmel Olefins' operations, see Sections 1.8.7, and 1.23.4.1 to this Chapter.

**1.8.1.6 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 1.23.3.5 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.

**The above constitutes forward-looking information. The view that polymers will continue to be used as substitutes for numerous products is based mainly on the price difference between polymers and the products they substitute. Should polymers cease to serve as substitutes for these products, the polymers market will grow at a rate that is different than currently projected; as such, there is no certainty that the Company's assessment concerning these factors will materialize.**

**1.8.1.7 Structure of Competition in the Polymers Segment and Changes thereto**

As aforesaid, the polymer market exhibits behavior similar to that of other commodities markets; it therefore follows that competition in this market is mainly price-related. However, customers' needs and the existence of customized products also generate competition in terms of quality, the ability to customize products to customer's needs, compliance with changing regulations, responsiveness and high-quality service to the customers, etc. For further information, see Section 1.8.7 in this chapter.

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.

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'

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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 different geographic regions.

In recent years, since the Company's adoption of Natural Gas, the Company and Carmel Olefins have increased the volume of ethane-rich gas which the Company supplies to Carmel Olefins. Ethane-rich gases allow Carmel Olefins to elasticity in 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.

### **1.8.2 Polymers Segment - Main Products**

1.8.2.1 Carmel Olefins mainly manufactures and markets polypropylene and low-density polyethylene, which serve as Feedstock in the plastics industry. These products are sold in oversize bags, 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, Turkey, Brazil and Argentina.

Currently, Carmel Olefins' and Ducor's policy is 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.

1.8.2.2 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.

1.8.2.3 Polymer production costs are comprised of Feedstock prices, Feedstock (monomers), other variable expenses (conversion, chemicals, and packaging), and fixed expenses (labor, depreciation, maintenance, etc.). Feedstock are the dominant component, accounting for about 60% of production costs. Since Carmel Olefins' production process is a continuous process, in which products are produced from the same Feedstock and Feedstock which cannot be differentiated by final product (polypropylene and polyethylene), it is not possible to allocate costs accurately by product categories.

### **1.8.3 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 on total revenues in the polymer segment in 2020-2022, see Section 1.5 above.

### **1.8.4 Customers**

Carmel Olefins' and Ducor's customers are mostly plastics factories which purchase Carmel Olefins' and Ducor's products for use in the production of various products.

1.8.4.1 Carmel Olefins and Ducor serve about 200 customers in Israel, and over 550 customers abroad. Most of these customers, both in Israel and abroad, are regular customers who purchase products from Carmel Olefins and Ducor on an ongoing basis.

1.8.4.2 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/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,

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customers submit orders, usually 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.

1.8.4.3 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.

1.8.4.4 Carmel Olefins has factoring agreements with certain customers. For information, see Note 6B to the Consolidated Financial Statements.

1.8.4.5 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.

### 1.8.5 **Marketing and Distribution**

1.8.5.1 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.

1.8.5.2 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 numerous different parties (agents and distributors). Carmel Olefins also has direct contact with its customers, and agent commissions match the industry standard.

### 1.8.6 **Order Backlog**

As of December 31, 2022, the Segment's order backlog from customers in Israel and abroad totaled 132 thousand tons and USD 219 million,<sup>19</sup> as compared to 145 thousand tons and USD 287 million, respectively, as of December 31, 2021. The decrease in the order backlog as of December 31, 2022, compared with December 31, 2021, is mainly due to a decrease in polymer prices in the Reporting Period. The order backlog is mainly driven by annual sales of various products for 2023, and includes commitments by Carmel Olefins' customers in Israel and Ducor's customers abroad - based on their annual agreements - which are expected to be delivered to these customers in the coming calendar year, as well as orders received by Carmel Olefins from its customers abroad. As of shortly before the report publication date, the order backlog totaled 166 thousand tons and USD 225 million.

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 45 business days (to customers abroad) from order placement. Supply

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<sup>19</sup> The order backlog amounts in this section are based on the known polymer product prices shortly before the relevant reference date.

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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.

- 1.8.6.1 The volume and dates of fulfilling the order backlog may vary, inter alia if a material change is made in the customers' orders and/or in Carmel Olefins' and Ducor's ability to supply the orders and/or macroeconomic conditions and/or other factual conditions which are outside Carmel Olefins' and Ducor's control and which are not known to Carmel Olefins and Ducor at the reporting date.

**The foregoing regarding the scope and timing of the order backlog is 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 mainly on the Company's experience in previous years and materialization of these assessments, in whole or in part, is uncertain and beyond the Company's control, consequently, the actual spread of orders throughout 2023 and the scope of the monthly and spot orders during 2023 are uncertain. These assessments may not materialize or may materialize partially also in the event of a material change in customer orders and/or the Company's ability to supply the orders and/or other 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, and due to the other risk factors to which the Company is exposed, as outlined in Section 1.23 below.**

### 1.8.7 Competition

Carmel Olefins is the sole producer of polypropylene and low-density polyethylene in Israel (Carmel Olefins was declared a monopoly in the low-density polyethylene market as detailed in Section 1.16.3 in this Chapter). Carmel Olefins' competitors in Israel and abroad operate in Israel through agents and local distributors.

There are no import taxes 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).

According to Company estimates, Carmel Olefins' multi-year average share of the domestic polypropylene market is 65%. Carmel Olefins' main competitors for this product are Formosa, Borouge, Reliance, Sabic, Braskem, and LG. According to Company estimates, Carmel Olefins holds a 35% share of the Israeli market for all types of polyethylene (including low-density) products, some of which are substitute products. Carmel Olefins' main competitors for this product are Reliance, Sabic, Braskem, Formosa, 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 Turkey, Italy, 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 of recycled input materials could lead to lower demand for virgin products manufactured by Carmel Olefins.

**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 other facilities and of the Company's and Gadiv's facilities.

Carmel Olefins operates three main groups of facilities: the monomer facilities group (the ethylene 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 165 °C to 900 °C) and extreme high pressure (up to 1,500 atm). Production processes involve the use of catalysts. 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.

The Carmel Olefins Polyethylene facilities' maximum name plate capacity is 170,000 tons a year. As of the reporting date, Carmel Olefins' polyethylene facilities operate, on average, at 90% of their maximum potential production capacity. The Carmel Olefins Polypropylene facilities' maximum name plate capacity is 450,000 tons a year. This production capacity is subject to availability of sufficient quantities of propylene. As of the reporting date, Carmel Olefins' polypropylene facilities operate on average at 80% of their name plate capacity, 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, so that operational flexibility for changing the ratio of products is extremely 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 1.8.9.1 below.

Ducor's polypropylene facilities have a name plate capacity of 180,000 tons a year. In general, Ducor operates at 90% of its name plate capacity.

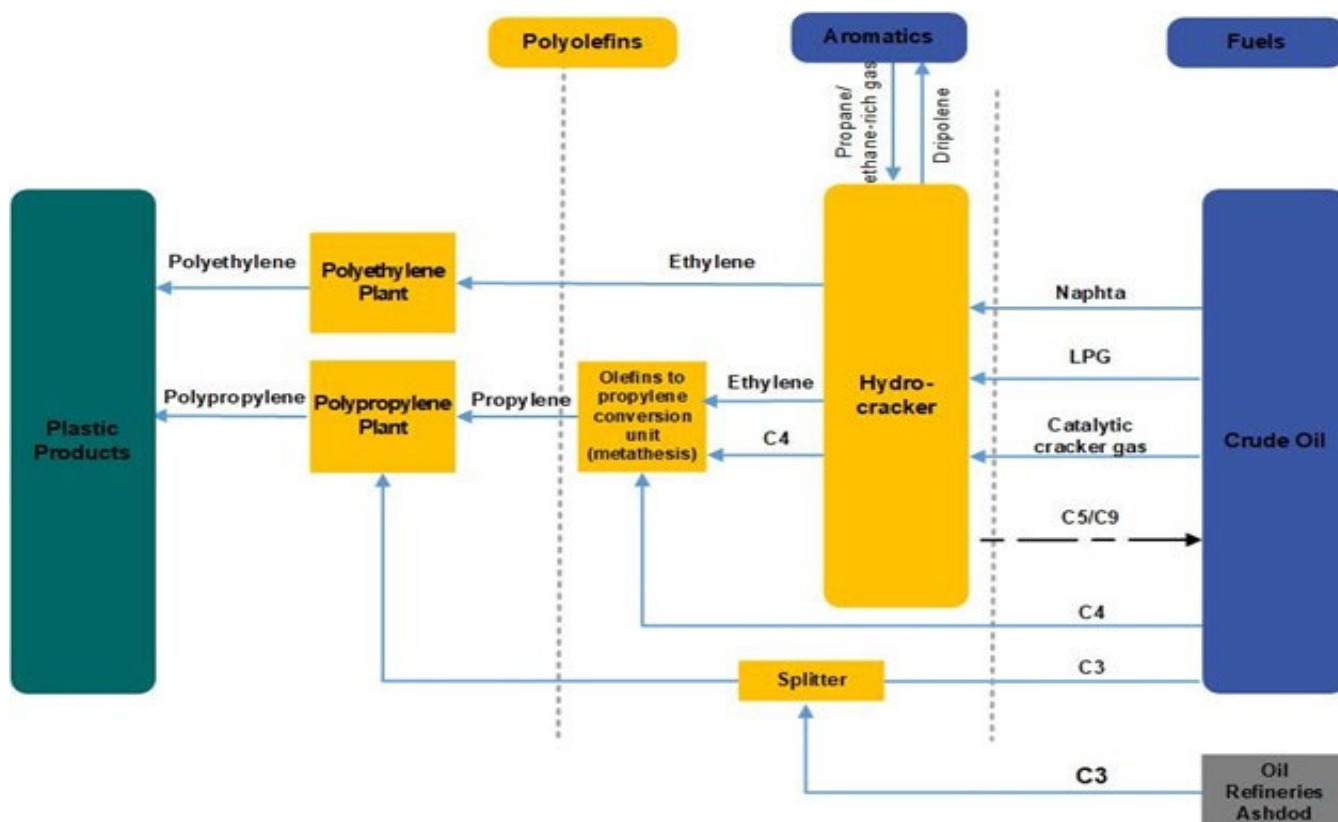
The facilities of Carmel Olefins and Ducor operate continuously without interruption, with the exception of planned down-time for routine maintenance or periodic services, and due to malfunctions (for information about the Company's expectations and preparations for repairing malfunctions see Section 1.10.2 below).

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### 1.8.9 Feedstock and Suppliers

1.8.9.1 Carmel Olefins Facilities are downstream facilities to the Company's facilities, so 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 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, in Carmel Olefins Facilities.

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



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

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

Carmel Olefins buys its principal Feedstock from the Company. Carmel Olefins also buys from the Company propylene (including propylene sourced from Paz Oil Refinery Ashdod<sup>20</sup>) and butane (C4). For information on the agreements between the Company and Carmel Olefins for the supply of Carmel Olefins' Feedstock, see Note 7C to the Company's separate financial statement as of December 31, 2022.

- 1.8.9.5 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 Paz Oil Refinery Ashdod, and purchased by Carmel Olefins from the Company.

- 1.8.9.6 Most of the Feedstock required by the monomer facilities are supplied by the Company; therefore, Carmel Olefins is dependent on the Company.

In 2022 and 2021 Feedstock purchased from the Company directly and/or indirectly accounted for 85%, of Carmel Olefins' yearly total Raw Material purchases.

- 1.8.9.7 As aforesaid, Carmel Olefins' operations are integrated into those of Gadiv and the Company's refinery, especially with construction and operation of facilities with the purpose of changing the composition of Carmel Olefins' Feedstock and Feedstock. Integration and synergy between operating segments, and the transitioning to the use of Natural Gas in the Group's facilities, provides Carmel Olefins with a competitive advantage, especially through elasticity in its use of Raw Material produced in the refinery (naphtha, propylene and ethane-rich gases) while cutting its production costs.

- 1.8.9.8 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. Supply of propylene through maritime shipping is possible both through barges and ships, and offers a commercial and operational alternative to pipeline supply sources. Changes in Ducor's ties with its suppliers may adversely affect its results.

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<sup>20</sup> According to the Company's agreement with Paz Oil Refinery Ashdod for and on behalf of Carmel Olefins. Under the agreement, which was extended and amended on August 31, 2022, Paz Ashdod 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 Paz Oil Refinery Ashdod a monthly feed of propane at such quantities as stipulated in the agreement; however, Paz Oil Refinery Ashdod has an option to request a smaller quantity of propane. The extended agreement period is for 7 years starting on June 1, 2022. Each of the parties has an option to terminate the agreement with written notice of at least 3 years.



## **Part D - Other Activities (Others)**

As of the report date, the Company has other activities, which are not included in the segments described above; the scope of those other activities is not material to the Company to such an extent as to define them as an operating segment. For information on the total revenues in the other activities segment in 2020-2022, see Section 1.5 above.

Below is a breakdown of these activities:

### **1.9 Trade Segment**

The Company leases tankers 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 tankers under leases, the Company also has in place contracts for commercial management of tankers. As of the report date, the number of tankers (leased and under commercial management) is 5, with a capacity of 30,000-38,000 tons each, mostly under one-year leases. One of the tankers leased by the Company, is a vessel under Israeli control, as this term is defined in the Shipping Law (Foreign Vessel Controlled by Israeli interest), 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 Feedstock 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 different markets and between different 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 different reporting periods and within each reporting period. In recent years, no transactions of significant scope were conducted. For more information about 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 1.7.3.1.2 and 1.7.3.1.3 to this chapter.

Most of the activity involving leasing of 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. The trade activity is also conducted with foreign customers and suppliers, such as: oil companies and refineries, trading companies and more.

The Company's trade and shipping activities are conducted through the subsidiaries ORL Trading and ORL Shipping.



## Part E - Additional Information about the Company

### **1.10 Property, Plant, and Equipment<sup>21</sup>**

1.10.1 The facilities of the Company, Carmel Olefins and Gadiv, are located in a single compound in Haifa Bay (hereinafter - 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 station, effluents treatment, fire safety equipment). The Company's facilities also include an old cooling tower, that is no longer used for the Company's business.

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 from Feedstock, and production plants for paraxylene, solvents and solids.

For information about the processes in these facilities, see above regarding each of the areas of activity (Sections 1.6-1.8 of this chapter).

1.10.2 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 30 to 60 days. The period varies on the facility and the volume of work required, while during this period, no production activity is carried out in the shut down facility; consequently, the Company's operating results are adversely impacted during this period. 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. In addition, from time to time improvements are made and/or innovative technologies are installed in the facilities, including systems to reduce emissions into the environment.

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.

In 2022, there was a general overhaul of all Carmel Olefins facilities that continued for 63 days, after the last overhaul six years ago.

In 2022, periodic servicing was performed in the Company's facilities (there was no servicing in 2021). In the 2022 refurbishment, a 75-day shutdown of a number of the Company's facilities was in effect, including the fluid catalytic cracker (FCC), to carry out periodic maintenance work and replace material components that have

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

## Bazan Ltd.

reached the end of their engineering life; these works' performance was postponed from 2020. For information on the estimated direct cost of this shutdown, see Chapter 2B2 of the Report of the Board of Directors.

1.10.3 For information about the depreciated cost of fixed assets as at December 31, 2022, and the different types of assets, including the accumulated depreciation thereof, see Note 11 to the Consolidated Financial Statements.

1.10.4 On March 6, 2022, the Government resolution on the strategy to develop and promote the Haifa Bay was authorized. The coalition agreements of the government that was formed at the end of 2022, refers, inter alia, to the fact that within three (3) months after the government is sworn in, it will pass an amendment to Government Decision 1231 - to advance and develop Haifa Bay, which will include: a target date for removal of polluting industry within less than a decade and a budgetary item for its implementation. For further details regarding the government resolution, see Note 20C to the Consolidated Financial Statements.

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

1.10.6 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. On August 23, 2006, the Group and another plant signed an agreement with Haifa Municipality and other adjacent local councils, aimed at regulating the municipal regime applicable to the Compound premises (hereinafter - the “**Agreement**”). Pursuant to the Agreement, a municipal company was established in which all capital rights and most voting rights are held by the councils and the rest of the voting rights by the plants, and whose purpose is to provide municipal services in the plant area, including setting of rules, planning and development. In 2017, a demand was sent to Haifa Municipality and the joint municipal company to apply the mechanisms set out in the Agreement regarding the infrastructure of the compound and maintenance thereof. 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.

In 2020, the geographic committee appointed by the Minister of the Interior operated to examine the distribution of the income from local taxes collected in the compound area and the possibility of converting the Company's compound and the adjacent north land compound to the east into an industrial local council and excluding it from the jurisdiction of the Haifa Municipality. On December 21, 2020, the Minister of Interior adopted the recommendation of the Director General of the Ministry of the Interior to accept the committee's recommendation to leave the Company's compound and the adjacent north land compound under the jurisdiction of Haifa municipality.

On the payment call the Municipality of Haifa made to the Company, to Carmel Olefins and to Gadiv in the reporting period because of the open public areas levy, see Note 20A1 to the Consolidated Financial Statements.

1.10.7 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.

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On April 8, 2018, following the dismissal of several petitions filed against it, the Outline Plan came into effect after publication for validation. An appeal was 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.

In view of the Supreme Court's ruling, on December 1, 2020, the National Council adopted a decision (hereinafter - the "**Decision**") setting out the definition of "a facility that has a significant impact on the environment", that 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; 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 increases 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.

During 2022, the National Planning and Building Council is discussing the authorization of 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. Subsequent to the reporting date, the National Planning and Building Council decided to submit the plan to the district committees for comments. For further details regarding NOP 75 and regarding the government resolution, see Note 20C to the Financial Statements.

1.10.8 Ducor's facilities are located in an overall area of 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 information, see Note 12B3 of the Consolidated Financial Statements.

**The Company's assessment regarding this exposure is forward-looking information. 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. 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 how the Company handles them and the costs involved.**

**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 1.12 of this chapter.

The Companies also purchase the know-how needed to reduce the environmental emissions from their production plants from specialized know-how suppliers (for further information, see Section 1.15.2 of this chapter).

**1.11.2 Innovation Function Activities in the Group**

The Group Companies are committed to investments in innovation that include technologies in the content worlds of the Group's operations that 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. In 2019, the Company set up an innovation function that operates through a registered partnership, wholly-owned by the Group, Bnnovation. Following is a description of the main activities of the innovation system from establishment until now:

- (1) Innovation in the Open Innovation Model - Setting up an innovation center that operates in the Bazan compound and serves as a platform for the Group's direct activity with startups, entrepreneurs, and researchers; the platform helps create an internal and external ecosystem with the aim of entering the new era with a role in the energy area. The purpose of the center is to promote, develop and accelerate innovative solutions in the traditional and renewable energy segments using an "open innovation" model. Innovation will play an important role in the Company's transformation by creating new capabilities and experience, reinforcing and "invigorating" the core activities, creating new business opportunities and positioning Bazan as the leading actor in the new energy ecosystem.
- (2) BLAB programs - The innovation function's first program, for entrepreneurs, researchers and startups; as part of the program, the Group provides the selected ventures with the professional support of the Bteam - a team of 40 Company employees; permission to use the Company's infrastructures and pilot facilities for field experiments; permission to use Group Companies' labs, and more. Those companies are also allocated physical space in the compound. The program focuses on areas such as clean energy, energy storage, environmental technologies, fuel substitutes, processes digitization - Big Data, Machine Learning, Artificial Intelligence ("AI") - from an industrial perspective, cyber applications in industry, hydrogen, sustainable plastic, biopolymers, and plastic recycling. All with emphasis on initiatives with a synergy to the Company's activity that improve and streamline processes and/or whose joint activity with the Group Companies creates added value for the Company or offers a growth potential.
- (3) In 2020, the Company made an initial investment in a startup dealing with the production of green hydrogen (H2Pro Ltd.) through Bnnovation, and started implementing technologies, mainly under the Industry 4.0 banner, to improve and streamline process/operational performance using artificial intelligence. The Company is also exploring additional ways to produce blue hydrogen (during the production of blue hydrogen, the carbon dioxide emitted in the production process is stored) and green hydrogen (from renewable energies). Since 2020 and up to the approval date of the report, investments were made in other companies in an immaterial amount.

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- (4) During 2021, the Company made a further investment through Bnnovation in Melodea, a company engaged in the production of plastic packaging substitutes made from bio-based materials; the investment involves collaboration agreement for joint development of additional products. In addition, in 2022, the Company made follow-up investments in Melodea through Bnnovation. During that year, the Company continued conducting pilots in its premises under the Industry 4.0 banner for improving operational processes and increasing their efficiency.
- (5) As part of the “Open Innovation” model, the Company, together with EDF Renewables and Johnson Matthey, established the “ESIL” partnership that was awarded a government tender to set up an innovation laboratory in the fields of environmental technologies and sustainability. The sponsored concession to run the laboratory is for 3 years, until July 2023. As part of the laboratory activities, the partnership will support projects that offer solutions to global environmental and sustainability challenges, with the option of using the infrastructure, equipment and support of the partner companies. The laboratory started its activity in July 2020, and during 2021 it partnered with 2 first companies: Repair - which is engaged in the capturing of carbon dioxide, and Brightmerge - which is engaged in the optimization of microgrids. In 2022, the laboratory partnered with other companies - hydroX, which is engaged in the development of hydrogen transportation carriers, and Sphere - develops energy-efficient cooling systems, which are under development.
- (6) Encouraging internal innovation within the Group through initiating and encouraging innovative process initiatives and improving existing processes.
- (7) Expanding the dedicated team engaged in the Company’s innovation activity, comprising employees from all Group’s functions.
- (8) Involvement in the ecosystem while conducting operating activities with the Israel Innovation Authority and the Office of the Chief Scientist in the Ministry of Energy, energy communities, academics, various accelerators and more, in order to maximize the exposure to innovative technologies.
- (9) In 2021-2022, the Company was awarded a number of grants by the Office of the Chief Scientist in the Ministry of Energy for the purpose of building a hydrogen compression system for the transportation of hydrogen used in transport, and the purchase of hydrogen-powered vehicles - a truck, a bus and forklifts.
- (10) In 2022, the Company, through Bnnovation, joined Quantum Hum, which aims to establish collaborations between companies participating in the hub and ecosystem startups in Israel. The companies participating in the hub include Taavura, Hyundai, VDL, and Kia.
- (11) In December 2022, the Company, through Bnnovation, made an investment in an immaterial amount in FEELIT. FEELIT develops sensors for smart maintenance and tracking of operational malfunctions using AI Nano Sticker Sensors.

### **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:

- A. Updating existing products and tailoring them to the requirements of the Company’s customers.
- B. 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.

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- C. 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.
- D. Development of polypropylene-based products with lower carbon footprint, containing a powder based on domestic 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.

Carmel Olefins was a partner in two EU sponsored consortia as part of which R&D activities were carried out in the Horizon 2020 Program, one in antimicrobial packaging that extends the shelf life of food products (which ended on December 31, 2019) and the other in energy storage for geothermal systems (which ended on February 28, 2021). Carmel Olefins was also partner in a consortium sponsored by Israel Innovation Authority on the development of generic technologies for manufacturing of smart non-woven fabrics (which ended on June 30, 2020) with its customers. As a result of the activity of the consortia, new knowledge was formed that also generated the registration of new patents. For information about the Group's intangible assets, see Section 1.12 of this chapter. Carmel Olefins is head of CIRCLE - Plastic Recycling Technologies, a consortium sponsored by the Israel Innovation Authority that aimed to find plastic recycling solutions, which ended in June 2022. 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 composite material based on recycled hay nets in cooperation with Shenkar College. In addition, Carmel Olefins is a partner in the SMART consortium, for the development of smart agro-materials for the protection of plants from insects, pathogens, and viruses (which is expected to end in April 2023).

### **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 10 patents in different 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 know-how 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**

Until 2021, three business units operated in the Group: Fuel Business Unit, Polyolefin Business Unit, and Aromatics Business Unit. From January 1, 2021, the Fuels and Aromatics Business Units were consolidated. In the reporting period, each business unit included the relevant generation units, maintenance and other functions, and the Polyolefin Unit, the sales and marketing functions of its products as well. 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,

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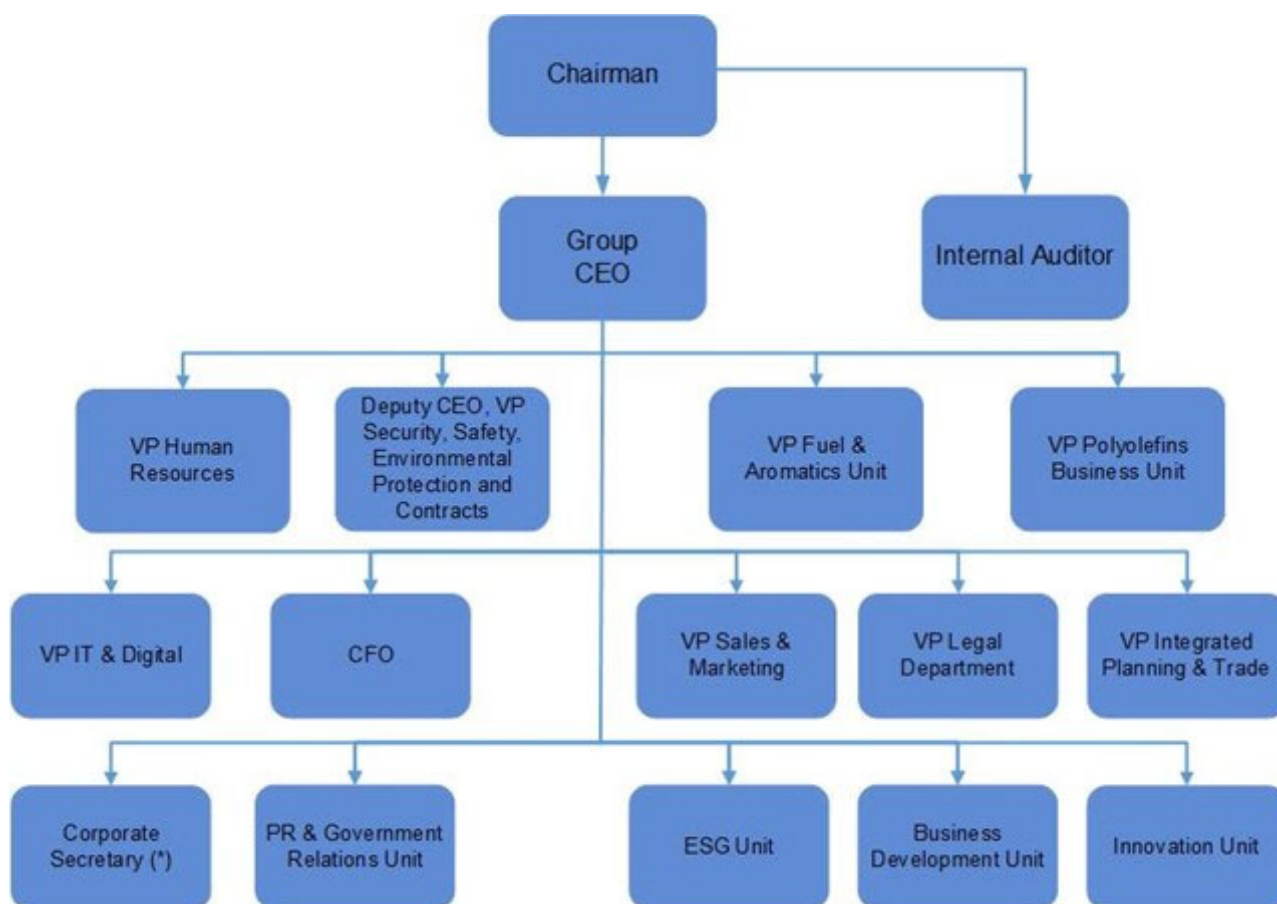


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which are located in the Netherlands and VPM, which is located in northern Israel) are carried out at one site and enable a synergy that increases operating efficiency and reduces cost in many areas.

A comprehensive optimization unit that determines the production function that optimizes the Group's entire production value chain, and the Technology and Projects Unit, which includes an energy unit that optimizes use of the energy sources at the Group's disposal, operates alongside the business units. Since January 1, 2021, the Technology and Projects Unit operates as part of the Fuels and Aromatics Business Unit. The crude oil and Feedstock required for the Group's operations from various suppliers are purchased by the Trade Unit. Sale of fuel and intermediate materials 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 is in charge of purchasing Feedstock and intermediate materials, and exporting fuel products and intermediate materials. 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).

### Organizational Structure as at the Report Approval Date:



\* Also reports to the Chairman of the Board of Directors

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### 1.13.1 Number of employees, by business unit:

	<b>No. of employees as at</b>	
	<b>December 31, 2022</b>	<b>December 31, 2021</b>
<b>Fuels and Aromatics Business Unit</b>	666	628
<b>Polyolefin Business Unit</b>	466	447
<b>Company Headquarters and Management</b>	274	257
<b>Total</b>	<b>1,406</b>	<b>1,332</b>

As of December 31, 2022, Ducor employed 97 employees. As of December 31, 2022, VPM employed 34 employees.

In addition to the above, as at the reporting date, 87 temporary employees and 145 employees through temporary staffing agencies or freelancers are employed in the Group Companies, mostly in projects, construction and renovations.

The Company 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. It also trains the relevant Group employees as part of internal compliance programs operated in the Group, providing its entire staff 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 different 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 fringe 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 at the reporting date, of all employees of the Companies in Haifa Bay in Israel, 197 are engaged under personal employment contracts and 1,209 under the terms of the special collective agreements to which Carmel Olefins and Gadiv are party. The employment conditions of these groups of employees are as follows:



**1.13.3.2 Employees engaged under Personal Agreements**

Most employees from department manager level upwards are employed under personal employment agreements. The employment agreements 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) and severance arrangements for dismissal and resignation, including advance notice.

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. In some agreements, employees also undertake to refrain from engaging in any occupation which places them in competition or conflict of interests with the Group Companies without the Company's consent, for one year from termination of their employment in the Company.

The personal employment agreements of the staff at the Group Companies include pension and insurance cover, and standard social and other benefits, other than the rights of a few senior employees to a severance bonus of up to 200%. Some senior employees may opt for an early retirement track or increased severance track, if dismissed.

**1.13.3.3 Employees employed under Collective Agreements**

For further details, see Section 1.13.8 of this chapter.

**1.13.4 The Company's Senior Management<sup>22</sup>**

1.13.4.1 On April 1, 2022, Adv. Yonatan Gershon was appointed VP and General Counsel in the Company, replacing Adv. Aviram Gavish who ended his service in this position.

1.13.4.2 On April 13, 2022, Yair Caspi ended his service as director on the Company's Board of Directors.

1.13.4.3 On April 14, 2022, Ariela Lazarovich was appointed as an independent director on the Company's Board of Directors.

1.13.4.4 On September 15, 2022, Maya Alcheh-Kaplan, Sagi Kabla, and Ariela Lazarovich ended their service as directors and as an independent director (respectively) on the Company's Board of Directors.

1.13.4.5 On October 6, 2022, Adi Federman was appointed as a director on the Company's Board of Directors.

1.13.4.6 On November 1, 2022, Guy Liberman was appointed CFO of the Company, replacing Ana Berenstein Shvartsman, who ended her service in this position. For further details, see the immediate reports of June 2, 2022 (Ref. No. 2022-01-056793) and February 27, 2022 (Ref. Nos. 2022-01-078693 and 2022-01-078687), which are included by way of reference.

1.13.4.7 On December 1, 2022, Asaf Almagor, who until that date served as VP, Director of the Polyolefins Business Unit and CEO of Carmel Olefins, assumed his position as CEO of the Company, replacing Malachi Alper, who ended his service as CEO of the Company on November 30, 2022. For further details, see the immediate reports of November 23, 2022 (Ref. Nos. 2022-01-112118, 2022-01-112200 and 2022-01-112224) and December 1, 2022 (Ref. No. 2022-01-116343), which are included by way of reference.

1.13.4.8 On December 1, 2022, Orit Barkhorder assumed her position as VP, Director of the Polyolefins Business Unit, replacing Asaf Almagor, who was appointed CEO of the Company, as aforesaid.

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<sup>22</sup> The reference in this section is to the definition of senior officers, as defined in the Israel Securities Law.

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1.13.4.9 Subsequent to the Reporting Date, on January 16, 2023, Orna Hozman-Bechor was appointed as an external director on the Company's Board of Directors, replacing Mordechai (Modi) Peled, who ended his service on January 15, 2023.

### **1.13.5 Compensation for the Company's Directors**

The employment agreements 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 Section 21 in Part D of the periodic report and Note 27B to the Consolidated Financial Statements.

### **1.13.6 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. For information 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.

### **1.13.7 Compensation Policy**

On April 12, 2021, subsequent to approval by the Compensation Committee and Board of Directors, the general meeting approved the Company's revised compensation policy, which includes reference to wages, fringe benefits and variable compensation components (such as bonuses and equity compensation) and is effective for a period of three years from 2021 to the end of 2024. For further information about the abovementioned compensation policy, see the Company's immediate reports published on March 8, 2021 (Ref. No. 2021-01-028836) and on April 6, 2021 (Ref. No. 2021-01-057504), as well as Note 27B3 to the Consolidated Financial Statements; that said therein is included herein by way of reference.

On July 4, 2022, after the approval of the Compensation Committee and the Board of Directors, the general meeting of the Company approved an amendment to the Company's compensation policy, including the purchase of a runoff insurance policy for directors and officers and the addition of the option for retention grants for officers reporting to the CEO. For further information about the revised compensation policy, see the Company's immediate report of May 29, 2022 (Ref. No. 2022-01-053712) and Note 27B to the Consolidated Financial Statements, which are included herein by way of reference.

Subsequent to the Reporting Date, the Company convened a general meeting (scheduled for March 14, 2023) to approve additional amendments to the compensation policy, mainly: the circumstances for accelerating the vesting of options for some office holders and additional flexibility in the retention mechanism for senior officers, as described in the immediate report of February 7, 2023 (Ref. No. 2023-01-012934).

### **1.13.8 Collective Agreements**

1.13.8.1 The Group Companies are party to special collective agreements regulating the work and employment terms of most of their employees who are 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.

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- 1.13.8.2 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 who are not employed under personal agreements. 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.
- 1.13.8.3 Most Ducor employees (60%) are engaged under collective agreements between Ducor and worker's unions in the Netherlands, which are valid until August 2023.

1.13.9 **Changes following the split and sale of Paz Oil Refinery Ashdod and privatization of the Company - Special Collective Agreements of June 14, 2006**

As part of the ORA split and sale proceedings, the Company and the New Histadrut Federation of Labor (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. As of the report date, it was agreed with regard to long-serving employees, to whom the early retirement agreement of June 14, 2006 applies, that all the provisions of the retirement agreement will also apply during the term of the new collective wage agreement signed in 2021, and through December 13, 2024. Furthermore, 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**” or “**HEP**”), 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 management's sole discretion.

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.

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 the time all the employees eligible to a pension or an early pension have retired. For further information, see Note 18A2b to the Consolidated Financial Statements.

As at the reporting date, 269 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**

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

**1.15 Environmental Risks and Management thereof**

**1.15.1 General**

1.15.1.1 An Environment, Safety and ESG Committee operates in the Board of Directors outlining Company policy in these areas, and receiving reports on and controlling the different operations. 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. The Group Companies also implement an internal environmental and safety compliance plan. Between 2007 and 2022, the Company invested USD 619 million in environmental, safety, and security aspects and in enhancing its operating reliability, in addition to operating expenses in these areas.

1.15.1.2 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) Liquid effluent quality;
- (3) Solid or toxic 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. 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.

1.15.1.3 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 emission permits and the provisions of other 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.

**1.15.1.4 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 a particle emissions reduction system; systems to reduce nitrogen oxide emissions from the oil refinery and Gadiv; expansion of the mercaptan exhaustion capacity; upgrading the furnaces protection; covering the tank roofs; plans and projects to reduce non-specific emissions; purchase and operation of odor treatment systems; removal of sludge accumulated in the past in the compound; projects to reduce air emissions and odor hazards from the refinery's bitumen filling facility and Gadiv's storage containers; rehabilitation and operation of a wastewater reclamation facility that performs supplementary biological treatment of the procedural effluent from the Group's plants and reclaims 60% of the effluent as water to produce steam and for the Group's water cooling system; facilities to reduce hydrocarbon emissions not from stacks from Gadiv and the Company's facilities; and projects to reduce benzene emissions from the Group's compound, or replacement of thousands of zero emission or high integrity equipment components.

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

<b>License Type</b>	<b>Recipient</b>	<b>Licensing Authority</b>	<b>Validity</b>
Emission permit	The Company	Ministry of Environmental Protection	September 26, 2023
Emission permit	Carmel Olefins	Ministry of Environmental Protection	July 10, 2023
Emission permit	Gadiv	Ministry of Environmental Protection	July 10, 2023
Permit to pump into the sea	The Company	Ministry of Environmental Protection	September 30, 2025
Permit to pump into the sea	Carmel Olefins	Ministry of Environmental Protection	March 31, 2026
Emergency permit to discharge effluents to the sea	The Company	Ministry of Environmental Protection	June 30, 2023
Poisons license	ORL Trading Ltd.	Ministry of Environmental Protection	October 17, 2025
Poisons license	Carmel Olefins	Ministry of Environmental Protection	February 27, 2024
Poisons license	Gadiv	Ministry of Environmental Protection	June 25, 2023
Poisons license	The Company	Ministry of Environmental Protection	March 28, 2023
Hazardous waste removal (Various permits)	Carmel Olefins and Gadiv	Ministry of Environmental Protection	The permits are granted from time to time at the request of the Companies

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The permits are granted to the Group Companies subject to compliance with their provisions and conditions. Shortly before 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.

### **1.15.2 Air Quality**

1.15.2.1 According to data published by the Ministry of Environmental Protection in the past decade, the main pollutant emissions from Bazan Group's compound have been reduced by between 63% and 90%.

### **1.15.2.2 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 tightened the monitoring of emissions compared to customary monitoring prior to enactment and 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) Unification of air monitoring systems into a single system and organized 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. In the regulations, the Minister of Environmental Protection laid down rules and criteria with respect to issuing emission permits, whereby such criteria include guidelines relating to the best available techniques on which the terms of such emissions permit will be based. The emissions permit will be issued for a period of seven years;
- (5) The authority to impose monetary sanctions and provisions with respect to civil lawsuits against persons violating the provisions of the Law, as well as imprisonment and fines.

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, 180 Israeli plants that are required to meet strict conditions under emission permits in accordance with the Law. In view of the findings of expert work carried out by the Ministry of Environmental Protection, it was suggested to amend Section 31 to the Law, whereby the Minister of Environmental Protection will be allowed to impose a levy in respect of emission of pollutants on all owners of relevant emission sources, taking into account other fiscal arrangements, while ensuring that no double or excess taxation is imposed. In view of the above, the Minister of Finance decided, after the approval of the Knesset Finance Committee, to increase the excise tax ("Blo Tax") imposed on some of the Company's products (fuel oil, LPG, Natural Gas and solvents). However, further to this, the Committee of Finances did not authorize the final version submitted to it, and the tax rate increase was revoked.

On February 28, 2022, a temporary order was published that updates the target values for pollutants listed in the First Addendum to the Law, including toluene, nickel and arsenic, valid through March 1, 2027. This temporary order revises the latest temporary order of 2016 that was in effect through March 1, 2022.

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In 2016, all Group Companies received emission permits from the Ministry of Environmental Protection, which are valid for seven years until 2023. 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. They set stricter provisions than in the past and new requirements on a long list of issues regulated in them. Under the emission permit, the Group Companies may use alternative fuel during a fuel supply failure, within the limits set out in the permit, including the need under certain circumstances to obtain approval from the competent authority at the Ministry of Environmental Protection. 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 contacted the Ministry of Environmental Protection for clarifications, schedules and additional amendments to the emission permits they were issued, including technological or economic non-viability. As at the reporting date, Carmel Olefins' and Gadiv's emission permits have been updated and the update of the Company's emission permit is still in draft form and under discussion with the Ministry of Environmental Protection. Furthermore, the Group companies filed applications for new emission permits in the lead-up for their renewal in 2023.

Considering the increase of the Group's environmental protection 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 are not 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 emissions permits when each enters into effect and the Companies' ability to comply with these provisions on those dates, certainly with regard to renewal of the emission permits, is 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 emissions 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, as well as regarding the provisions of future permits that are currently at the application stage, and due to the other risk factors to which the Company is exposed, as outlined in Section 1.23 below.**

- 1.15.2.3 Under the provisions of the Prevention of Hazards from Asbestos and Harmful Dust Law, 2011 (hereinafter, in this Section - the "**Law**"), the Company must dismantle and remove the asbestos on the premises of its plant within ten years from entry into force of the Law. The Company prepared a multi-year plan to remove brittle asbestos, which was implemented according to the relevant permits received from time to time from the Ministry of Environmental Protection and in accordance with the provisions of the Law and completed during 2021.



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The costs involved are not material to the Company's business. The Company was recently asked to perform a complementary survey, and it is making preparations for its performance.

- 1.15.2.4 For information of the warnings, summons to hearings, hearings, notices regarding intent to imposed 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 Notes 20A4 to the Consolidated Financial Statements.
- 1.15.2.5 For information regarding legal claims and motions for certification of the claims as class actions, see Note 20A2 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, 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.**

### 1.15.3 **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 as far as possible, and subject to the proper operation of the foregoing plant, they will refrain from doing so from their facilities, and the quantity of brine pumped from the plant is significantly lower than those pumped by the Group Companies in the past.

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**").

In addition, a permit for emergency pumping was granted until June 30, 2023, 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.



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In view of the requirements in the emergency permit, 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. 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.

**The foregoing, including by way of reference, regarding the proper operation of the effluents treatment facility operated by a third party, 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 assessments in this regard are based on the assessment of the third party operating the facility, the present composition of the brine of the Companies, the existing brine treatment arrangement and the Ministry of Environmental Protection's present position. The Company's forecasts may not materialize or may materialize in part, inter alia if changes are made to the regulatory provisions in the future, including with respect to the Inbar Committee's standard, or if the plant's performance is different than now, or the composition of its brine changes, and due to the other risk factors to which the Company is exposed, as outlined in Section 1.23 below.**

### **1.15.4 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. In 2016, the Ministry of Environmental Protection issued a guide for assessment and reinforcement of the earthquake resistance of plants, which is significantly harsher than the requirements regarding location, exploration and treatment of earthquake risks. The Company is implementing the guide and in the Reporting Period, it completed the reinforcement plan for the stability of the facilities in the event of an earthquake, in accordance with the guidelines of the Emergency and Cyber Division of the Ministry of Environmental Protection.

Under the provisions of the law, toxic waste is removed to the National Waste Disposal site at Ramat Hovav, 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.

### **1.15.5 Suspected Fuel Seepage into Soil and Groundwater**

1.15.5.1 In the petrochemical compound there are 100 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 approved by the Water Authority every year.

1.15.5.2 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 and remove it from the groundwater.

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1.15.5.3 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.

1.15.5.4 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 supposed to set out 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, which, shortly before the approval date of the report, are being assessed by the Company. The requirements in this matter were included in the poison licenses of the Group Companies. Due to the disputes between the Company and the Ministry regarding the extent and applicability of the requirements, there is uncertainty regarding the scope of treatment that might be required, in any, and the Company is unable to assess the possible impact of these developments 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 different 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.**

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1.15.5.5 Provisions Applicable to Ducor

1.15.5.5.1 Ducor is subject to regulations concerning air, soil and noise pollution hazards from its facilities. Ducor has a permit from 1995 pursuant to the Environmental Control Act (hereinafter - 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 at the reporting date, Ducor complies with such requirements.

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

1.15.5.5.2 To conclude the agreement to acquire the holdings in Ducor in 2008, an environmental protection consultant employed together by both parties to the transaction (hereinafter - the “**Environmental Consultant**”) conducted various soil and groundwater tests in the area in which Ducor's plant is located. These tests indicated that the soil is contaminated with various oils and metals.

The Environmental Consultant believes that the source of part of the pollution is probably the result of the preparations made in the Ducor plant area between 1961 and 1971 and adapting it for industrial needs using contaminated sand and mud.

As Rotterdam Ports Authority developed the area for industrial use after 1971, this historic soil pollution is probably not connected to industrial operations.

Based on the results of the tests he conducted, the Environmental Consultant concluded that there is no reason to determine that Ducor polluted the soil and groundwater by its industrial operations and in his opinion, the pollution level is not high enough for the competent authority to demand soil treatment.

The Environmental Consultant found an unusual result with respect to TPH polluting compound in a specific spot at the site that most probably originates from industrial activities before 1992 and that he estimates is not linked to Ducor's industrial activities.

It is noted that Carmel Olefins provided an indemnification letter in this regard for the lease period preceding its purchase of Ducor.

1.15.6 **New Legislation and Regulation**

1.15.6.1 Memorandum of the Law for Streamlining of Environmental Licensing Procedures (Legislative Amendments), 2022

On February 6, 2022, the Memorandum of the Law for Streamlining of Environmental Licensing Procedures was published as part of the reform aimed at streamlining regulatory procedures in the Ministry of Environmental Protection. The law aims to improve and streamline the existing licensing functions, both in regulatory terms and in environmental terms, by applying an overall reform, which is based on compliance with EU standards. Under the draft law, licensing arrangements pertaining to existing environmental legislation will be amended, such that the licensing procedures shall be unified to the extent possible based on the EU's regulatory principles, such that a unified environmental permit shall be granted to an activity that may cause substantial environmental effect. If approved, the law is expected to impact, among other things, the granting of emission permits pursuant to the Clean Air Act, 2008, approval of business licenses and conditions attached thereto under the Business Licensing Law, 1968, and toxins permits by virtue of the Hazardous Materials Law, 1993, as well as the manner of awarding

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permits of discharge substances to the sea by virtue of the Prevention of Sea Pollution from Land-Based Sources Law, 1988; and the Water Law, 1951. On March 17, 2022, the government approved the draft law, subject to the Attorney General's approval of the reference to the principles of the European regulation and of the lateral guidelines, and determined that the Minister of Justice will be authorized to amend and adjust the wording of the proposal. The draft law is being advanced as part of the 2023 economic plan of the Israeli government, in the same wording as the 2022 version.

**1.15.6.2 Regulatory Principles Law, 2021:**

In January 2022, the Regulatory Principles Law came into force, which sets rules for regulatory procedures in the State of Israel. The law sets a number of principles for determining new regulations, in order to streamline the processes of setting and applying them. Thus, for example, the law sets out the purpose of setting new regulations, the interests that should be considered when setting them, obtaining satisfactory data regarding opening the regulations to public scrutiny, using professional and international rules and criteria, making the regulations accessible, taking into consideration, among other things, the promotion of competition, reducing the cost of living, public rights and interests, etc. As part of the law, a regulation authority will be set out comprising representatives of the government and the public; this authority will have the right to advise on each new regulation. Furthermore, the law sets out a number of provisions which are exempted from the regulation process, including provisions regarding supervision of prices, taxes, levies or royalties and plans under the Planning and Building Law, 1965.

**1.15.6.3 Draft Hazardous Substances Regulations (Hazardous Waste), 2021 (hereinafter, in this Section - the "Draft Regulations")**

This Draft Regulations replaces the Draft Regulations of 2017, the approval process of which was not completed. The purpose of the Regulations is to reorganize the practiced arrangements for disposal of the waste of hazardous substances. Most of the proposed regulations do not materially change the current legal situation, in terms of cost or preparations for their implementation. The draft is intended to implement the European directive in this regard and includes provisions related to marking hazardous waste, possession time, means of disposal and the approvals required for this purpose.

At the same time, the draft includes two Sections under which even unexcavated soil that contains hazardous substances will be considered hazardous waste. In this way, the Ministry of Environmental Protection will have the authority to order disposal of the soil. While there is opposition to include land rehabilitation provisions in the regulations dealing with hazardous waste, if the regulations are passed in their current format, the Ministry of Environmental Protection will have the authority to order land rehabilitation without this being based on primary legislation, which also regulates sources of funding, division of the responsibility for soil pollution or other powers related to land registration and planning and construction procedures.

**1.15.6.4 On April 18, 2021, the Ministry of Energy published for public comment the Roadmap for a Low-Carbon Economy by 2050. The objective of this document is to set targets and measures (including for 2030) to reduce carbon emissions in line with the standards generally accepted around the world. Although the roadmap is not an operative document, the Company has taken into account the trends set therein when formulating its strategic plan.**

1.15.6.5 The Climate Bill, 2022 (hereinafter - the “Climate Bill”)

On June 28, 2022, the first reading of the Climate Bill was approved. The purpose of the Climate 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,<sup>23</sup> 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.

On 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 Climate Bill has not yet been approved by the Ministerial Committee for Legislative Affairs.

In the opinion of Company's management, the approval of the Climate Bill as a law will not have a material effect on the Company.

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

On 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.

1.15.7 Liquefied Petroleum Gas Law, 2020 (hereinafter in this Section - the “LPG Law”)

In 2021, the LPG Law entered into effect; it aimed, among other things, at strengthening the powers of the Gas Safety Administration, the enforcement system and forming new regulation in the LPG segment.

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

- (a) The imposition of Blo excise tax on certain materials manufactured and sold by Group Companies as from January 18, 2022. These Blo excise tax orders came into force after the approval of the Knesset's Finance Committee. However, the Company'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) In this context, an offer was made to impose Blo excise tax on Natural Gas (hereinafter - “carbon tax”) as from January 1, 2023, which is expected to directly cause an increase in the prices of Natural Gas, which is an essential input for the Company. As of the approval date of the financial statements, the offer was not

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<sup>23</sup>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.

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approved by the Knesset's Finance Committee on the scheduled dates, and therefore the law did not come into force. On October 24, 2021, the Government passed number of decisions in accordance with the National Energy Efficiency Plan published by the Ministry of Energy and Infrastructures in December 2020. The government's decisions include, inter alia:

- (a) Promoting clean and low-carbon transportation by increasing the use of clean vehicles or vehicles that use fuels that lead to a significant decrease in greenhouse gas emissions in vehicles weighing more than 3.5 tons, construction of charging stations for vehicles powered by hydrogen fuel cells, setting up an inter-ministerial team for the promotion of clean and low-carbon transportation and the encouragement of the docking - in Israeli ports - of vessels causing lower pollution levels.
- (b) The acceleration of construction of infrastructures by setting up an inter-ministerial team for the promotion of infrastructure projects of national importance in order to reduce greenhouse gas emissions, complying with targets for transitioning to low-carbon economy, fighting the effects of global warming and the removal of barriers for their execution.
- (c) Revising the National Energy Efficiency Plan and reducing greenhouse gas emissions. In this framework it was decided to promote the deployment of electric vehicles' infrastructure in Israel.

As of the financial statements' approval date, in view of the current wording of the said government decisions, it is impossible to assess whether the Group's activities will be impacted and what the extent of such impact might be.

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. In view of the publication date of the decision, the materialization of everything set out in the decision may impact the Company's operations and its business results.

### **1.15.9 Quality Management Standards**

1.15.9.1 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.

1.15.9.2 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.

1.15.9.3 As of 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.

### **1.16 Restrictions on and Regulation of the Company's Activity**

Besides the above environmental protection laws, 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:

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- 1.16.1 Control Permit for holding Means of Control of the Company<sup>24</sup>
- 1.16.1.1 Control and operation of the means of control in the Company are subject, inter alia, to the approval of the Prime Minister and Minister of Finance, in accordance with the Government Companies Law, 1975 and the Government Companies Ordinance (Declaration of Essential Interests for the State in Bazan Ltd.), 2007 (hereinafter - the “**Ministers**”, “**Approval of the Ministers**” or “**Control Permit**”, “**Government Companies Law**”, and “**Interests Order**”, respectively).
- 1.16.1.2 Until September 2022, Israel Corporation, 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 Order.<sup>25</sup>
- 1.16.1.3 As stated in Section 1.3.4 above and to the best of the Company’s knowledge, upon exercising the right of first refusal under the control agreement between IPE, Petroleum 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.
- 1.16.1.4 As the same time a new permit to control and hold means of control in the Company will become effective pursuant to Interests Order 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.
- 1.16.1.5 Under the control permit, its holder may be the sole controlling shareholder of the Company and hold 24% or more of the means of control.
- 1.16.1.6 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 such that the holdings of the Individual Permit Holders in IPE does not fall below 36% in each type of means of control.
- 1.16.1.7 Additionally, the Permit is subject to the fact that after exercising the right of first refusal and the expiration of the agreement for joint control with Israel Corporation, 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.<sup>26</sup>
- 1.16.2 Government Price Control
- The maximum price<sup>27</sup> 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.

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<sup>24</sup> The particulars in this Section are to the best of the Company’s knowledge.

<sup>25</sup> 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.

<sup>26</sup> 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.

<sup>27</sup> As at the reporting date, there is a maximum price for two types of bitumen supplied by the Company. Attention should be paid to discussions of the Fuel Authority regarding the change in supervision, particularly for fuel oil. Following is the link. [decision\\_and\\_directives\\_decision\\_07102022.pdf](https://www.gov.il/decision_and_directives_decision_07102022.pdf) (www.gov.il)

The Commodities and Services Price Control (Maximum Ex-Refinery LPG Price) Order, 2000 prescribes that the LPG price control regime is in accordance with Section G of the Price Control (Profit Reporting) Law, 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 (Application to Raise Prices) Law will apply. During 2021, the Company applied to the Price Committee to revise the provisions of the order; as at the reporting date, a decision has yet to be made.

The prices of the storage, pumping and distribution infrastructure services provided and consumed by the Company (excluding the infrastructure services purchased from EAPC and the distribution services provided by the Company at Haifa Oil Refinery) are prescribed in the Commodities and Services Price Control (Fuel Industry Infrastructure Tariffs) Order, 1995.

In 2014 and in 2018, 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.

Subsequent to the Reporting Date, the Company was sent a summary of the meeting of the inter-ministerial Price Committee of the Ministries of Energy and Finance (hereinafter - the "**Committee**") 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 Order (Fuel Industry Infrastructure Tariffs), 2014 (hereinafter - the "**Order**"). Under the Order, if passed, the prices of infrastructure operations paid by the Company are expected to increase. Subsequent to the Reporting Date, the Company is taking steps to exhaust its legal rights.

#### 1.16.3 Regulation of Monopolies

On February 27, 1989, 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 expands 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,<sup>28</sup> 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.

Under the Economic Competition Law, its provisions regulating the operations of monopolies are applicable to the Group Companies 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 etc.

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<sup>28</sup> Gadiv does not sell benzene in Israel.



1.16.4 The Competition Commissioner's Decisions Regarding Rules Applicable to the Company following the Split from ORA and Privatization of the Company

In its ruling of September 27, 2006, authorizing the purchase of ORA by Paz, the 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 Feedstock, 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.

1.16.5 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.

1.16.6 Law for Promotion of Competition and Reduction of Market Concentration

The Law for Minimizing Market Centralization and Promoting Economic Competition, 2013 (hereinafter - the "**Market Concentration Law**") limits the pyramid structure of companies 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 company), is considered a second-tier subsidiary.

The Market Concentration Law prescribes as follows: (1) A regulator may refuse to grant a right, including to grant or extend a license, also in essential infrastructures, to a concentration-promoting entity if it is found to be unreasonable, because real harm will be caused to the segment in which the right is granted, and to regulating such industry; (2) a regulator that seeks to allow granting of a right will not do so without weighing the aggregate concentration considerations in consultation with the Committee for Reduction of Market Concentration; (3) when granting a right, the regulator will take into account sector competition promotion considerations, and if the right was included in the list of rights published by the Competition Commissioner on this matter, the regulator will not grant such right without weighing promotion of sector competition in consultation with the Competition

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Commissioner. These provisions may be relevant to the Company, because the oil refining and LPG production segments are considered essential infrastructures.

In addition, the Market Concentration Law also determines the obligation to take into account aggregate concentration considerations and sector competition as part of proceedings under the Government Companies Law, as follows: (1) The Government Companies Authority will consult with the Committee for Reduction of Market Concentration prior to forming its position under Section 59H(a) of the Government Companies Law regarding announcement in an order that the State has an “essential interest”, as defined in that law, whereas with respect to such announcement regarding granting a right included in the list, the Government Companies Authority will consult the Competition Commissioner concerning promotion of sector competition considerations; (2) The order under Section 59H of the Government Companies Law provides that if the State has such an essential interest, the ministers will not approve transferring control under Section 59I or means of control under Section 59J(a)(1) of this law without consulting the Committee for Reduction of Market Concentration.

From time to time, the Committee for Reduction of Market Concentration publishes the list of concentration-promoting entities under which the Company and its subsidiaries were declared concentration-promoting entities in the fields of phosphates, fuel refining, the Dead Sea concession and electricity generation. With respect to concentration-promoting entities, the Market Concentration Law provides that a regulator wishing to grant a right to such an entity will refrain from doing so and will not allow such an entity to participate in the right granting process without weighing aggregate and segment-specific concentration considerations in consultation with the Committee for Reduction of Market Concentration and the Competition Commissioner. This Market Concentration Law also prescribed that the regulator must take into account considerations regarding preventing expansion of the concentration-promoting entity's operations, with attention to the relevant operating segments and considering the relationship between them. Any grant of rights to a concentration-promoting entity is subject to the regulator contacting the Committee for Reduction of Market Concentration in writing and providing reasons.

At this stage, the Company cannot estimate whether and how declaring it a concentration-promoting entity in the different segments will affect it.

On December 11, 2014, and from time to time, the Committee for Reduction of Market Concentration publishes the list of significant non-financial companies under which the Company and the subsidiaries were declared significant non-financial companies. Since as from September 2022 the Company is no longer controlled by the Israel Corporation (as outlined in Section 1.3.4 above), it intends to apply for its delisting.

**The Company is unable to predict whether such declarations will prevent granting it any right, if requested by it, and whether they will affect the Group's operations and the possibilities for its development.**

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### 1.16.7 Licenses

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

<u>Type of license</u>	<u>License holder</u>	<u>Licensing authority</u>	<u>Expiration of license</u>
Provisional Permit	The Company	Haifa Municipality <sup>(1)</sup>	June 30, 2023
Provisional Permit	Carmel Olefins	Haifa Municipality <sup>(1)</sup>	June 30, 2023
Provisional Permit	Gadiv	Haifa Municipality <sup>(1)</sup>	June 30, 2023
Provisional Permit to Transport Gas and Fuel	The Company	Haifa Municipality <sup>(1)</sup>	June 30, 2023
Provisional Permit to Transport Fuel	Gadiv	Haifa Municipality <sup>(1)</sup>	June 30, 2023
License to Manufacture and Operate a Fuel Storage Site	The Company	Ministry of Finance - Israel Tax Authority	December 31, 2023
License to Produce Fuel and Approval of a Production Site	Gadiv	Ministry of Finance - Israel Tax Authority	December 31, 2023
Gas Supplier License	The Company	Ministry of Energy	November 30, 2027
Electricity Generation License	The Company	Ministry of Energy - Israeli Electricity Authority	May 9, 2031

- (1) The business licenses are subject to conditions issued by the “approving entities”, including the Ministry of Environmental Protection, Fire Department, Ministry of Economy, as the case may be. The Company takes steps to renew all the licenses required for its operation proximate to their expiry date. Haifa Municipality has been delaying in recent years the dealing with renewal of the business licenses of the Group Companies until very close to their expiration 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 and depends, inter alia, on the decisions of third parties with authority under the law. This assessment might not materialize, or the terms of the licenses may change, so that it may be difficult for the Company to manage its business affairs.**

For information on environmental protection and hazardous substance permits, see Section 1.15.1.5 above.

### 1.16.8 Special Permit to Engage Employees on the Sabbath

The Companies' facilities operate every day of the year. 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, 2023 and with respect to Carmel Olefins, until December 30, 2024.

### 1.16.9 Declaration of Essential Enterprise

The plants of the Company and the subsidiaries 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.

### 1.16.10 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.

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The fuel products manufactured and sold by the Company comply with EURO-5 based European standards, intended to reduce the effect of motor vehicle emissions on the environment.

- 1.16.11 Regulations for Regulating the Sale of LPG, Routinely and in a Shortage  
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.
- 1.16.12 Registration as a Fuel Company  
Under the Economy Arrangements Law (Legislative Amendments to Achieve Budgetary Targets and Economic Policy for the 2001 Fiscal Year), 2001, the Company is required to be registered as a fuel company with the Fuel Administration at the Ministry of Energy as a condition for its operations in the segment. The Company is so registered.
- 1.16.13 Regulation of Security in Public Entities Law, 1998  
The Company is included in the second and fifth addendum to the Regulation of Security in Public Bodies Law, 1998 (hereinafter - "**Regulation of Security in Public Bodies Law**") and is therefore subject to its provisions, which sets out special security arrangements for the Company's 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. Carmel Olefins was included in the fourth addendum to the law, and therefore, its provisions apply to it regarding actions to protect essential computer systems.
- 1.16.14 Protection of Essential State Interests by the Company - Provisions of the Government Companies Law and the Essential Interests Order thereunder  
Section H2 of the Government Companies Law 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.
- 1.16.15 Government Companies Order (Declaration of Essential State Interests in Bazan Ltd.), 2007 (hereinafter, in this Section - the "**Order**")
- 1.16.15.1 General  
On February 1, 2007, an Essential State Interest Order was issued to protect the State's special interests in the Company. The Order 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.
- The Order sets out various restrictions and obligations to ensure these interests, mainly the following:
- 1.16.15.2 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;

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- (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, the Director General of the Ministry of Finance announced that the Ministry has formulated a position whereby the interests orders 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 Oil Refinery Ashdod shall not serve in the Company's Board of Directors.
- (4) Requiring the Company to immediately 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.

### **1.16.15.3 Center of Business and Ongoing Management**

- (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 of Directors, will be Israeli citizens and residents and have security clearance and security compatibility for their position, as determined by the General Security Service (hereinafter - the "**Vetted Directors**"), unless the General Security Service approves deviation from such in writing and in advance, under such conditions as may be prescribed.
- (3) To comply with the requirements of subsection (2) above, a un-Vetted Director may not be appointed or elected and such appointment will be invalid if, as a result, the number of Vetted Directors is less than the majority of board of directors members; and if the tenure of any of the Vetted Directors expires or ends and the total number of Vetted Directors is less than the majority of Board of Directors members, the un-Vetted Directors may not participate in the Company's Board of Directors meetings until the number of Vetted Directors required under subsection (2) above have been appointed.
- (4) 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 Officers, 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.
- (5) The appointment or employment by the Company of an officer who fails to meet the provisions in subsection (4) above will be invalid and such appointment or employment, as the case may be, will be null and void.

**1.16.15.4 Changes in the Company's Structure**

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.

**1.16.15.5 The Company's Distillate Marketing Operations at Gas Stations**

- (1) The Company will not be entitled to hold rights in gas stations that constitute 20% or more of all of the gas stations in Israel; however, after December 31, 2011, the Ministers may, in consultation with the Minister of National Infrastructures and the Competition Commissioner, permit the Company to hold rights in gas stations at a higher rate than the above, paying attention to the state of competition in the fuel and refinery industries.
- (2) 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.
- (3) If the Company has rights in fuel stations that represent 10% or more of all of the gas stations in Israel, it will not be entitled to enter into an arrangement to receive rights in a gas station which is an "Adjacent Station",<sup>29</sup> without the Competition Commissioner's consent.

**1.16.15.6 Additional Restrictions on the Company's Operations**

- (1) 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 following:
  - A. The above infrastructure was owned by it prior to the publication date of the Order.
  - B. Such infrastructure was set up by the Company on the strip of land which, as at the publication date of the Order, contained the infrastructure.
- (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 order are fulfilled.
- (4) The Company will not hold control of 5% or more of the means of control of ORA or Pi Gilloth or one of its terminals.
- (5) The obligation to provide information to the competent authorities and the confidentiality and information security provisions apply to the Company.

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<sup>29</sup> "Adjacent Station" for this purpose is a gas station situated at the following distance from a site where another station in which the Company holds rights is or will be situated: on a city road - one kilometer as the crow flies, and on any other road - ten kilometers measured along the length of the relevant roads.



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In terms of the Essential Interests Order, on February 8, 2009, the Fuel Administration director ordered the Company to transport fuel in at least one oil tanker with an Israeli crew. As at the reporting date, the Company entered into an agreement in accordance with the orders given. For further details, see Section 1.8 of this chapter.

### 1.17 **Insurance**

The Group Companies maintain insurance coverage for the different 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:

- 1.17.1 **Property and Loss of Profit Insurance** - The policy covers direct physical damage and consequential damage with a liability limit of up to USD 1.75 billion, 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 set out in it. As usual, if not reinstated, the coverage amount will be at the indemnity value calculated according to the provisions of the policy.
- 1.17.2 **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 direct physical damage and consequential damage resulting from terror acts and war. The volume of coverage for property and consequential damage is USD 1 billion for a compensation period of 30 months. The policy is subject to the deductibles set out in it. As usual, if not reinstated, the coverage amount will be at the indemnity value calculated according to the provisions of the policy.
- 1.17.3 **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.
- 1.17.4 **Marine Cargo Insurance** - The policy provides coverage of up to USD 220 million for loss or damage to international cargo shipments and the inventory of the Group Companies stored outside the Company's premises.
- 1.17.5 **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 190 million (the liability limit includes indemnity for the Company's own liability in the amount of USD 150 million), which also covers claims regarding securities. In addition, the Company has a "Run-Off" policy with a liability limit of USD 190 million for a period of 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.
- 1.17.6 **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 profits policy with lower liability limits than those of the Company.
- 1.17.7 **Credit Insurance** - the Group Companies maintain ongoing customer credit insurance policies to reduce exposure to the risk in providing credit, which include their share of the deductible.  
The insurance coverage under each of these policies is subject to the terms and exceptions set out in each such policy.



**1.18 Working Capital**

For information regarding the Group's working capital as of December 31, 2022, as included in the Consolidated Financial Statements, see Part 4 of the Report of the Board of Directors.

**1.19 Credit and Financing<sup>30</sup>**

1.19.1 The Group Companies finance their operations by profit on a cash basis; working capital (in subsidiaries, including supplier credit from the Company); long- and short-term bank loans (including credit facilities) and non-bank credit, mainly debentures. For information see Notes 6, 13, 14 15, and 20B4 to the Consolidated Financial Statements.

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

1.19.3 For information regarding debentures issued by the Company to the public, including in the reporting period, see Note 14B of the Consolidated Financial Statements.

1.19.4 For information 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.

**1.19.5 Credit Rating**

For information 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.

**1.19.6 Financial Covenants and Restriction on Creating Liens**

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

**1.19.7 Short-Term Borrowings**

In addition to the working capital financing channels set out in Section 1.18 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 information on the Group Companies' secured short-term credit facilities; the actual utilization of the credit facilities as of the reporting date and shortly before publication; and the financial covenants applicable to the Group Companies' secured credit facilities and compliance therewith, see Note 13A2 to the Consolidated Financial Statements.

**1.19.8 Long-Term Loans**

For information regarding the outstanding Long-Term Credit received by the Group Companies, as at December 31, 2022, including Long-Term Bank Loans received and Debentures issued, see Notes 13 and 14 to the Consolidated Financial Statements.

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<sup>30</sup> 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.

**1.19.9 Raising Additional Resources**

The Company's shelf prospectus is valid until January 10, 2024.

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 resolutions adopted by its competent organs.

Subsequent to the report date, the Company started exploring the possibility of raising debt by issuing a or more new series of debentures according to a shelf offering report under the Company's shelf prospectus dated January 11, 2022.<sup>31</sup> As of signing the report, this measure has not yet matured, and in any event is subject, inter alia, to another decision by the Company's Board of Directors in connection with the terms, scope and structure of the raising and publication of the shelf offering report, as well as to obtaining all the approvals required by law, including the rating agency's approval, and TASE's approval to list the debentures to be issued as aforesaid. It is clarified that the scope, date and implementation of the raising are uncertain.

In this regard, see the immediate report of February 20, 2023 (Ref. No. 2023-01-016267), included by way of reference.

**1.20 Material Agreements**

The Group Companies have entered into agreements that are material for their operations. For information regarding the material agreements to which the Company or its subsidiaries are party, see Note 20B of the Consolidated Financial Statements.

**1.21 Legal Proceedings**

There are various lawsuits pending against the Company and its subsidiaries, 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 information regarding the material legal proceedings to which the Company and/or its subsidiaries are party, see Note 20A of the Consolidated Financial Statements.

**1.22 Business Strategy and Objectives**

- 1.22.1 The 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 focused on sustainability and innovation in the fuel and polymer business. For further details about the approved strategic plan, see an immediate report published by the Company on July 22, 2021 (Ref. No.: 2021-01-120867), included herein by way of reference.
- 1.22.2 The strategic plan emphasizes the expansion of the Group's core activities and setting up the infrastructures as required to gradually adapt those activities to the emerging trends in the markets. The strong economic and business basis of the Group's existing core activities shall serve as a source for gradual development of and investment in new growth drivers, and for adapting the existing activity to changing market needs. As part of the approved strategy, the Company formulated, in accordance with leading international standards, an ESG policy that constitutes a significant factor in guiding the Company's operations, including in decision-making and risk

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<sup>31</sup> See the Company's report dated January 10, 2022 (Ref. No.: 2022-01-005146), included by way of reference.

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management policy. In the opinion of the Company, the strategy it adopted is in line with the government's resolution on its strategy for the Haifa Bay, since according to the Company's strategy, until the conditions allowing the change in the energy sector, which the government resolution aims to achieve, are met in full, the Bazan Group will continue supplying the need for fuels and other Group products; Bazan will do so responsibly while reducing its carbon footprint, with a gradual transformation in the field of future transportation fuels, and in its other areas of activity, placing an emphasis on sustainability and innovation. For information about this government resolution, see Note 20C to the Financial Statements. In addition, subsequent to the reporting period, the Company assessed the up-to-dateness of its strategy and decided to refocus the strategic plan in accordance with the current review of developments in the markets and in accordance with the government's resolution, as detailed below:

- 1.22.2.1 Continue to invest in advanced polymers;
- 1.22.2.2 Careful, well-planned investments in hydrogen taking into account market developments;
- 1.22.2.3 Continue the refining activity while reducing its carbon footprint;
- 1.22.2.4 Suspending investments in infrastructure development in view of the negotiations with the government;
- 1.22.3 The plan is based on four key pillars:
  - 1.22.3.1 Fuels and Infrastructures - Enhancing and reinforcing Bazan's leading position in the Israeli Transportation Fuels market by using digitization and integrating advanced manufacturing technologies, innovation and achieving a reduced carbon footprint, while constantly adapting to changes in the market and to the needs of our business partners - in Israel and in the export markets. In addition, continuing the refining activity over time while creating a flexible product basket adapted to market needs while taking advantage of opportunities and collaborations for holding pilot experiments in a variety of fields. Following the review of the strategic plan and in accordance with the government resolution, the investments in infrastructure development planned for 2022-2030 in the amount of USD 110-180 million were suspended. For information about this government resolution, see Note 20C to the financial statements.
  - 1.22.3.2 Advanced Polymers (through Carmel Olefins) - Enhancing Carmel Olefins' leading position in the local polymers market while leading the transition to recyclable and biodegradable polymers in Israel; integration of innovation, digitization and advanced technology in manufacturing processes in order to reduce carbon footprint, while leveraging Ducor's activity in Western Europe. In addition, adopting leading global technologies for chemical recycling in order to establish a first-of-its-kind facility in Israel with the Environmental Services Company. The Company has set ambitious goals for incorporating advanced polymers (from recycled and biodegradable materials) in its product basket 15% by 2025 and 30% by 2030. The overall amount to be invested in this area in 2022-2030 is estimated at USD 170 million to USD 240 million.
  - 1.22.3.3 Hydrogen and Alternative Fuels - Leading the Israeli hydrogen market for transportation and industry across the country and supplying all alternative fuels that will be required in the market. As part of its activity in this area, Bazan will work to become a leading player in the local ecosystem, as well as in terms of investment in innovation and development.

The activity in the hydrogen area of activity commenced as early as 2022 by way of investments and collaborations with leading players in the area in order to achieve commercial manufacturing and supply of hydrogen for transportation and industry, and laying down infrastructures for the development of the hydrogen market in Israel.

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At a later stage, the activity will also grow and expand to commercial manufacturing and supply of blue and green hydrogen.

The Company is of the opinion that the investments through 2030 are expected to amount to up to USD 50 million. The objective of those initial investments is to lay the foundations necessary for the Company to promote its activity in the field, while minimizing investment risks.

1.22.3.4 Commitment to ESG Principles - For many years, the Group has invested heavily in implementing principles of sustainability and responsible conduct in environment, social and governance (ESG) aspects in its management and business strategy alongside implementation of steps to reduce its environmental footprint. Due to these investments and other actions taken by the Group, the environmental impact of its facilities was reduced significantly, specifically with respect to air pollution - an issue that has extensive environmental and health implications, as indicated in the Ministry of Environmental Protection's publications. The Company has also increased the production of products that have a reduced impact on the environment, beyond the Israeli standards' requirements.

Following on the publication of Bazan Group's strategic plan, as described in Section 1.22.3 above, towards the end of 2021, the Board of Directors adopted an ESG policy whereby the Bazan Group is committed to the implementation of environmental, social responsibility and corporate governance criteria in accordance with the relevant international standards, in a manner that will reflect our ongoing commitment to our customers, partners, shareholders, employees, and the communities in which the Group operates. Furthermore, the Group's Board of Directors appointed a dedicated committee that will focus on this issue (the Environment, Safety and ESG Committee). The ESG policy is another step in the process of implementing Bazan Group's values in all of our areas of activity. Bazan Group will operate at the forefront of Israel's future energy industry in accordance with dominant global trends. The principles of innovation, openness and collaboration form the foundation for the realization of our vision whereby we will lead a transformation in the sector of energy for transportation and petrochemical industries in Israel, led by principles of environmental responsibility and sustainable development of energy sources and future technologies.

In the Reporting Period, an ESG strategy was formulated for the Group, with synergistic integration into the Group's operations and goals, advancing the cross-organizational implementation of environment and climate, social, and governance principles, in accordance with the Group's vision, through a multi-year work plan.

In October 2022, the ESG Report was published for a reporting period of 3 years, for 2019, 2020, and 2021. The report was prepared in accordance with Best Practice and GRI and SASB global standards and underwent an assurance process by the global advisory firm KPMG. Subsequent to the reporting period, the Company's Board of Directors approved a community outreach policy totaling up to 0.5% of the profit before tax in the past year, with a maximum 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.

For further information about expected developments in this field in the forthcoming year, see Section 1.22.4 below.

**The aforesaid goals and the probability of their realization, including the amount of the expected investment in the implementation of the strategic plan, and the targets set for the scope of the production of recycled and biodegradable polymers, reflect the Company's strategy as at the reporting date, and constitute**

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**forward-looking information, which by their very nature are subject to changes, and they may not materialize or may materialize differently than expected. These estimates are based, among other things, on the Company's past experience in these fields, information on what is done in this area worldwide and the Company's intentions and plans, as at 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. These assessments may not materialize or may materialize in part, based on developments in the Group Companies, in the oil and refining industry and/or the petrochemical industry in Israel and the world, in the target markets and in the characteristics of the demand for products of the areas of operation, and due to the other risk factors to which the Company is exposed, as outlined in Section 1.23 below.**

**1.22.4 Expected Development in the Coming Year**

1.22.4.1 In 2023, the Company expects to focus on the following subjects:

1.22.4.1.1 Strategy (for further information see Section 1.22 in this chapter) - Implementation of all aspects the strategy, with focused management and allocation of management and other required resources, with the close support of professionals and in a holistic view - among other things through collaborations, mergers. and acquisitions.

1.22.4.1.2 Negotiations with the Government - Continued negotiations with the government negotiation team that was set up under the government decision, concurrently with the continued professional dialog with the regulators relevant to the Company's operations.

1.22.4.1.3 ESG - Promoting ESG, including an ESG risk assessment, with the support of a global consulting firm with relevant expertise, as well as revising the material topics arising from the risk assessment.

1.22.4.1.4 Periodic Maintenance - Completion of the planned maintenance work at one of the crude refining facilities and at the diesel fuel desulfurization facility alongside periodic servicing at this facility and at the Company's related manufacturing facilities.

1.22.4.1.5 Financial Policy – Continued effort to reduce the financial debt (gross and net) according to the multiyear outline the Company's Board of Directors adopted and to ensure the Group's liquidity and financial robustness.

1.22.4.1.6 Innovation and R&D - Advancement of the innovation concept in all areas of the Group's activity and in related areas, including encouraging internal innovation in the Group and R&D of products in various segments, including increasing the production and sales of customized polymers (Commodity +), while creating added value for the customer.

1.22.4.1.7 Digitization - Implementing a digitization plan, the key principles of which are the integration of advanced technologies in all segments, including tools that support the implementation of the business strategy, decision making, increased efficiency (including in operational terms), reducing the environmental impact and implementing advanced control mechanisms.

1.22.4.1.8 Human Resources - Developing and nurturing the human resources in general and management in particular, while adapting it to the changes and developments in the Group's business activity; ensuring ongoing employee development and training, supporting work environment and knowledge preservation.

1.22.4.1.9 Environmental Regulation - Investment of managerial attention and significant resources in making the investments and adjustments necessary for the Group Companies' operations in order to at least comply with the environmental regulatory requirements applicable to them.

1.22.4.1.10 Safety - ensuring employees and contractors' safety while implementing a proactive approach to this topic and constantly increasing awareness.

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- 1.22.4.1.11 Operational Continuity - Maintaining operational continuity and availability of the Group's production facilities in order to ensure the fulfillment of its business potential, while constantly improving the Group's production, maintenance and safety functions.
- 1.22.4.1.12 Maximizing the Activity of the Refinery - Maintaining and tightening the relationship with the Company's customers and expanding the circle of suppliers and destinations from which the Company can import crude oil, while taking advantage of new opportunities, including due to developments in the geopolitical arena. In addition, maximum optimization of the range of crudes available to the Company from time to time, including by adding appropriate types of Feedstock from the different sources, based on developments in the crude oil market.
- 1.22.4.1.13 Business Development - Activities to identify and implement initiatives and projects that reflect and increase the synergy between the operations of the Group Companies.
- 1.22.4.1.14 Improving Efficiency - Improving energy efficiency and reducing losses in the operation of the Group's facilities and use of inputs such as Natural Gas and electricity at attractive prices. In addition, reducing expenses by streamlining work, production, procurement and maintenance processes, while making the most of Group synergies.
- 1.22.4.1.15 The Conflict between Russia and Ukraine - The Company will work to adapt its business activity in view of the conflict between Russia and Ukraine, and in accordance with the developments in this conflict, including changes to the procurement policy of Feedstock, inventory policy and working capital, in view of changes in the availability of Feedstock originating in Russian refineries or countries using Russian ports, and in view of the volatility and the effect of the conflict on crude oil prices. For information about the Company's dealing with this conflict, Note 10B to the attached Report of the Board of Directors in Chapter B to this report.

**The Company's foregoing assessments regarding materialization of the business measures and projects that it is reviewing is all forward-looking information, and as such is uncertain and may not materialize, in whole or in part, or may materialize differently than planned. These assessments are based on plans prepared by the Company management and data and assessments provided by professional entities outside the Company. These assessments may not materialize or may materialize in part, because they are highly complicated issues and their implementation depends, among others, on entities outside the Company and obtaining various regulatory approvals, the cost of which may change according to developments in the relevant markets. These assessments may also change materially in the event of a material change in other 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, and due to the other risk factors to which the Company is exposed, as outlined in Section 1.23 below.**

## **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 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 Group's management adopted an orderly risk management policy, which is based on an international risk

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management model (COSO ERM<sup>32</sup>); 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 different employees in the function, and establishing mechanisms to identify, control, report and monitor risks.

- 1.23.1.2 As part of implementing the risk management process, the Group works continuously to reinforce the commitment to risk management among its managers and employees, and make it an integral part of its business activity, thereby improving the performance of the different 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 (VP Finances and Economics) 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.
- 1.23.1.5 Furthermore, the Group established an orderly process to validate the risks map and update the risks, where new risks were identified, which are relevant for the Group's activity. Furthermore, a comprehensive risk survey is conducted every few years, generally with the assistance of a professional advisor specializing in this field. In 2020, the Group completed a comprehensive risk survey that was approved by the Group's Audit Committee and Board of Directors; during the reporting period, the Group established mitigation plans and key risk indicators (KRIs) for all key risks. Among the key risks that were identified and mapped as part of the risk survey as described above are, among other things, regulatory changes and environmental risks, non-implementation of the strategic plan, ESG risk - including climate risk, as well as cyber, financing and liquidity risks.

### 1.23.2 **Macro Risks**

- 1.23.2.1 **Economic Slowdown - Global Economic Crisis** - the demand for fuel products is affected by various factors, as described in Section 1.7.3 to this chapter. A market slowdown or recession, including due to purely non-economic factors (geopolitical events, such as a trade war between the USA and China or other events, like the spread of the Covid-19 virus) might 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 and other purely non-economic events as stipulated above, could be manifested in a significant decrease in demand. 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 information on the risks to the Company following from the Russia-Ukraine war, see Section 1.23.3.1 below.

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<sup>32</sup> The Committee of Sponsoring Organizations of the Treadway Commission



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 1.7.3 of this chapter. Economic slowdown or recession in Israel might substantially impair the Group's revenues, 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. 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 1.17.7 to this chapter) for the different customers.

1.23.2.3 **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.

Any escalation of events with Israel's neighbors, particularly Lebanon, Syria or Iran, could give rise to renewed hostilities, which might 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 them. 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 1.17.2 of this chapter), with attention to the significant deductibles that the Group may have to pay if a claim is made against these policies. In addition, the Real Estate Tax grants limited compensation for losses resulting from war events; however, the said compensation might not cover loss of profits due to the war or the event as aforesaid, but such loss of profits may be covered by the Company's insurance.

The operations of the Group Companies are dependent on the importation of crude oil from various countries. Certain countries, mainly in the Middle East, prohibit doing business with Israel or Israeli companies. 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.

1.23.2.4 **Natural Disasters, including Earthquakes** - Extreme climate events affect the environment in which the Company operates, for example, weather pattern changes may cause water shortages, sea level and temperature changes and increased frequency and likelihood of extreme weather conditions such as floods. A natural disaster, including floods and/or an earthquake and/or tsunami may cause physical harm to persons and 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.

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Since the production facilities of most Group Companies are located at a single site, a natural disaster could lead to damage that causes suspension of all of the Group's operations and facilities in Israel, while dealing with business continuity difficulties. Note that the Group also insures itself against such risks (see Section 1.17 above); with attention to the significant deductibles that the Group may have to pay if a claim is made against 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 to 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 1.15.1.2 above.

- 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 different currencies to the US dollar. The Group is also exposed to currency risk in respect of the NIS-denominated debentures. For further information 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 principal and interest rate swap transactions) bearing variable interest rates based on SOFR plus a margin. An increase in the variable interest rates may give rise to an increase in the Group's finance costs. For further information regarding interest rate risk, see Note 29D2 to the Consolidated Financial Statements.
- 1.23.2.7 **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 receiving of Feedstock 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 income 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. Generally speaking, as a result of such actions, the ongoing activities and operation of the Group's facilities may be harmed, its business information damaged or leaked and the reputation of the Group Companies impaired.

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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, but if some or all of the Systems are damaged, this could result in substantial damage to the Company's information and to the applications and infrastructure supporting the Company's processes. 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. The results of these surveys and tests are discussed, among other things, once a month by the information security forum headed by the VP of Computing, by the Company's management twice a year, and by the Board of Directors once a year, together with experts, and as a result of these surveys and discussions, the Company maintains a series of procedures, work processes, and controls that include a work plan and controls to reduce the cyber risks arising from these surveys. These procedures 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.

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 the most advanced 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, which are constantly transforming and spreading, 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 incident. The deputy CEO, who has relevant qualifications and experience and who reports to the CEO, is in charge of cyber risks in the corporation; and he has at his disposal all the management and financial sources (in amounts that are immaterial to the Company) required to implement the Group's cyber and information security policy.

The Company believes, based on the opinion of its professional advisors, that its cyber management and information security risks activities are effective in reducing and minimizing cyber and information security risks in the Group.

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However, despite the activity of the said Group, it is noted that it is not possible to stop cyber-attacks or insertion of hostile code completely and thereby prevent damage that may be caused as a result. It should also be noted that the Company's property insurance policy and war and terrorism insurance policy include 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 and/or fully cover the damages which the Group may incur due to such physical damage. For further information, see Section 1.17 above.

### **1.23.3 Industry-Specific Risks**

**1.23.3.1 War between Russia and Ukraine** - For information regarding the impact of the war in Ukraine on the Group's business activity, see Note 1E to the Consolidated Financial Statements. If it is impossible to purchase certain Feedstock (such as HVGO) because of the war or the sanctions against Russia, this might have a material adverse effect on the Company, because of a shortage in suitable Feedstock for its activity or because of the need to by 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 Feedstock, 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 crude oil (including a basic inventory which the Company does not hedge), refined products 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 Feedstock and the products manufactured from them (for further information about crude oil price fluctuations, see Section 1.7.3 of this chapter). The Group's policy is to protect itself against such exposure (other than with respect to the Company's above basic inventory and part of the inventory of the subsidiaries Carmel Olefins and Gadiv) by establishing hedged positions and using the appropriate derivatives for protection purpose (for information, see Note 29D3 to the Consolidated Financial Statements). It is not possible to fully hedge price fluctuation risks. There are no sophisticated markets for polymer products and therefore, the operating margin hedging options in these areas are limited. 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 crude oil price increase, the amount of working capital that the Company will need to raise to purchase all the oil required for its operating activities will increase and the conditions for raising such working capital might deteriorate. In the event of a significant crude oil price decrease, the Group could record an accounting loss with respect to the unprotected inventory of crude oil that it holds, 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 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, and in such cases, it is exposed to same risks as those set out in Section 1.23.3. For further information regarding the margin hedging policy, see Note 29D3 to the Consolidated Financial Statements. In terms of margin hedging, 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. 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.

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. In addition, the Company is committed to some of its creditors to comply with financial covenants relating to the Group's financial results. Therefore, substantial impairment of the Group's financial results and/or strength 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, 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 might be imposed upon the Group's operating segments or the Group Companies specifically, could give rise to large-scale expenses and investments over and above its existing investment plans and might even impair its operating results.

As industrial companies, the Group Companies must comply with all regulatory occupational safety and hygiene provisions and requirements which the State is introducing. Failure to identify or comply with these requirements in full might 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 provisions 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 might 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 their preliminary stages, dealing with more stringent regulation and enforcement of environmental issues are under discussion. For further information on the environmental protection and regulation issues applicable to this segment, including the possible impact of future legislation, see Section 1.15 of this chapter.

- 1.23.3.5 **Transition to Fuel Product Substitutes, Recycled Plastic and Reduction of Plastic Use** – 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 might also bring about a decline in the demand for transportation fuels and may also impair the Company's business results. For further information on fuel product substitutes, including the Ministry of Energy's document on the fuel economy goals for 2030, see Section 1.7.7 to this chapter.

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; furthermore, declarations were issued and laws are enacted to reduce the prevalence of single-use plastic. 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 might be adversely affected or the growth in consumption of its products may decrease, which might have an adverse effect on its profits. It should be noted that the Company's strategic plan is aimed, among other things to address this trend. For further details, see Section 1.8.1.6 of this chapter.

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 emissions. The carbon tax can be imposed on all sectors, both energy-intensive and non-energy-intensive, and can apply to all greenhouse gases rather than only to carbon dioxide. 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 most 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 Order 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.

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- 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 and INGL, which own essential infrastructure for the unloading, transportation, storage and dispensing of crude oil and refined products, some of which are outdated and the volume of services which may be provided through them is limited; and transmission of Natural Gas, respectively. The refining companies are also dependent on receiving regular port services to allow unloading crude oil and intermediate materials 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 1.7.15.4 and 1.16.2 of this chapter).
- 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 might 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 1.17 to this chapter). 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 and/or fully cover the damages which the Group may incur due to 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 ORA) 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.



1.23.3.11 **Changes in Investment Trends due to ESG Considerations** - In recent years, investors and stakeholders, in Israel and worldwide, such as suppliers, consumers, employees, credit providers etc., have become increasingly aware of the climate and environmental effects of various activities. As part of this trend, existing and potential investors, as well as other stakeholders, include ESG (Environmental, Social and Governance) considerations as part of their investment and business policies, including with regard to provision of credit. This trend might 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, etc. 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 **Non-Compliance with Environmental, Health and Safety Laws and Regulations and Limitations on Future Development or Operating Activity from the Environmental and Health 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 decontaminate 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 further information on claims and concerns of alleged pollution in sites outside the Company's premises, see Section 1.15.5.4 of this chapter.

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 information regarding such claims, see Note 20A2 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 as described in Section 1.23.3.11 to this chapter.

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 the reporting period, gas started to flow from the Karish Reservoir, thereby increasing the redundancy of Natural Gas supply sources. Additionally, there are regulations governing the distribution of Natural Gas when there is a failure at one of the suppliers. Together with the redundancy of the gas supply sources, it should be noted that the gas is supplied through the INGL transmission system, which has no redundancy.

## **Bazan Ltd.**

If the supply of Natural Gas stops (whether due to a malfunction in the active fields or due to a fault in the transmission pipeline), the Group's activity and business results might be materially impaired. In addition, in such case, the Group Companies may be required to reduce their operations, because of environmental restrictions imposed on them. Since such restrictions might trigger a crisis in the supply of transportation fuels, it appears that in such 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 the reporting period, 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, the implications on future building permits that will be required in the Bazan compound and further information, see Section 1.10.8 in this chapter.

Moreover, as set out in Section 1.16.7 of this report, the Company and its subsidiaries have recently been experiencing difficulties in renewing the business licenses required by them for their operations and the provision of temporary permits for short periods only. 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 Resources 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 might find itself potentially losing knowledge and experience, as its employees leave their positions, and the Group might have difficulties recruiting new employees and managers with suitable knowledge and experience. The Group is dealing with this risk by investing in preserving know-how, building professional redundancy and recruiting additional staff in key professions, as well as emphasizing ESG and social corporate social responsibility. Moreover, the Government Resolution on shutting down the Company's activity might 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.

- 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, as described in Section 1.22 above, during the Reporting Period the Company published a strategic plan regarding all areas of activity of Group Companies. For information about the strategic plan, see Section 1.22 above. 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. The plan adequately complies with the March 6, 2022, Government Resolution, that the Company is studying. For further details, see Section 1.10.4 of this chapter.

- 1.23.4.6 **Review of the Future of Group Companies' Facilities in the Haifa Bay** – As noted in Section 1.10.4 of this Chapter, on March 6, 2022, a Government Resolution was passed, to terminate the Haifa Bay petrochemical plants' operations when conditions allow it. Subsequently, the National Planning and Building Council began to promote 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 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 the strategic plan, 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** – The “Energy Market Objectives for 2030” document 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 oil 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.
- 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.
- 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 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:

1.23.6

Section	Risk Factor	Major Impact	Moderate Impact	Minor Impact
	<b>Macro Risks</b>			
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	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		
	<b>Industry-Specific Risks</b>			
<b>Error! Reference source not found.</b>				
	Russia-Ukraine War	V		
1.23.3.1	Exposure to Raw Material and Product Price Changes	V		
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	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 Fuel Product Substitutes and Plastic Recycling		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 Market		V	
1.23.3.11	Changes in Investment Trends due to ESG Considerations		V	
	<b>Company-specific risks</b>			
1.23.4.1	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 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 Resources Employed in the Company			V
1.23.4.5	Restrictions on the Implementation of the Strategic Plan		V	
0	Examination of the Future of the 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	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, 2022

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, 2022 (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 that period, are also available to the reader.

### Chapter 1 – Description of the Company 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 (through Carmel Olefins and Ducor). In addition, Group companies engage in operations that are not material: primarily the Trade Segment (through Trading and Shipping).

Carmel Olefins and Gadiv plants 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 and lowering costs.

#### B. Bazan Group's business environment and profitability

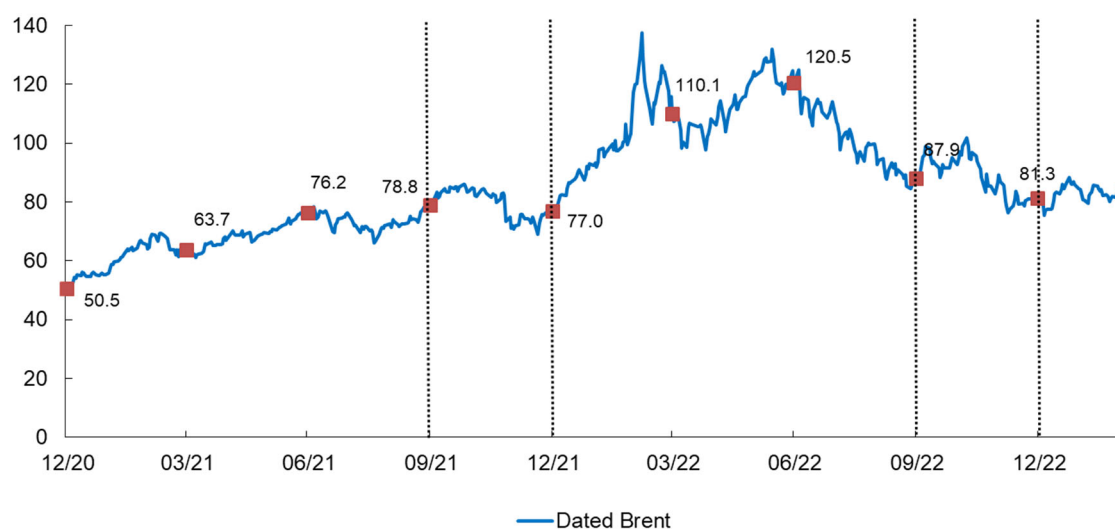
For details about the war between Russia and Ukraine and the effect on the Group's activity, see Chapter 1D to the Financial Statements.

##### Refining Segment (the Company and Gadiv)

##### Price of crude oil

##### Crude oil price

##### Brent crude<sup>1</sup> (USD per barrel)



Source: Reuters  
Dated Brent<sup>1</sup>

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## 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)

2022	2021	Change	10-12.2022	10-12.2021	Change
101.3	70.9	43%	88.9	79.8	11%

During the Reporting Period, Brent prices were highly volatile, reaching levels of USD 76 to USD 138 per barrel; the Brent price was impacted, among other things, by the following factors:

- In terms of supply: The imposition of sanctions on Russia in view of the conflict with the Ukraine, which led to disruption in the supply of oil. On the other hand, the increase in OPEC+ production quotas, alongside the release of oil barrels to the global market from the emergency reserves of the United States.
- In terms of demand: The lifting across the world (except for China), of the restrictions imposed to prevent the spread of Covid-19 led to an increase in demand. On the other hand, interest rate hikes across the world and inflationary pressures, increased concerns regarding a slowdown in growth rates.
- Subsequent to the reporting date, Brent oil traded at between USD 76 and USD 88 per barrel, with its price affected, among other things, by a ceiling imposed on Russian oil and distillates by G7 and EU countries.
- Shortly before the report's approval date, the Brent price was fixed at USD 86 per barrel.
- In the reporting period and the fourth quarter of 2022, the crude oil futures market curve was in average backwardation of USD 1.8 per barrel and USD 0.8 per barrel, respectively, compared with average backwardation of USD 0.5 per barrel and USD 0.6 per barrel in the corresponding periods last year, respectively.

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

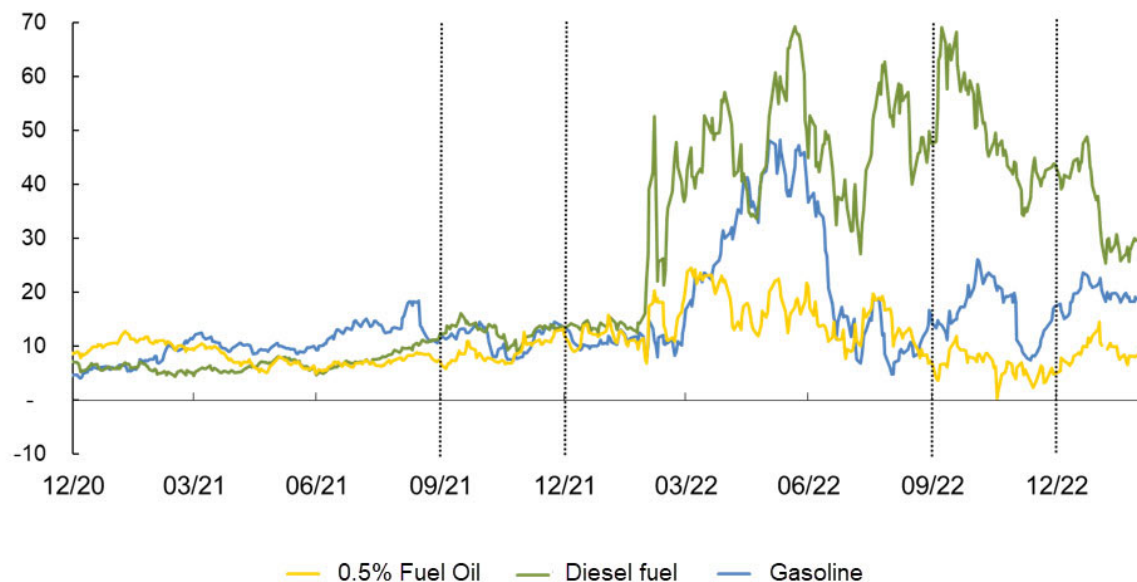
### B. Bazan Group's business environment and profitability - cont.

#### Refining Segment (the Company and Gadiv) - cont.

##### Refining margins

Margins of Mediterranean Basin transport diesel fuel<sup>(1)</sup>, gasoline<sup>(2)</sup>, and 0.5% fuel oil<sup>(3)</sup> compared with Brent crude oil<sup>(4)</sup>

USD per barrel



Source: Platts

- (1) ULSD CIF Med
- (2) Prem Unl CIF Med
- (3) Fuel Oil 0.5% CIF Med
- (4) Brent (Dated)

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

	2022	2021	Difference	10-12.2022	10-12.2021	Difference
Diesel fuel <sup>(1)</sup>	41.7	8.4	33.3	49.9	12.9	37.0
Gasoline <sup>(2)</sup>	19.3	10.5	8.8	16.4	11.4	5.0
0.5% fuel oil <sup>(3)</sup>	12.6	8.5	4.1	6.4	9.1	-2.7

- (1) In the Reporting Period and the fourth quarter of 2022, there was a sharp increase compared with the corresponding periods last year, due to the decrease in supply following the sanctions imposed on Russia following the war in Ukraine, which intensified the global shortages in diesel fuel, alongside an increase in demand due concerns in Europe regarding energy shortages, mainly natural gas, and storage of inventory at the end of the year due to the price ceiling imposed on Russia by G7 countries, which came into effect in February 2023.
- (2) In the Reporting Period and the fourth quarter of 2022, there was an increase compared with the corresponding periods last year, mainly due to an increase in demand after Covid-19 restrictions were lifted around the world, alongside a decrease in inventories.
- (3) During the Reporting Period, prices increased sharply compared to the corresponding period last year as a result of an increase in demand due to concerns in Europe regarding energy shortages, mainly natural gas, alongside an increase in the scope of maritime trade.

Shortly before the Report's approval date, the diesel fuel margin was USD 28 per barrel.



**Chapter 1 - Description of the Company and its Business Environment - cont.****B. Bazan Group's business environment and profitability - cont.****Domestic market consumption of distillates (thousands of tons) (1)**

	10-12.2022	7-9.2022	4-6.2022	1-3.2022	10-12.2021	7-9.2021	4-6.2021	1-3.2021
Transportation fuels <sup>(2)</sup>	2,040	2,128	2,037	1,840	1,834	1,859	1,712	1,510
Other distillates	658	673	646	590	701	590	568	680
<b>Total</b>	<b>2,698</b>	<b>2,801</b>	<b>2,683</b>	<b>2,430</b>	<b>2,535</b>	<b>2,449</b>	<b>2,280</b>	<b>2,190</b>

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

- (1) Total distillate consumption in the domestic market (transportation fuels, other distillates for manufacturing and heating) increased in the Reporting Period and in the fourth quarter of 2022 compared to the corresponding periods last year by 12% and 6%, respectively.
- (2) Consumption of transportation fuels (gasoline, diesel fuel and kerosene) increased during the Reporting Period and in the fourth quarter of 2022 compared to corresponding periods last year by 16% and 11%, respectively.

The increase in consumption stems mainly from the lifting of travel restrictions compared to the corresponding periods last year and the continued recovery of the economy from the impacts of Covid-19.

**Refining volume**

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

	2022	2021	10-12.2022	10-12.2021
Utilization of crude oil refining facilities	97%	83% <sup>(2)</sup>	99%	90%
Volume of crude oil refining	9,564	8,163	2,449	2,222
Volume of heavy vacuum diesel processed	663 <sup>(1)</sup>	1,015	206	244
<b>Total</b>	<b>10,227</b>	<b>9,178</b>	<b>2,655</b>	<b>2,466</b>

The increase in the utilization of refining facilities during the Reporting Period, and in the fourth quarter of 2022, compared to corresponding periods last year was mainly due to the adjustment of output as a result of the increase in demand for distillates and the increase in refining margins.

- (1) The decrease in the volume of heavy vacuum diesel processed (HVGO) during the reporting period stemmed mainly from the periodic maintenance work in the fluid catalytic cracker facility (FCC).
- (2) Utilization of the refining facilities, had it not been for the malfunction in the corresponding period last year at the continuous catalytic reformer (CCR), and had it not been for the suspension of the supply of feedstock from EAPC to the Company for eight days, would have been estimated at 85%.

## 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.

#### Refining margins - cont.

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

	2022	% of Total	2021	% of Total	10-12.2022	% of Total	10-12.2021	% of Total
Diesel fuel	4,143	41%	3,792	42%	1,114	43%	985	41%
Gasoline	1,560	16%	1,343	15%	444	17%	382	16%
Kerosene	705	7%	386	4%	175	7%	144	6%
0.5% fuel oil	1,265	13%	1,291	15%	256	10%	317	13%
Raw materials for polymer production	450 <sup>(2)</sup>	4%	576	6%	137	5%	147	6%
Aromatics products	481	5%	524	6%	120	5%	140	6%
1% fuel oil	659	7%	92	1%	186	7%	62	2%
Others <sup>(1)</sup>	703	7%	965	11%	161	6%	232	10%
<b>Total</b>	<b>9,966</b>	<b>100%</b>	<b>8,969</b>	<b>100%</b>	<b>2,593</b>	<b>100%</b>	<b>2,409</b>	<b>100%</b>

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

(2) The decrease in polymer raw materials produced in the reporting period compared with the corresponding period last year stemmed mainly from the periodic maintenance work in all of Carmel Olefins' facilities.

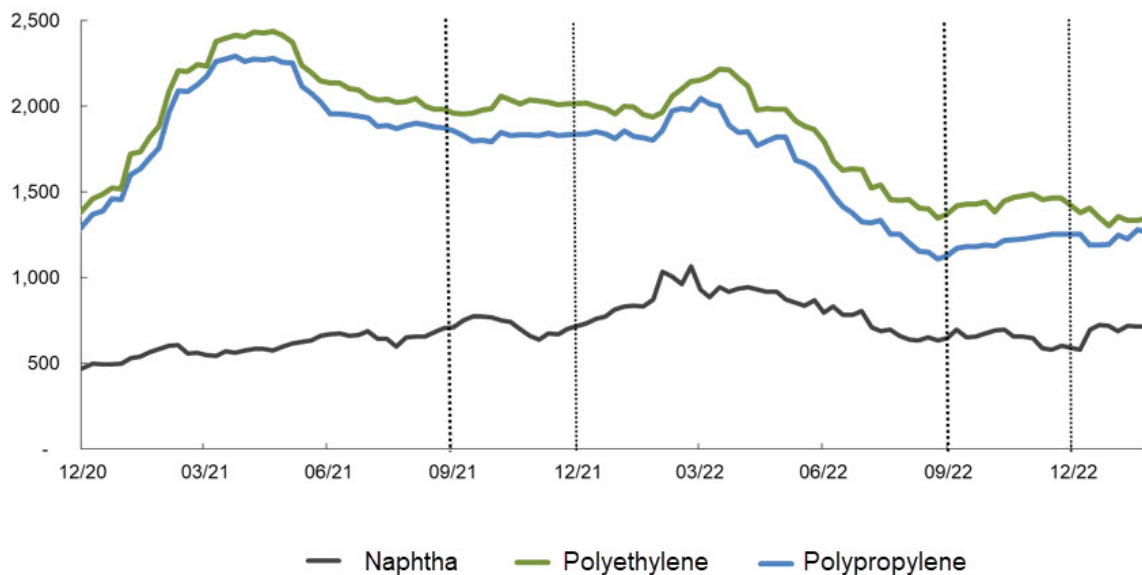
## Chapter 1 – Description of the Company and its Business Environment - cont.

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

#### Polymers Segment (Carmel Olefins and Ducor)

##### Polymer and naphtha prices

##### Polymer<sup>(1)</sup> and naphtha<sup>(2)</sup> prices (USD per ton)



Source: ICIS

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

(2) Naphtha CIF NEW

##### Average polymer and naphtha prices (USD per ton)

	2022	2021	Change	10-12.2022	10-12.2021	Change
Naphtha	785	630	25%	650	717	-9%
Polypropylene	1,547	1,922	-20%	1,214	1,827	-34%
Polyethylene	1,753	2,060	-15%	1,447	2,005	-28%

- In the Reporting Period, the price of naphtha increased compared with the corresponding period last year, due to the increase in the price of crude oil on the one hand, and a decrease in the demand for polymers on the other.

In the fourth quarter of 2022, the price of naphtha decreased compared with the corresponding quarter last year, due to a decrease in the demand for polymers.

- In the reporting period, and in the fourth quarter of 2022, polymer prices (Polypropylene and Polyethylene) declined compared with the corresponding periods last year, mainly due to a decline in demand following interest rate increases across the world due to inflationary pressures, alongside a slowdown in economic growth in China. In addition, in the Reporting Period, the supply of polymers increased compared with the corresponding period last year, mainly due to the shutdown of production facilities at the beginning of 2021, as a result of weather damages, which caused a decline in the supply of polymers.

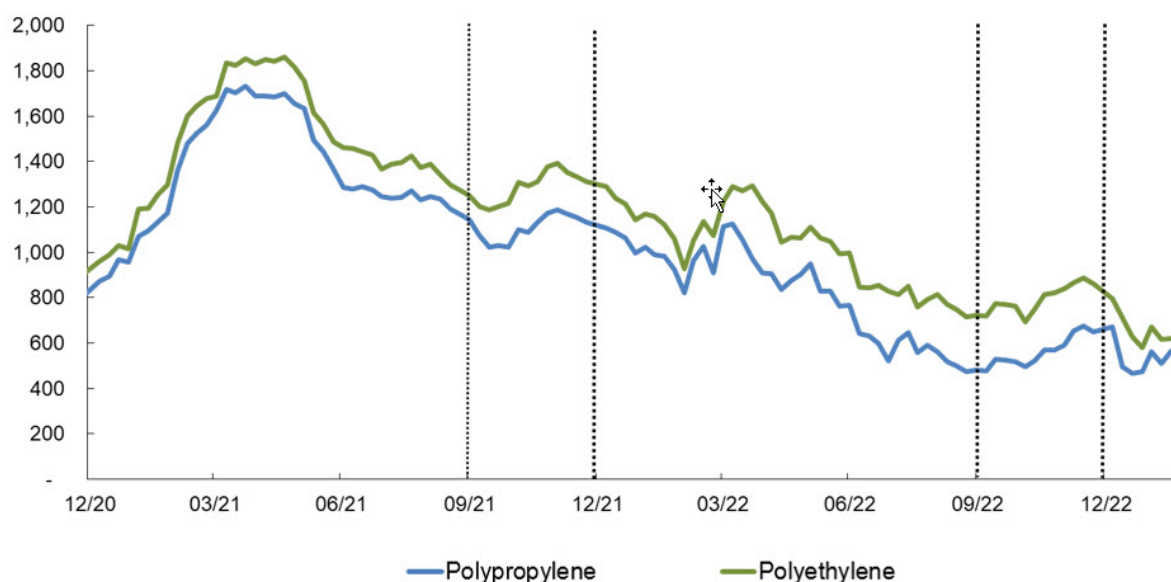
## Chapter 1 - Description of the Company and its Business Environment - cont.

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

#### Polymers Segment (Carmel Olefins and Ducor) - cont.

##### Margins

##### Difference between polymer and naphtha prices (USD per ton)



Source: ICIS

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

	2022	2021	Difference	10-12.2022	10-12.2021	Difference
Polypropylene	762	1,292	-530	564	1,110	-546
Polyethylene	968	1,430	-462	797	1,288	-491

- In the reporting period, there was a sharp decrease in the difference between the average price of polymers (polypropylene and polyethylene) and the average price of naphtha compared with the corresponding period last year; the decrease is attributed to an increase in naphtha prices; at the same time there was an increase in polymer prices, as outlined above.
- In the fourth quarter of 2022, there was a sharp decrease in the difference between the average price of polymers (polypropylene and polyethylene) and the average price of naphtha compared with the corresponding period last year, mainly due to a sharp decrease in the price of polymers, as set out above.
- Subsequent to report publication date until shortly before the report's approval date, the polypropylene and polyethylene margins were on average USD 537 and USD 658 per ton, respectively.

##### Polymer output volume (thousand tons)

	2022	2021	10-12.2022	10-12.2021
Polymers	534	655	160	170

- Periodic maintenance work was carried out in all of Carmel Olefins' facilities in the reporting period.

## Chapter 2 – Bazan Group Results for the Year and for the Fourth Quarter

### A. Results of Bazan Group operations

**Selected figures from the reported consolidated statements of income after adjustment for accounting effects for the year and for the fourth quarter ended December 31, 2022 (USD millions)**

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 (that 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.

	2022	2021	Change	10-12.2022	10-12.2021	Change
Revenue	10,828	6,577	65%	2,470	1,953	26%
<b>Reported EBITDA <sup>(1)</sup></b>	<b>754</b>	<b>598</b>	<b>26%</b>	<b>214</b>	<b>184</b>	<b>16%</b>
Depreciation	(144)	(162)	(11%)	(38)	(46)	(17%)
Other income (expenses), net <sup>(2)</sup>	(16)	(26)	(38%)	(10)	3	(433%)
<b>Operating profit</b>	<b>594</b>	<b>410</b>	<b>45%</b>	<b>166</b>	<b>141</b>	<b>18%</b>
Finance expenses, net <sup>(3)</sup>	(78)	(105)	(26%)	(28)	(33)	(15%)
<b>Income tax <sup>(4)</sup></b>	<b>(75)</b>	<b>(52)</b>	<b>44%</b>	<b>(16)</b>	<b>(19)</b>	<b>(16%)</b>
Net profit	441	253	74%	122	89	37%
Adjustments in the Refining Segment <sup>(*)</sup>	22	(87)		(51)	(14)	
<b>Adjusted EBITDA</b>	<b>776</b>	<b>511</b>	<b>52%</b>	<b>163</b>	<b>170</b>	<b>(4%)</b>
<b>Adjusted operating profit</b>	<b>616</b>	<b>323</b>	<b>91%</b>	<b>115</b>	<b>127</b>	<b>(9%)</b>
<b>Adjusted net profit</b>	<b>463</b>	<b>166</b>	<b>179%</b>	<b>71</b>	<b>75</b>	<b>(5%)</b>

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

(1) For more information, see Sections B3, C2 and C3 below.

(2) Including amortization of excess cost. For further information regarding the change and the composition of the other expenses, net item, see Note 25 to the Financial Statements.

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

	2022 vs. 2021	10-12.2022 compared to 10-12.2021
<b>Finance expenses, net during the corresponding period last year</b>	<b>105</b>	<b>33</b>
Interest on borrowings, net (*)	(6)	(4)
Financing for working capital items, net (*)	11	5
Exchange differences	(47)	(11)
Other	15	5
<b>Total change</b>	<b>(27)</b>	<b>(5)</b>
<b>Net finance expenses in the Reporting Period</b>	<b>78</b>	<b>28</b>

(\*) 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 additional information concerning finance expenses, see Note 26 to the Financial Statements.

(4) The increase in expenses in the Reporting Period is mainly due to an increase in pre-tax profit in the period. For further information, see Note 16B to the Financial Statements.

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**Chapter 2 - Bazan Group Results for the Year and for the Fourth Quarter - cont.****Consolidated adjusted EBITDA by operating segment (USD millions):**

	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>10-12.2022</b>	<b>10-12.2021</b>	<b>Change</b>
Refining Segment	724	199	525	169	115	54
Polymers Segment	32	301	(269)	(11)	51	(62)
Other and adjustments	20	11	9	5	4	1
<b>Total</b>	<b>776</b>	<b>511</b>	<b>265</b>	<b>163</b>	<b>170</b>	<b>(7)</b>

	<b>Refining Segment</b>	<b>Polymers Segment</b>	<b>Other (other segments and adjustments)</b>	<b>Consolidated</b>
2018	291	188	28	507
2019	240	152	24	416
2020	(23)	122	22	121
2021	199	301	11	511
2022 <sup>(1)</sup>	724	32	20	776

- (1) For information about the estimated loss of profits due to periodic maintenance work carried out in the reporting period, see Section B2 below. It should be noted that if it were not for the periodic maintenance work in the facilities, the consolidated adjusted EBITDA would have been estimated at USD 864 million (of which USD 765 million in the Refining Segment and USD 79 million in the Polymers Segment).

**Refining margin (USD per barrel)**

	<b>Adjusted refining margin <sup>(1)</sup> - Refining Segment</b>	<b>Adjusted pro forma refining margin - Refining Segment</b>
2018	7.8	8.0
2019	6.6	6.8
2020	3.4	-
2021	7.0	7.3 <sup>(4)</sup>
2022	13.9 <sup>(2)</sup>	14.5 <sup>(3)</sup>

- (1) For further information about the adjustment components, see Sections B3 below.
- (2) For more information regarding the realization of futures entered into in order to hedge the refining margin, see Section C3 below.
- (3) For information about the calculation of the pro forma margin in the Reporting Period for periodic maintenance in some of the Company's facilities, specifically in the fluid catalytic cracker (FCC), see Section B3 below.
- (4) For information about the calculation of the pro forma margin in the corresponding period last year for a malfunction in the CCR facility, see Section B.3 below.

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

### B. Analysis of the results for the year

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

	Sales turnover in USD million		Breakdown of sales		Average prices of the product mix (USD/ton)	
	2022	2021	2022	2021	2022	2021
Refining <sup>(1)</sup>	9,872	5,461	91%	83%	977	620
Polymers <sup>(2)</sup>	925	1,092	9%	17%	1,654	1,819
Other	31	24	0%	0%		
<b>Total</b>	<b>10,828</b>	<b>6,577</b>	<b>100%</b>	<b>100%</b>		

- (1) The increase in the turnover of sales of the Refining Segment during the reporting period compared with the corresponding period last year resulted from an increase in distillates prices and the increase in the price of crude oil, as well as the increase in the sales volume.
- (2) The decrease in the sales turnover of the Polymers Segment in the reporting period compared with the corresponding period last year stemmed from a decline in polymers prices alongside a decline in quantities sold due to the periodic maintenance.
- (\*) It should be 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 revenues from the sale of a mix of products and the cost of the raw materials purchased for their production. In addition, the results are affected by the utilization of production facilities.



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

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

#### 2. Consolidated Adjusted EBITDA in the operating segments

Following is a breakdown of the main reasons for the changes in adjusted consolidated 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 (USD millions):

Increase (decrease)	Refining	Polymers	Other and adjustments	Consolidated
<b>Adjusted EBITDA in 2021</b>	<b>199</b>	<b>301</b>	<b>11</b>	<b>511</b>
Margin/contribution <sup>(1)</sup>	487	(248)	9	248
Sales volumes	81	(43)	–	38
Estimated loss of profits due to malfunction in the CCR facility and the polypropylene production facility (in the corresponding period last year) <sup>(2)</sup>	28	16	–	44
Estimated loss of profits from the accumulation of polymers inventory in the lead-up to the periodic maintenance work (in the corresponding period last year) <sup>(3)</sup>	–	44		44
Loss of profits due to periodic maintenance (in the Reporting Period) <sup>(3)</sup>	(41)	(47)	–	(88)
Operating expenses <sup>(4)</sup>	(30)	9	–	(21)
<b>Total change</b>	<b>525</b>	<b>(269)</b>	<b>9</b>	<b>265</b>
<b>Adjusted EBITDA in 2022</b>	<b>724</b>	<b>32</b>	<b>20</b>	<b>776</b>

(1) For analyzing the EBITDA, the change in marketing and selling expenses (transportation, storage and etc.) were included in the contribution analysis.

(2) In the second quarter of 2021, there was a malfunction in the CCR facility, and in the third quarter of 2021, there was a malfunction in the polypropylene production facility.

(3) During the reporting period, periodic maintenance work was carried out in some of the Company's facilities, specifically the fluid catalytic cracker (FCC) facility, and in all of Carmel Olefins' facilities.

As part of the preparations, Carmel Olefins diverted some of the quantities it produced in the second half of 2021, to the accumulation of polymers inventory sold during the facilities' shutdown period.

The total loss of profits in respect of the periodic maintenance work was estimated at USD 132 million (approx. USD 41 million in the Refining Segment and approx. USD 91 million in the Polymers Segment), of which USD 44 million was recognized in the 2021 results of the Polymers Segment, USD 88 million was recognized in the results of 2022.

The total direct cost of the periodic maintenance work was estimated at USD 105 million.

(4) Includes fixed production, general and administrative. The change stems mainly from a non-recurring income from reversal of the provision in respect of the USD 8 million Palestinian Authority trade balance in the corresponding period last year, alongside an increase in insurance expenses that are dependent on profits and on the increase in power consumption costs. On the other hand, there was a decrease in payroll expenses due to capitalization of payroll and related expenses to property, plant & equipment in respect of the periodic maintenance work.

## Chapter 2 - Bazan Group Results 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 (for the Fuels Unit) and their effect on EBITDA (in USD millions):

	2022	2021
<b>Refining Segment reported EBITDA</b>	<b>702</b>	<b>286</b>
Effects of timing differences <sup>(1)</sup>	(22)	(105)
Effect of adjusting value of inventory to market value, net <sup>(2)</sup>	24	3
Effects of changes in fair value of derivatives <sup>(3)</sup>	20 <sup>(4)</sup>	15
<b>Total adjustments</b>	<b>22</b>	<b>(87)</b>
<b>Refining Segment adjusted EBITDA</b>	<b>724</b>	<b>199</b>
<b>Adjusted refining margin - USD per barrel</b>	<b>13.9<sup>(5)</sup></b>	<b>7.0<sup>(6)</sup></b>

- (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 available inventory transaction as set out in Note 20B4 to the Consolidated Financial Statements. As at the report publication date, the volume of the Company's inventory that is not hedged by contracts is 480 thousand tons.
- (2) Expenses (income) 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 a USD 451 million loss in the reported EBITDA in respect of futures to hedge the refining margin, and a USD 431 million loss in the adjusted EBITDA in respect of the realization of futures (approx. USD 5.9 per barrel). For further information, see Note 29D3c to the Financial Statements.
- (5) In the reporting period, the pro forma margin in respect of periodic maintenance work in some of the Company's facilities - specifically in the fluid catalytic cracker (FCC), is estimated at USD 14.5 per barrel, which was calculated as follows:
  - a. The estimated loss of profits in respect of the periodic maintenance work was added to the Company's adjusted refining margin (in USD millions).
  - b. The adjusted margin was divided by the number of crude oil and intermediate materials barrels that the Company processed in the reporting period.
- (6) In the corresponding period last year, the pro forma margin in respect of a malfunction in the CCR Facility was estimated at USD 7.3 per barrel.

#### 4. Net profit

##### Main reasons for the change in the consolidated net profit (in USD millions)

<b>Net profit for the year 2021</b>	<b>253</b>
Change in reported EBITDA	156
Change in depreciation expenses	18
Change in net finance expenses	27
Change in tax expenses	(23)
Other*	10
<b>Net earnings for the year 2022</b>	<b>441</b>

\* For further information, see Note 25 to the Financial Statements.

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

### C. Analysis of fourth quarter results

#### 1. Turnover of sales to external customers, by operating segments\*

	Sales turnover in USD million		Breakdown of sales		Average prices of the product mix (USD/ton)	
	10-12.2022	10-12.2021	10-12.2022	10-12.2021	10-12.2022	10-12.2021
Refining <sup>(1)</sup>	2,259	1,702	91%	87%	910	717
Polymers <sup>(2)</sup>	199	245	8%	13%	1,319	1,921
Other	12	6	1%	0%		
<b>Total</b>	<b>2,470</b>	<b>1,953</b>	<b>100%</b>	<b>100%</b>		

- (1) The increase in the sales turnover of the Refining Segment in the fourth quarter of 2022 compared with the corresponding quarter last year stemmed from an increase in quantities sold alongside an increase in distillates prices with a concurrent increase in crude oil prices.
- (2) The decrease in the sales turnover of the Polymers Segment in the fourth quarter of 2022 compared with the corresponding quarter last year stemmed mainly from a decline in polymers prices.
- (\*) It should be 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 revenues from the sale of a mix of products and the cost of the raw materials purchased 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 adjusted consolidated EBITDA for the operating segments in the fourth quarter compared to the same quarter last year.

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

Increase (decrease)	Refining	Polymers	Other and adjustments	Consolidated
<b>Adjusted EBITDA in October-December 2021</b>	<b>115</b>	<b>51</b>	<b>4</b>	<b>170</b>
Margin/contribution <sup>(1)</sup>	54	(82)	1	(27)
Sales volumes	6	(29)	–	(23)
Estimated loss of profits due to malfunction in the polypropylene production facility (in the corresponding quarter last year) <sup>(2)</sup>	–	9	–	9
Estimated loss of profits from the accumulation of polymers inventory in the lead-up to the periodic maintenance work (in the corresponding quarter last year) <sup>(2)</sup>	–	41	–	41
Operating expenses <sup>(3)</sup>	(6)	(1)	–	(7)
<b>Total change</b>	<b>54</b>	<b>(62)</b>	<b>1</b>	<b>(7)</b>
<b>Adjusted EBITDA in October-December 2022</b>	<b>169</b>	<b>(11)</b>	<b>5</b>	<b>163</b>

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

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## Chapter 2 - Bazan Group Results 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 (for the Fuels Unit) and their effect on EBITDA (in USD millions):

	10-12.2022	10-12.2021
<b>Refining Segment reported EBITDA</b>	<b>220</b>	<b>129</b>
Effects of timing differences <sup>(1)</sup>	29	(6)
Effect of adjusting value of inventory to market value, net <sup>(1)</sup>	20	(6)
Effect of changes in fair value of derivatives and disposals <sup>(1)</sup>	(100) <sup>(2)</sup>	(2)
<b>Total adjustments</b>	<b>(51)</b>	<b>(14)</b>
<b>Refining Segment adjusted EBITDA</b>	<b>169</b>	<b>115</b>
<b>Adjusted refining margin - USD per barrel</b>	<b>13.7</b>	<b>10.7</b>

(1) For further information, see Section B3 above.

(2) In the fourth quarter of 2023, the Company recognized a USD 26 million loss in the reported EBITDA in respect of futures to hedge the refining margin, and a USD 126 million loss in the adjusted EBITDA in respect of the realization of futures (approx. USD 6.8 per barrel). For further information, see Note 29D3c to the Financial Statements.

#### 4. Net profit

**Main reasons for the change in the consolidated net profit (in USD millions)**

<b>Net profit for the period 10-12.2021</b>	<b>89</b>
Change in reported EBITDA	30
Change in depreciation expenses	8
Change in net finance expenses	5
Change in tax expenses	3
Other	(13)
<b>Net profit for the period 10-12.2022</b>	<b>122</b>

**Chapter 2 - Bazan Group Results for the Year and for the Fourth Quarter - cont.****D. Reported and adjusted consolidated quarterly accounting results for 2022 (USD millions):**

	January- March	April-June	July- September	October- December	2022
	In USD million				
Revenue	2,259	3,061	3,038	2,470	10,828
Cost of sales	(2,216)	(2,952)	(2,633)	(2,246)	(10,047)
<b>Gross profit</b>	<b>43</b>	<b>109</b>	<b>405</b>	<b>224</b>	<b>781</b>
Selling and marketing expenses	(29)	(32)	(31)	(32)	(124)
General and administrative expenses	(14)	(13)	(13)	(18)	(58)
Other income (expenses), net	–	3	–	(8)	(5)
<b>Operating profit</b>	<b>–</b>	<b>67</b>	<b>361</b>	<b>166</b>	<b>594</b>
Finance expenses, net	(20)	1	(31)	(28)	(78)
<b>Profit before income tax</b>	<b>(20)</b>	<b>68</b>	<b>330</b>	<b>138</b>	<b>516</b>
Income tax	2	(8)	(53)	(16)	(75)
<b>Net profit</b>	<b>(18)</b>	<b>60</b>	<b>277</b>	<b>122</b>	<b>441</b>
<b>Other comprehensive income (loss)</b>	<b>37</b>	<b>13</b>	<b>(6)</b>	<b>5</b>	<b>49</b>
<b>Comprehensive income</b>	<b>19</b>	<b>73</b>	<b>271</b>	<b>127</b>	<b>490</b>
<b>Reported EBITDA</b>	<b>35</b>	<b>104</b>	<b>401</b>	<b>214</b>	<b>754</b>
<b>Adjusted EBITDA</b>	<b>103</b>	<b>272</b>	<b>238</b>	<b>163</b>	<b>776</b>

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## Chapter 3 – Analysis of Financial Position (Balance Sheet)

USD millions

	December 31, 2022	December 31, 2021	Change	Explanation
Trade and other receivables	698	646	8%	Mainly in respect of a USD 59 million increase receivables, which stems mostly from an increase in derivatives deposits. Offset by a decrease in trade receivables of USD 6 million, which is mainly due to an increase in the price of the Refining Segment products, partially offset by a decrease in the price of Polymers Segment products, an increase in quantity and offset by an increase in factoring in the amount of USD 113 million (for further information see Note 6 to the Financial Statements).
Inventories	750	731	3%	Mainly in respect of an increase in prices and volumes in the Refining Segment, offset against a decrease in quantities in the Polymers Segment due to, among other things, the periodic maintenance work in Carmel Olefins' facilities in the reporting period.
Property, plant & equipment, net	2,230	2,176	2%	The increase stems mainly from the periodic maintenance work in Bazan and Carmel Olefins' facilities in the reporting period. (For further information, see Notes 11A and 12A to the Financial Statements).
Trade, other payables and provisions	951	1,034	(8%)	Mainly for a decrease in trade payables in the amount of USD 52 million, of which, a decrease of USD 198 million in trade payables with extended credit days (for further information see Note 15A to the Financial Statements), offset by an increase in the amount of USD 137 million in trade payables without extended credit days, mainly due to an increase in quantity and price, and a decrease in other payables in the amount of USD 37 million (for further information see Note 15B to the Financial Statements).
Financial derivatives, net	(42)	64	(166%)	Mainly in respect of a decrease in net asset in respect of cross-currency interest rate swap contracts at the total amount of USD 110 million, of which USD 94 million are in respect of exchange rate differentials (*).
Long-term bank loans and debentures (including current maturities)	1,324	1,556	(15%)	Mainly due to the issue of debentures (Series L) in the amount of USD 117 million (for further information see Note 14B to the Financial Statements), receipt of long term loans amounting to USD 40 million (for further information see Note 13A to the Financial Statements), and net of principal repayments on loans and debentures in the amount of USD 296 million, and net of exchange rate differentials (*) in the amount of USD 94 million.
Equity	1,744	1,373	27%	Mainly due to net profit for the period in the amount of USD 445 million and other comprehensive income for the period in the amount of USD 50 million, offset against dividend distribution at the total amount of USD 120 million.
Equity to asset ratio	39%	31%		

(\*) Against the issue of NIS debentures, principal and interest swap transactions were executed. Accordingly, the effect of debenture exchange rate and linkage differentials were substantially offset.

## Chapter 4 – Liquidity Analysis

### The Group's liquidity analysis

#### Working capital (current assets less current liabilities)

USD millions

December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
958	694	383	468	377

### Current ratio

The current ratio as at December 31, 2022, is 1.8 and as at December 31, 2021 it was 1.5.

### Accounting cash flows\* for 2022

	2022
	In USD million
<b>Cash and deposits as at December 31, 2021</b>	<b>669</b>
Cash flow provided by operating activities (1)	701
Interest paid, net(2)	(88)
Purchase of property, plant & equipment (3)	(204)
Repayment of long-term bank loans and debentures	(296)
Receipt of long-term borrowings, net of capital raising costs (4)	157
Payment of lease liabilities	(13)
Dividend paid (5)	(120)
Change in deposits, net	(22)
Other	(32)
<b>Cash and deposits as at December 31, 2022</b>	<b>752</b>

(\*) Based on presentation in the Financial Statements

- (1) Net operating cash flows, net of interest paid in the Reporting Period amounted to USD 613 million.
- (2) As of December 31, 2022, interest payments for debentures in the amount of million 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.
- (3) For information about periodic maintenance work carried out in the reporting period, see Section 11A in the financial statements.
- (4) For further information, see Notes 13B and 14B to the Financial Statements.
- (5) For further information, see Note 21C to the financial statements.



## 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 millions):

### Net financial debt

USD millions

	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
Short-term borrowings	–	–	2	10	8
Loans from banks <sup>(1)</sup>	440	488	453	371	352
Debentures <sup>(1)</sup>	916	1,100	1,070	1,013	1,038
Hedging transactions on debentures <sup>(2)</sup>	13	(78)	(58)	(27)	(2)
<b>Total financial debt, gross</b>	<b>1,369</b>	<b>1,510</b>	<b>1,467</b>	<b>1,367</b>	<b>1,396</b>
Liquid financial assets <sup>(3)</sup>	(752)	(669)	(814)	(512)	(428)
<b>Total financial debt, net</b>	<b>617</b>	<b>841</b>	<b>653</b>	<b>855</b>	<b>968</b>

- (1) Including current maturities. Stated according to adjusted par value (excluding interest payable).
- (2) Based on the Group's hedging policy, principal and interest swap transactions were carried out against the issuance of NIS debentures. The transactions are presented concurrently with the presentation of the debentures, at their adjusted par value (without interest receivable/payable), less or plus the related deposits.
- (3) Including cash and cash equivalents and short-term deposits.
- \* 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 further information regarding the Group's secured short-term credit facilities, see Note 13A to the Financial Statements. As at December 31, 2022, the Group has unutilized secured credit facilities in the amount of USD 415 million (utilization is for letters of credit and guarantees only).

### Movement in net financial debt for 2022

	2022
	In USD million
<b>Net debt as at December 31, 2021</b>	<b>(841)</b>
Net operating cash flows (net of changes in discounting and interest-bearing trade payables)	786
Changes in discounting and interest-bearing trade payables <sup>(1)</sup>	(85)
Interest paid, net <sup>(2)</sup>	(88)
Purchase of property, plant & equipment <sup>(3)</sup>	(204)
Payment of lease liabilities	(13)
Change in deposits, net	(22)
Other	(30)
Dividend paid <sup>(4)</sup>	(120)
<b>Net debt as at December 31, 2022</b>	<b>(617)</b>

**Chapter 5 - Total Borrowings from Financial Institutions (cont.)****Movement in financial debt for October-December 2022**

	<b>10-12.2021</b>
	<b>In USD million</b>
<b>Net debt as at September 30, 2022</b>	<b>(802)</b>
Net operating cash flows (net of changes in discounting and interest-bearing trade payables)	429
Changes in discounting and interest-bearing trade payables <sup>(1)</sup>	(250)
Interest paid, net <sup>(2)</sup>	(11)
Purchase of property, plant & equipment	(31)
Payment of lease liabilities	(3)
Change in deposits, net <sup>(5)</sup>	115
Other	(4)
Dividend paid <sup>(4)</sup>	(60)
<b>Net debt as at December 31, 2022</b>	<b>(617)</b>

- (1) For information about the balances of discounting and interest-bearing trade payables, see Note 6B and 15A to the Financial Statements, respectively.
- (2) As of December 31, 2022, interest payments for debentures in the amount of million 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.
- (3) Including costs in respect of periodic maintenance work. For further information, see Note 11A to the Financial Statements.
- (4) For further information, see Note 21C to the Financial Statements.
- (5) Stems mainly from a decrease in refining margin calls in the fourth quarter of 2022. For further information, see Note 29D3c to the Financial Statements.

**Financial leverage\***

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Financial leverage (*)	0.8	1.6

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

**Average volume of sources of finance in the Reporting Period**

Long term loans and debentures (including current maturities, based on their nominal value and without the costs of capital raising) of USD 1,451 million. Average trade receivables of USD 595 million and average trade payables of USD 955 million.

## **Chapter 6 – Exposure to Market Risk and Risk Management Methods**

- A.** For information 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 further information regarding the consolidated report linkage bases, see Note 30C to the Financial Statements.

## **Chapter 7 – Corporate Governance**

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

### **A. Company internal enforcement plans**

The Company operates a number of internal enforcement plans: relating to restrictive trade 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, to which an anti-corruption procedure was recently added. 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 investment in the community and community activities are based on policies discussed and approved by the Board of Directors. In 2022, the Company's consolidated expenses for these activities amounted to USD 0.34 million.

Donations to the community were made through numerous organizations. The Company has no future obligations for financial contributions to the community. The donations are made to worthy causes, focusing on advancing education, expertise in the industry, and community welfare in Israel, particularly in the north of the country, where the Company's operations are located.

Subsequent to the Report date, the Company's Board of Directors approved a new community outreach program amounting to up to 0.5% of the profit before tax in the past year, with a maximum of NIS 10 million per year. The Company may decrease or revise this budget through a decision by the Board of Directors in case of a change in the business environment and/or other justifying circumstances.

### **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 6 directors with accounting and financial expertise. For information concerning qualifications, education and experience, see Part 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. The number of independent directors, including external directors, required under by law is 2. At the report publication date, the number of independent directors serving in the Company is 3.

## Chapter 7 - Corporate Governance - cont.

### E. Disclosure regarding the internal auditor in a reporting corporation

- 1 Name of internal auditor as at December 31, 2022: Ronen Artzi.
- 2 Date of commencement of term of office: March 1, 2017.
- 3 Qualifications: BA in Political Science and Labor Studies, Tel Aviv University; MA in Internal and Public Auditing, University of Haifa. Has 22 years of experience in internal auditing.
- 4 To the best of the Company's knowledge, the internal auditor complies with the provisions of Section 146(b) of the Companies Law, 1999, and Section 8 of the Internal Auditing Law, 1992 (hereinafter - the "Internal Auditing Law").
- 5 The internal auditor is not a Company employee and is engaged through an agreement to provide internal auditing services.
- 6 The internal auditor is not an interested party in the corporation or a relative of an interested party in the corporation and is not a relative of the independent auditor or a representative thereof.
- 7 The internal auditor does not fill another position in the Company other than his position as internal auditor.
- 8 The Audit Committee and Board of Directors approved the appointment of the internal auditor in 2017.
- 9 The Internal Auditor prepares a suggested multi-year audit plan, which is based on a risk survey held by the Internal Auditor, on regular risk management activities conducted by Company's management on a regular basis, and on other data. The multi-year plan is approved by the Audit Committee and Board of Directors, and so is a concrete audit plan approved in advance in respect of each year.
- 10 During the Reporting Period, the internal auditor submitted internal audit reports on several matters.
- 11 The internal auditor regularly submits written internal audit reports once each audit report is completed and these are discussed shortly before completion, by the Audit Committee of the Board of Directors. The internal audit reports for 2022 and the internal audit work plan were discussed during 2022, at four meetings of the Audit Committee.
- 12 The internal auditor's fee is based on an annual hourly budget (as set out above) and is not conditional on the audit results. The fee paid to the internal auditor for 2022 amounted to USD 0.15 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.
- 13 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 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.
- 14 The internal auditor conducts the audit in accordance with generally accepted professional standards in Israel and other countries.
- 15 The internal auditor reports directly to the Chairman of the Board of Directors.

**Chapter 7 - Corporate Governance - cont.****F. Breakdown of the total fees that the independent auditors are eligible to receive**

	<b>For 2022</b>	<b>For 2021</b>
	<b>NIS thousands</b>	<b>NIS thousands</b>
KPMG Somekh Chaikin		
Fee for audit services	2,715	2,530
Other fees <sup>(1)</sup>	466	771
	<b>3,181</b>	<b>3,301</b>
Material subsidiaries - KPMG Somekh Chaikin		
Fee for audit and tax services <sup>(2)</sup>	937	873
Others - KPMG Somekh Chaikin		
Fee for audit and tax services	30	30

(1) Other services in the Company include mainly advice on tax issues, special tasks on ongoing matters, including shelf offerings. In 2021 – also includes services for a shelf prospectus.

(2) Does not include the fees of Ducor's independent auditors in the Netherlands in the amount of USD 102 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 recommended fee is determined following negotiations between the independent auditors and the CFO for a fixed amount that takes into account the expected scope of auditing work in the reporting year. For additional non-auditing work, fees are fixed separately, based on the amount of work required.

**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(4) 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.

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

For further information, see Note 27I to the Financial Statements.

## Chapter 9 – Details of Outstanding Debentures

As at December 31, 2022, 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 E, F and J) 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: +972-3-6393316; 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 (person in charge): Dan Avnon; Postal address: 30 Derech Sheshet HaYamim, Bnei Brak;  
Tel.: +972-3-6389200; fax: +972-3-6393316; email: .Bonds@hermetic.co.il.

### B. Rating of the debentures

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

Series	Original date of issue	Rating shortly before original issue 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 date <sup>1</sup>
Series E	June 2, 2015	BBB+/Stable	A-/Stable	S&P Maalot	March 15, 2022 2022-01-025914
Series F	June 2, 2015	BBB+/Stable	A-/Stable	S&P Maalot	March 15, 2022 2022-01-025914
Series I	April 25, 2017	A-/Stable	A-/Stable	S&P Maalot	March 15, 2022 2022-01-025914
Series J	September 15, 2019	A-/Stable	A-/Stable	S&P Maalot	March 15, 2022 2022-01-025914
Series L	September 16, 2020	A-/Negative	A-/Stable	S&P Maalot	March 15, 2022 2022-01-025914

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

On March 8, 2023, Ma'alot S&P upgraded the rating of the Company and its debentures to A+ with a stable outlook.

### C. Collateral for debentures

For further information 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 fulfilled its undertakings to debenture holders, whereby it will only place charges on the Company's assets in accordance with the provisions of the relevant deeds of trust.

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

### A. Controlling Shareholder

For information regarding change in control, see Note 1A1 to the financial statements.

### B. Russia-Ukraine war

For information regarding the impact of the war in Ukraine on the Group's business activity, see Note 1D to the Financial Statements.

### C. Agreement for purchase of condensate

For information regarding a report of part of the partnership in the Leviathan partnership, see Note 20B2 to the financial statements.

### D. Government resolution

For further information, see Note 20C to the Financial Statements.

### E. Futures for hedging the Refining Segment

For further information about the scope of hedging, see Note 29D3c to the financial statements.

### F. Material events subsequent to the reporting period

For further information about material events 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.

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**Moshe Kaplinsky**  
**Chairman of the Board of**  
**Directors**

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**Asaf Almagor**  
**CEO**

March 8, 2023





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## **Independent Auditors' Report to the Shareholders of Bazan Ltd.**

We have audited the accompanying consolidated statements of financial position of Bazan Ltd. (hereinafter - the "Company") as at December 31, 2022, and 2021 and the consolidated statements of income and other comprehensive income, changes in equity and cash flows for each of the last three years in the period ended December 31, 2022. 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.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance), 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 audit provides a fair basis for our opinion.

In our opinion, 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, 2022 and 2021, and the results of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2022, in conformity with International Financial Reporting Standards (IFRS) and the Israel Securities Regulations (Annual Financial Statements), 2010.

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, 2022, and our report of March 8, 2023 includes an unqualified opinion of the effective fulfillment of these components.

Without qualifying our above opinion, we draw attention to what 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 what is stated in Note 20A(4) 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.

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### **Key audit matters**

The key audit matters set forth below are the matters that were, or should have been, communicated to the Company's Board of Directors, and that, in our professional opinion, were highly significant to the 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 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's 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 the Company 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.

### **Why the matter was found to be a key audit matter**

We identified the review of the effect of the government resolution on the 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.

### **Response provided on key audit matters**

- We questioned 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.
- We reviewed a legal opinion the Company had received from an external legal counsel.

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- We cross-referenced the Company's representations against publications by relevant government institutions about the government's plans.
- We examined 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(4) 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 its subsidiaries 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 financial statements as at December 31, 2022.

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

### **Why the matter was found to be a key audit matter**

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.

### **Response provided on key audit matters**

- We have read minutes of internal discussions of environmental protection issues.
- We reviewed letters from 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.
- We reviewed the letter from the legal counsel on all Proceedings in the environmental domain, including a risk assessment of the Proceedings' materialization.
- We examined an external legal opinion in connection with the estimated probability that the Company would have to bear the land rehabilitation costs.
- We examined the discount rate used in the economic papers the Company had received from external advisors, with help from the firm's internal economics experts.
- We examined the adequacy of the disclosures in connection with the Proceedings in the environmental domain in the financial report.

Somekh Chaikin  
Certified Public Accountants

Tel Aviv, March 8, 2023

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**Independent Auditors' Report to the Shareholders of Bazan Ltd.  
about the Audit of the Components of the Internal Control over Financial Reporting  
in accordance with Section 9B(c)  
of the Israel Securities Regulations (Periodic and Immediate Reports), 1970**

We have audited the internal controls over the financial reporting of Bazan Ltd. and its consolidated companies (hereinafter, jointly - the "Company") as at December 31, 2022. 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 in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, Audit of Internal Controls Over Financial Reporting (hereinafter - "Audit Standard (Israel) 911"). The components are as follows: 1) entity-level controls, including close and 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 Controls").

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 Controls and obtain reasonable assurance that these controls have been implemented effectively in all material respects. Our audit included obtaining an understanding of the internal control over financial reporting, identifying the Audited Controls, assessing the risk for material weaknesses in the audited controls, and testing and evaluating the effectiveness of the planning and implementation of these controls 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 Controls, as opposed to internal control over all the significant processes regarding financial reporting, therefore our opinion refers to the Audited Controls only. Additionally, our audit did not cover the reciprocal effects between the Audited Controls 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, 2022.

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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, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, and our report of March 8, 2023 includes an unqualified opinion of these financial statements; in addition, we draw 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 Note 20A(4) 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.

Somekh Chaikin  
Certified Public Accountants

Tel Aviv, March 8, 2023

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**Attn.**

**The Board of Directors of Bazan Ltd. (hereinafter - the "Company")**

To whom it may concern,

**Re: Letter of consent in connection with the shelf prospectus of Bazan Ltd.  
dated January 2022**

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 January 2022.

- (1) as at December 31, 2022, and 2021 for each of the three years in the period ended December 31, 2022.
- (2) The independent auditor's report of March 8, 2023 on the audit of the internal control components over the Company's financial reporting as at December 31, 2022.
- (3) The independent auditor's report of March 8, 2023 on the separate financial information of the Company under Section 9C of the Israel Securities Regulations (Periodic and Immediate Reports), 1970 as at December 31, 2022 and 2021, and for each of the three years in the period ended December 31, 2022.

Yours sincerely,

Somekh Chaikin  
Certified Public Accountants

Tel Aviv, March 8, 2023

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

	Note	As at December 31, 2022	December 31, 2021
<b>Current assets</b>			
Cash and cash equivalents	5A	751,060	637,731
Deposits	5B	1,387	31,685
Trade receivables	6	588,870	595,325
Other receivables	7	108,881	50,362
Financial derivatives	30G	20,935	15,959
Inventories	8	749,896	730,673
<b>Total current assets</b>		<b>2,221,029</b>	<b>2,061,735</b>
<b>Non-current assets</b>			
Loan to Haifa Early Pension Ltd.	18C	25,871	35,483
Long term receivables and debit balances	10	42,775	35,615
Financial derivatives	30G	6,659	78,281
Property, plant and equipment, net	11	2,063,476	2,015,019
Right-of-use assets, net	12	142,918	140,602
Intangible assets and deferred expenses, net	12	23,806	19,983
<b>Total non-current assets</b>		<b>2,305,505</b>	<b>2,324,983</b>
<b>Total assets</b>		<b>4,526,534</b>	<b>4,386,718</b>

**Moshe Kaplinsky**  
Chairman of the Board

**Asaf Almagor**  
CEO

**Guy Liberman**  
CFO

Financial statements approval date: March 8, 2023

**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 thousands**

	Note	As at December 31, 2022	December 31, 2021
<b>Current liabilities</b>			
Loans and borrowings (including current maturities)	13A, 14A	266,278	303,901
Trade payables	15A	739,651	791,418
Other payables	15B	201,991	239,069
Financial derivatives	30G	45,450	29,561
Provisions		9,264	3,857
<b>Total current liabilities</b>		<b>1,262,634</b>	<b>1,367,806</b>
<b>Non-current liabilities</b>			
Liabilities to banks, net	13A3	360,644	378,451
Debentures, net	14A	696,868	873,987
Other long-term liabilities	17	109,774	120,475
Financial derivatives	30G	24,366	788
Employee benefits, net	18C	55,587	75,267
Deferred tax liabilities, net	16D	272,714	197,337
<b>Total non-current liabilities</b>		<b>1,519,953</b>	<b>1,646,305</b>
<b>Total liabilities</b>		<b>2,782,587</b>	<b>3,014,111</b>
<b>Equity</b>	21		
Share capital		807,850	807,604
Share premium		32,623	32,761
Capital reserves		93,083	53,440
Retained earnings		810,391	478,802
<b>Total capital</b>		<b>1,743,947</b>	<b>1,372,607</b>
<b>Total liabilities and capital</b>		<b>4,526,534</b>	<b>4,386,718</b>

**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 thousands**

	Note	For the year ended December 31		
		2022	2021	2020
Revenues	22	10,828,006	6,577,053	4,064,030
Cost of sales	23	(10,047,331)	(6,007,409)	(4,076,625)
<b>Gross profit (loss)</b>		<b>780,675</b>	<b>569,644</b>	<b>(12,595)</b>
Selling and marketing expenses	24A	(124,488)	(98,655)	(94,001)
General and administrative expenses	24B	(57,694)	(45,344)	(45,662)
Other expenses, net	25	(4,632)	(15,415)	(53,159)
<b>Operating profit (loss)</b>		<b>593,861</b>	<b>410,230</b>	<b>(205,417)</b>
Finance income	26	45,061	1,564	1,918
Finance expenses	26	(123,264)	(106,702)	(113,042)
<b>Finance expenses, net</b>		<b>(78,203)</b>	<b>(105,138)</b>	<b>(111,124)</b>
<b>Profit (loss) before taxes on income</b>		<b>515,658</b>	<b>305,092</b>	<b>(316,541)</b>
Income tax (expenses) income	16B	(74,437)	(52,250)	42,226
<b>Net profit (loss) for the year</b>		<b>441,221</b>	<b>252,842</b>	<b>(274,315)</b>
<b>Earnings (loss) per share (USD)</b>				
Basic and diluted earnings (loss) per 1 ordinary share		<b>0.138</b>	<b>0.079</b>	<b>(0.086)</b>
<b>Items of other comprehensive income (loss) transferred to profit and loss:</b>				
Effective share of the change in fair value of cash flow hedging, net of tax		40,374	35,458	(27,916)
Other, net		(858)	(72)	(278)
<b>Other comprehensive income (loss), transferred to profit and loss, net of tax</b>		<b>39,516</b>	<b>35,386</b>	<b>(28,194)</b>
<b>Items of other comprehensive income (loss) not transferred to profit and loss:</b>				
Remeasurement of defined benefit plan, net of tax		9,735	(1,534)	107
Other, net		—	5,930	682
<b>Other comprehensive income, not transferred to profit and loss, net of tax</b>		<b>9,735</b>	<b>4,396</b>	<b>789</b>
<b>Total other comprehensive income (loss) for the year, net of tax</b>		<b>49,251</b>	<b>39,782</b>	<b>(27,405)</b>
<b>Comprehensive income (loss) for the year</b>		<b>490,472</b>	<b>292,624</b>	<b>(301,720)</b>

**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 Changes in Equity, in USD, in USD thousands**

	Share capital	Share premium	Capital reserves	Capital reserves for items of other comprehensive income (loss)		Retained earnings	Total capital
				Hedge fund reserve	Other capital reserves		
			For the year ended December 31, 2022				
<b>Balance as at January 1, 2022</b>	<b>807,604</b>	<b>32,761</b>	<b>29,775</b>	<b>19,002</b>	<b>4,663</b>	<b>478,802</b>	<b>1,372,607</b>
Net profit for the year	–	–	–	–	–	441,221	441,221
Other comprehensive income (loss) for the year, net of tax	–	–	–	40,562	(1,046)	9,735	49,251
<b>Total comprehensive income (loss) for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>40,562</b>	<b>(1,046)</b>	<b>450,956</b>	<b>490,472</b>
Share-based payment	–	–	868	–	–	–	868
Exercised share options	246	(138)	(108)	–	–	–	–
Expired share options	–	–	(633)	–	–	633	–
Dividend declared and paid (see Note 21C)	–	–	–	–	–	(120,000)	(120,000)
<b>Balance as at December 31, 2022</b>	<b>807,850</b>	<b>32,623</b>	<b>29,902</b>	<b>59,564</b>	<b>3,617</b>	<b>810,391</b>	<b>1,743,947</b>

	Share capital	Share premium	Capital reserves	Capital reserves for items of other comprehensive income (loss)		Retained earnings	Total capital
				Hedge fund reserve	Other capital reserves		
			For the year ended December 31, 2021				
<b>Balance as at January 1, 2021</b>	<b>807,604</b>	<b>32,761</b>	<b>29,398</b>	<b>(16,633)</b>	<b>(1,018)</b>	<b>227,494</b>	<b>1,079,606</b>
Net profit for the year	–	–	–	–	–	252,842	252,842
Other comprehensive income (loss) for the year, net of tax	–	–	–	35,635	5,681	(1,534)	39,782
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>35,635</b>	<b>5,681</b>	<b>251,308</b>	<b>292,624</b>
Share-based payment	–	–	377	–	–	–	377
<b>Balance as at December 31, 2021</b>	<b>807,604</b>	<b>32,761</b>	<b>29,775</b>	<b>19,002</b>	<b>4,663</b>	<b>478,802</b>	<b>1,372,607</b>

**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 Changes in Equity, in USD, in USD thousands**

	Capital reserves for items of other comprehensive income (loss)						
	Share capital	Share premium	Capital reserves	Hedge fund reserve	Other capital reserves	Retained earnings	Total capital
	For the year ended December 31, 2020						
Balance as at January 1, 2020	807,604	32,761	29,122	11,371	(1,510)	501,393	1,380,741
Net loss for the year	—	—	—	—	—	(274,315)	(274,315)
Other comprehensive income (loss) for the year, net of tax	—	—	—	(28,004)	492	107	(27,405)
Total comprehensive income (loss) for the year	—	—	—	(28,004)	492	(274,208)	(301,720)
Share-based payment	—	—	585	—	—	—	585
Expired share options	—	—	(309)	—	—	309	—
Balance as at December 31, 2020	807,604	32,761	29,398	(16,633)	(1,018)	227,494	1,079,606

**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 thousands (cont.)**

	For the year ended December 31		
	2022	2021	2020
<b>Cash flows from operating activities</b>			
<b>Net profit (loss) for the year</b>	<b>441,221</b>	<b>252,842</b>	<b>(274,315)</b>
<b>Adjustments to cash flows from operating activities:</b>			
Revenue and expenses not involving cash flows (Appendix A – Section A)	382,561	383,568	311,244
	823,782	636,410	36,929
Changes in assets and liabilities (Appendix A - Section B)	(104,078)	(619,119)	398,067
Income tax received (paid), net <sup>(1)</sup>	(18,893)	(4,350)	249
<b>Net cash from operating activities</b>	<b>700,811</b>	<b>12,941</b>	<b>435,245</b>
<b>Cash flow used for investing activities</b>			
Interest received	7,983	669	2,961
Change in deposits, net	(21,698)	(27,192)	76,047
Repayment of a loan from Haifa Early Pension	–	–	4,233
Purchase of property, plant & equipment (including periodic maintenance) <sup>(2)</sup>	(203,706)	(102,893)	(88,158)
Other	(8,982)	(3,992)	(1,510)
<b>Net cash used for investing activities</b>	<b>(226,403)</b>	<b>(133,408)</b>	<b>(6,427)</b>
<b>Cash flow used in financing activities</b>			
Change in short-term credit, net	–	(1,866)	(8,019)
Change in deposits from customers and others, net	(910)	17,196	(26,411)
Interest paid <sup>(3)</sup>	(95,569)	(92,588)	(87,679)
Derivative transactions, net	4,603	5,297	10,361
Receipt of long-term bank loans	40,000	110,000	124,095
Repayment of long-term loans from banks	(86,626)	(75,167)	(44,476)
Repayment of debentures, including early repayment <sup>(4)</sup>	(209,403)	(133,102)	(229,355)
Issue of debentures, less raising costs	116,997	137,624	239,080
Payment of lease liabilities	(12,535)	(17,140)	(22,595)
Dividend paid	(120,000)	–	–
<b>Net cash used for financing activities</b>	<b>(363,443)</b>	<b>(49,746)</b>	<b>(44,999)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>110,965</b>	<b>(170,213)</b>	<b>383,819</b>
Effect of exchange rate fluctuations on balance of cash and cash equivalents	2,364	(1,757)	515
Cash and cash equivalents at the beginning of the year	637,731	809,701	425,367
<b>Cash and cash equivalents at the end of the year</b>	<b>751,060</b>	<b>637,731</b>	<b>809,701</b>

(1) In the reporting period includes a one-off tax payment of USD 17 million; for information, see Note 16A3c.

(2) For information about periodic maintenance work carried out in the reporting period, see Section 11A.

(3) As of December 31, 2022, interest payments for debentures in the amount of million 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) In 2020, including early repayment of the Debenture (Series D) principal in the amount of USD 79 million. For further information, see Note 14B.

**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 thousands (cont.) (cont.)

### Appendix A - Adjustments Required to Present Cash Flows from Operating Activities

	For the year ended December 31		
	2022	2021	2020
<b>A. Income and expenses not included in cash flows</b>			
Depreciation and amortization	155,889	171,912	210,392
Other expenses, net	4,632	15,415	53,159
Finance expenses, net	101,493	96,104	100,495
Change in the balance of inventory derivatives and margins	42,272	48,405	(11,177)
Expenses (income) for income tax	74,437	52,250	(42,226)
Other	3,838	(518)	601
	<b>382,561</b>	<b>383,568</b>	<b>311,244</b>
<b>B. Changes in asset- and liability line items</b>			
Change in trade receivables	7,599	(226,440)	47,857
Change in other receivables	(2,930)	(16,397)	2,291
Change in inventory	(19,083)	(377,358)	425,597
Change in trade payables	(42,513)	39,742	(158,738)
Change in other payables and provisions	(40,512)	(44,605)	75,547
Change in employee benefits, net	(6,639)	5,939	5,513
	<b>(104,078)</b>	<b>(619,119)</b>	<b>398,067</b>

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## Bazan Ltd. - Consolidated Statements of Cash Flows in USD thousands (cont.) (cont.)

### Appendix B - Movement Arising from Financing Activities

	Loans from banks <sup>(1)</sup>	Debentures <sup>(1)</sup>	Financial derivatives <sup>(1),(2)</sup>
<b>Liability (asset) as at January 1, 2022</b>	<b>463,654</b>	<b>1,092,685</b>	<b>(89,068)</b>
<u>Changes arising from cash flows:</u>			
Issue of debentures and receipt of bank loans	40,000	116,997	—
Repayment of debentures and bank loans	(86,626)	(209,403)	—
Interest paid	—	—	(8,367)
Net proceeds for derivative transactions	—	—	4,603
<b>Total changes arising from cash flows</b>	<b>(46,626)</b>	<b>(92,406)</b>	<b>(3,764)</b>

#### Changes arising from non-cash activity:

Amortization of raising costs, premium, discounting, and other, net	5,520	(235)	—
Interest expenses	—	—	9,509
Effect of changes in exchange rates	(2,847)	(90,965)	95,030
Changes in fair value, application of hedge accounting and others	—	(4,990)	9,231
<b>Total changes arising from non-cash activity</b>	<b>2,673</b>	<b>(96,190)</b>	<b>113,770</b>

<b>Liability as at December 31, 2022</b>	<b>419,701</b>	<b>904,089</b>	<b>20,938</b>
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	Loans from banks <sup>(1)</sup>	Debentures <sup>(1)</sup>	Financial derivatives <sup>(1),(2)</sup>
<b>Liability (asset) as at January 1, 2021</b>	<b>427,853</b>	<b>1,069,001</b>	<b>(58,413)</b>
<u>Changes arising from cash flows:</u>			
Issue of debentures and receipt of bank loans	110,000	137,624	—
Repayment of debentures and bank loans	(75,167)	(133,102)	—
Interest paid	—	—	(5,571)
Net proceeds for derivative transactions	—	—	5,297
<b>Total changes arising from cash flows</b>	<b>34,833</b>	<b>4,522</b>	<b>(274)</b>

#### Changes arising from non-cash activity:

Amortization of raising costs, premium, discounting, and other, net	76	(376)	—
Interest expenses	—	—	5,707
Effect of changes in exchange rates	892	25,218	(25,585)
Changes in fair value, application of hedge accounting and others	—	(5,680)	(10,503)
<b>Total changes arising from non-cash activity</b>	<b>968</b>	<b>19,162</b>	<b>(30,381)</b>

<b>Liability (asset) as at December 31, 2021</b>	<b>463,654</b>	<b>1,092,685</b>	<b>(89,068)</b>
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(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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**Bazan Ltd. - Consolidated Statements of Cash Flows in USD thousands (cont.) (cont.)**

**Appendix B - Movement Arising from Financing Activities (cont.)**

	Loans from banks <sup>(1)</sup>	Debentures <sup>(1)</sup>	Financial derivatives <sup>(1),(2)</sup>
<b>Liability (asset) as at January 1, 2020</b>	<b>333,825</b>	<b>1,027,393</b>	<b>(38,558)</b>
Changes arising from cash flows:			
Issue of debentures and receipt of bank loans	124,095	239,080	—
Repayment of debentures and bank loans	(44,476)	(229,355)	—
Interest paid (3)	—	(1,870)	(5,908)
Net proceeds for derivative transactions	—	—	10,361
<b>Total changes arising from cash flows</b>	<b>79,619</b>	<b>7,855</b>	<b>4,453</b>
Changes arising from non-cash activity:			
Amortization of raising costs, premium, discounting, and other, net (4)	12,400	(828)	—
Interest expenses (3)	—	531	6,104
Effect of changes in exchange rates and CPI	2,009	39,364	(40,573)
Changes in fair value, application of hedge accounting and others	—	(5,314)	10,161
<b>Total changes arising from non-cash activity</b>	<b>14,409</b>	<b>33,753</b>	<b>(24,308)</b>
<b>Liability (asset) as at December 31, 2020</b>	<b>427,853</b>	<b>1,069,001</b>	<b>(58,413)</b>

(1) Including current maturities.

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

(3) The interest refers to financial derivatives and Debentures (Series A and G) - measured at fair value only, which were fully repaid in 2020.

(4) For further information, see Note 13B.

**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 domiciled and incorporated in Israel. The Company is located in Haifa Bay and its official address is POB 4, Haifa 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, transmission, and production of petroleum products).

At the date of approval of the statements, the controlling shareholder of the Company 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) approximately 24% of the issued capital of the Company.

According to the reports of Israel Corporation Ltd. (hereinafter - the “Israel Corporation”) and IPE, on April 17, 2022, Israel Corporation entered into agreement with Hagag Group Real Estate Entrepreneurship Ltd. and a wholly-owned subsidiary thereof for the sale of the control stake in the Company. The said transaction was subject to the fulfillment of a number of conditions precedent, including obtaining approvals from various regulators; the transaction also included certain cancellation rights, and specifically a termination condition that is triggered if the IPE Group exercises its right of first refusal to purchase sold company shares under the control agreement.

On June 15, 2022 IPE served Israel Corporation with a written notice as to the exercise of the right of first refusal as stated above. On September 17, 2022, IPE informed the Company that: (1) on September 15, 2022, IPE completed the acquisition of most of the Company Shares which were previously held by Israel Corporation Ltd. at a rate of 16.7% of the Company Shares; (2) it is entitled to an option to acquire the remaining Company Shares held by Israel Corporation (hereinafter - the “Additional Shares”), as long as the Additional Shares are not acquired by qualified investors who have the option to buy the Additional Shares by November 9, 2023. In the period through the option’s expiration date, Israel Corporation agreed to vote - by virtue of the Additional Shares - in favor of appointing the directors who will be put forward by IPE to serve in the Company’s Board of Directors, and in favor of other resolutions that will be proposed by the Company’s Board of Directors, except for transactions in which IPE has a vested interest. Subsequent to the report date, the option was exercised by the qualified investors and Israel Corporation ceased to hold Company Shares; (3) as part of the debt settlement between itself and the debenture holders, it undertook to transfer Company shares to the debenture holders (Series H) that constitute approximately 8.5% of the Company’s issued share capital; said shares were transferred during the reporting period.

Following Israel Corporation’s notice regarding its intention to sell its shares Hagag Group and IPE’s notice regarding the exercise of the right of refusal as aforementioned, the Company acquired a runoff insurance policy for the directors and officers. On September 15, 2022, Company directors acting on behalf of the Israel Corporation announced their resignation.

2. The consolidated financial statements as at December 31, 2022 include the statements of the Company and its subsidiaries (hereinafter, jointly - the “Group”).

**NOTE 1 – GENERAL (CONT.)**

**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"), V.P.M. Plast Ltd. (hereinafter - "V.P.M.") and Bnnovation LP (hereinafter - "Bnnovation"). In addition, the Company owns - through a wholly-owned subsidiary of Carmel Olefins - Ducor Petrochemicals BV (hereinafter - "Ducor"), operating in the Netherlands.
4. Related party - As defined in IAS 24 (2009), Related Party Disclosures.
5. Interested party - As defined in paragraph <sup>(1)</sup> of the definition of interested parties in Section 1 of the Securities Law, 1968.

**C. Covid-19**

In January 2020, the Covid-19 pandemic broke out and spread across the world; as of the report's approval date, new variants of the virus emerge from time to time, leading to business and economic uncertainty and volatility in many financial and non-financial markets. Many countries around the world experienced additional waves of the pandemic, following which governments imposed various restrictions again. Simultaneously, there is a trend of recovery in terms of the scope of economic activity worldwide which leads, on the one hand, to an increase in demand for certain products and services, and on the other hand, disruptions in the international supply chain routes and some of the raw materials.

However, it is difficult to estimate the future impact of the Covid-19 pandemic on the Group's activity, if any, due to the uncertainty regarding the spread of the virus, the emergence of new variants, and the imposition of restrictions across the world, which may have a material adverse effect on demand for transportation fuels, crude oil prices, refining margins and global supply chains; and accordingly, on the Group's operating results and liquidity.

**D. War in Ukraine**

Towards the end of February 2022, a war broke out between Russia and Ukraine, which continues as of 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. As of 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 (hereinafter - the "Crisis"), excluding regarding the United States, EU countries, the G7 countries and additional countries which adopted a similar policy.

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.

**NOTE 1 – GENERAL (CONT.)**

**E. War in Ukraine (cont.)**

It should be 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 in 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 using Russian infrastructure and ports in the Black Sea. Moreover, there may be difficulties in purchasing certain feedstock needed for the operation of some of the Company's facilities - which the Company has purchased, to date, from Russian sources. In this context, it should be noted that, for the most part, the Company does not communicate directly with Russian entities; however, it purchases feedstock originating in Russia from leading international trading companies. Moreover, there may be difficulties in carrying out financial transactions and money transfers to Russian companies and/or banks.

As of 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 of 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.

**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 8, 2023.

**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. 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.

**E. 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.

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**NOTE 2 - BASIS OF PREPARATION (CONT.)**

**E. Use of estimates and judgments (cont.)**

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.

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 subsequent reporting periods:

<b>Estimate</b>	<b>Principal assumptions</b>	<b>Possible effects</b>	<b>Reference</b>
Net realizable value of inventory	<ul style="list-style-type: none"> <li>Exercise price of inventory as a finished product.</li> <li>Costs required to make the sale based on past experience.</li> </ul>	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"> <li>Estimates regarding indications of impairment.</li> <li>Discount rate after tax.</li> <li>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.</li> </ul>	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"> <li>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.</li> <li>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 Company's financial exposure cannot be assessed, if at all; therefore, no provisions were made for them in the financial statements.</li> </ul>	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.

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**NOTE 2 - BASIS OF PREPARATION (CONT.)**

**F. 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 information about the dividend distribution policy that was approved during 2021, see Note 21C. As at December 31, 2022, the Company is subject to compliance with financial covenants, including compliance with minimum capital requirements; for further information about the covenants, see Notes 13 and 14.

**G. First-time application of new standards**

**Amendment to IAS 37, Provisions, Contingent Liabilities and Contingent Assets**

According to the Amendment, when assessing whether a contract is onerous, the costs of fulfilling the contract includes costs that relate indirectly to the contract, which include the following costs: incremental costs and an allocation of other costs that relate directly to fulfilling contracts.

The Amendment was applied retrospectively beginning from January 1, 2022, for contracts regarding which the Group had not yet fulfilled its obligation. The Amendment's application did not have a material impact on the financial statements.

**NOTE 3 – SIGNIFICANT 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.

**1. Business combinations**

The Group implements the acquisition method to business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its influence over the acquiree.

**2. Subsidiaries**

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date of loss of control. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

**3. Transactions eliminated on consolidation**

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.



**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**B. Foreign currency**

**1. Foreign currency transactions**

Transactions in currencies other than the functional currency of each Group company (hereinafter - “Foreign Currencies”) are translated into the functional currency of each Group company at the exchange rate at the transaction dates. Monetary assets and liabilities denominated in Foreign Currencies on the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for the effective interest rate and payments during the year, and the amortized cost in Foreign Currencies translated at the exchange rate as of the end of the year. Non-monetary assets and liabilities denominated in Foreign Currencies that are measured at fair value are translated to the functional currency at the exchange rate as at the date on which the fair value was determined. Non-monetary items denominated in Foreign Currencies that are measured at historical cost are translated using the exchange rate at the transaction date.

In general, foreign currency differences arising on translation to the functional currency are recognized in profit and loss.

**2. Translation of financial statements of foreign operations**

Some consolidated companies have a functional currency other than the US dollar; therefore, they are considered foreign operations. Accordingly, their assets and liabilities, including fair value adjustments arising on acquisition, are translated to the US dollar exchange rate as of the date of the statement of financial position, and its income and expenses are translated into the dollar at exchange rates at the transaction dates or at approximate average exchange rates. Foreign currency differences arising on translation are recognized in other comprehensive income and are presented in equity in the foreign operations translation differences reserve.

In general, exchange rate differences on loans received or provided to foreign operations, are recognized in profit and loss in the consolidated financial statements.

**C. 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, then 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 described below.



**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**C. Financial Instruments (cont.)**

**1. Non-derivative financial assets (cont.)**

**A. Financial assets measured at amortized cost**

A financial asset is measured, after initial recognition, at amortized cost, using the effective interest method and net of any impairment loss, if the asset is held within a business model with an objective to hold assets in order to collect contractual cash flows; if the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest; and the Group has not elected to designate them at fair value through profit and loss in order to reduce or eliminate an accounting mismatch.

These assets include: Cash and cash equivalents, trade receivables, deposits, certain other receivables and long-term receivables of the Group.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances available for immediate use and call deposits. Cash equivalents comprise short-term investments with original maturities of up to 3 months from deposit date, that are highly liquid and are readily convertible into known amounts of cash and are exposed to an insignificant risk of change in value.

**B. Financial assets at fair value through profit and loss**

Financial assets other than those classified as measured at amortized cost are measured subsequent to initial recognition at fair value with all changes in fair value recognized in profit and loss.

Nevertheless, for the Company's investment in the shares of certain companies, which are not held for trading, fair value changes are recognized in other comprehensive income, since the Group intends 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. For information about the measurement of derivative financial instruments, see Section C3 below.

**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. When the Group does not substantially transfer all the risks and rewards arising from the trade receivables to the factoring entities, but nor do these remain in its possession, it reviews whether control of the trade receivable has been transferred. If control over the trade receivable has been transferred to the factoring entities, but there is continuing involvement for part of the risks, the Group recognizes the remaining amount of the net exposure (for the risks that remained in the Group's possession) at fair value.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**C. Financial instruments (cont.)**

**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. Transaction costs directly related to the issue of an instrument that will be classified as financial liabilities are withheld from the financial liabilities upon initial recognition.

These liabilities include: loans and borrowings from banks, marketable Debentures, (Series E, J, and L 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 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.

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.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**C. Financial instruments (cont.)**

**2. Non-derivative financial liabilities (cont.)**

**C. Change in terms and conditions of debt instruments (cont.)**

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 a non-substantial 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 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 E and L), attributable to the NIS-USD exchange rate and to changes in the variable interest rate (mainly LIBOR), were accounted for the first time by applying fair value hedge accounting as described below.

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in the statement of income, other than the share attributable to the foreign currency basis spread, which is recognized in capital reserve, as described 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.

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**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**C. Financial instruments (cont.)**

**3. Derivative financial instruments, including hedge accounting (cont.)**

**D. Cash flow hedges**

Marketable Brent 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 (see Note 20B4), were designated as hedging items for the purpose of cash flows hedge accounting.

The Group's forward contracts for the purchase of naphtha are designated as hedging items for the purpose of cash flow hedge accounting for exposure to changes in market prices of projected acquisitions of crude oil, 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 (LIBOR) as well as cross-currency interest rate swap (CCIRS) to hedge currency exposure for Debentures (Series E, J, and L) 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, then hedge accounting is discontinued. The cumulative profit and 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.

If the forecast transaction is no longer expected to occur, then the cumulative profit and loss previously recognized in the hedging reserve is recognized immediately in profit and loss.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**C. Financial instruments (cont.)**

**3. Derivative financial instruments, including hedge accounting (cont.)**

**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 set out 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, at any reporting date 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 will lead 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. Since as of the reporting date, the LIBOR interest rate is still in effect, and long as the future reform to cancel it is not implemented to most of the Company's financial instruments involving LIBOR interest, the said amendments have no effect on the financial statements.

**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.

**5. Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares net of the effect of tax, are recognized as a deduction from equity.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**D. 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.

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.

**E. 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, discounted credit costs 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.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**E. Property, plant and equipment (cont.)**

**1. Recognition and measurement (cont.)**

**B. Depreciation**

Depreciation is a systematic allocation of the depreciable amount of an asset (cost of the assets less its residual value) over its useful life. 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.

The estimated useful life for the current period is as follows:

	<b><u>Years</u></b> <sup>(*)</sup>	
Refining and cracking facilities	26 - 18	(Mostly 24)
Facilities for manufacturing aromatics	26 - 19	(Mostly 24)
Facilities for manufacturing polymer products	30 - 12	(Mostly 21)

(\*) 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 performs periodic maintenance at its facilities every 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 24 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.



**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**F. Intangible assets**

Intangible assets that are acquired by the Group and have a definite useful life are stated at cost less amortization and accumulated impairment losses.

**1. Subsequent costs**

Subsequent costs are recognized as an intangible asset only when they increase the future economic benefit embodied in the specific asset for which it was incurred. All other costs are stated in profit and loss as incurred.

**2. Amortization**

Amortization is the systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset, less its residual value, if relevant.

Amortization is recognized in profit and loss on a straight-line basis, over the estimated useful lives of the intangible assets from the date they are available for use, since these methods most closely reflect the expected pattern of consumption of the future economic benefits best embodied in each asset.

Prepaid royalties for knowhow are amortized over the lower of the useful life of the property, plant and equipment to which it is attributed or the term of the agreement with the knowhow provider.

The estimates regarding the amortization method and useful life are reviewed at least at the end of each reporting date and adjusted as needed.

**G. 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 tankers that include non-lease components (as outlined 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.

**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.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**G. Leases (cont.)**

**2. Right-of-use assets and lease liabilities (cont.)**

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. The amount deducted from the cost of the asset will not exceed its carrying amount. Any balance is recognized immediately in the statement of income.

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 it is not possible to terminate the lease, 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 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**G. 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:

	<b>Years</b>
Vessels	Mostly one year
Land and buildings in Israel	34-83 years (mostly 83 years)
Land in the Netherlands	21 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.

**H. Capitalization of borrowing costs**

Specific and non-specific borrowing costs were capitalized to qualifying assets during the period required for completion and construction until they are ready for their intended use. Non-specific borrowing costs are capitalized in the same manner to the same investment in qualifying assets, or portion thereof, which was not financed with specific credit by means of a rate which is the weighted-average cost of the credit sources which were not specifically capitalized. Foreign currency differences from credit in foreign currency are capitalized if they are considered an adjustment of interest costs. Other borrowing costs are expensed in profit and loss as incurred.

**I. Impairment of assets**

**1. Financial assets**

The Group recognizes a provision for expected credit losses mainly for trade 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.

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

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**I. Impairment of assets (cont.)**

**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.

**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.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**J. 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. Defined post-employment benefit plans include mainly holiday gifts, Company products, and vacation for the Group's pensioners as well as compensation for some employees.

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 Group determines the net interest on the liability (asset) for the defined benefit by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual reporting period to the then-net defined liability (asset).

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 gain or loss on curtailment are recognized in profit and loss when the plan amendment or curtailment occurs.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**J. Employee benefits (cont.)**

**1. Post-employment benefits (cont.)**

**B. Defined benefit plans (cont.)**

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 Haifa Early Pension 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.

**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 options that are expected to vest.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**K. 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 information, see Section G2 below.

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.

**L. Revenues**

**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.

**2. Determining the transaction price**

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Group takes into account the effects of all the following elements when determining the transaction price, to the extent relevant: Variable consideration, the existence of a significant financing component in the contract, non-cash consideration, and consideration payable to the customer.

**3. 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 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.



**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**L. Revenues (cont.)**

**3. Variable consideration (cont.)**

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.

Transactions for the sale and repurchase of inventory are tested for fulfillment of the conditions for revenue recognition as described above. If the conditions for recognition of revenue are not met, the inventory in the transaction is not derecognized and a liability is recognized.

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.

**M. 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.

Borrowing costs, which are not capitalized to qualifying assets, are recognized in profit and loss using the effective interest method.

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.

Foreign currency gains and losses 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 C3.

**N. Income tax**

Income taxes include current and deferred taxes. Current and deferred taxes are recognized in profit and loss or are recognized directly in equity or in other comprehensive income to the extent they relate to a transaction or event recognized directly in equity or in other comprehensive income.

**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 reporting date, and includes taxes for previous years.

**2. Offsetting current 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 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**N. Income tax (cont.)**

**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**

Deferred tax is recognized using the equity method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for tax purposes.

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. Offsetting deferred tax assets and liabilities**

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 income taxes 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.

**6. Additional tax on dividend distribution**

For any tax liability that arises from the distribution of a dividend by the Company, the Group recognizes tax expenses in profit and loss at the same time that the liability to pay the related dividend is recognized.

**7. 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.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**O. Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted the issuance of rights.

Diluted earnings per share is determined by adjusting the profit and loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, for the effects of any dilutive potential ordinary shares.

**P. Amendments to accounting standards not yet adopted**

**1. Amendments to International Accounting Standard 1 - 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 are applicable to annual periods as from January 1, 2024; earlier application is permitted. The amendments will be applied retroactively, including amendment of the comparative figures. The Group has examined the effects of applying the Amendments, without earlier application in mind, and in its opinion, the application of the Amendments is not expected to have a material effect on the financial statements.

**2. Amendment to IAS 1, Presentation of Financial Statements - Disclosure of Accounting Policies**

Pursuant to the amendment, companies are required to disclose their material accounting policies, instead of the requirement to present their significant accounting policies. Information about the accounting policy is considered material if: (1) it is taken into account along with other information provided in the financial statements, it can be reasonably predicted that it will impact decisions that recipients of the financial statements will make based on those statements; (2) without it, those using the financial statements will be unable to understand other material information in the financial statements.

The amendment clarifies that there is no need to disclose information about non-material accounting policies.

The amendment will be applied for reporting periods as of January 1, 2023, with the possibility of early application. The Group has examined the effects of applying the Amendment, without earlier application in mind, and in its opinion, the application of the Amendment is not expected to have a material 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.

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 of 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, future contracts on naphtha prices and/or product prices are recognized at fair value, based on quoted naphtha prices and on price forecasts for polymers.

#### NOTE 4 - DETERMINATION OF FAIR VALUE (CONT.)

##### 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 set out in Note 3C2 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, 2022	As at December 31 2022	2021
Cash		34,459	58,062
Bank deposits	4.4%	716,601	579,669
		<b>751,060</b>	<b>637,731</b>

For information about the Group's exposure to credit and currency risks and the risk management policy in respect of cash and cash equivalents, see Notes 29, 30A, and 30C.

##### B. Deposits

For information about the Group's exposure to credit and currency risks and the risk management policy in respect of deposits, see Notes 29, 30A, and 30C.

## NOTE 6 – TRADE RECEIVABLES

### A. Composition:

	As at December 31	
	2022	2021
Open accounts	590,444	598,136
Less provision for doubtful debts	(1,574)	(2,811)
	<b>588,870</b>	<b>595,325</b>

For further information about transactions and 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 trade 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 "Banks") for the factoring of some of its trade receivables, for a maximum USD 400 million, USD 200 million of which is binding, valid until September 30, 2023. Under the said agreement, trade receivables which will be acceptable by the financing entities when making the factoring transaction (amounts insured under credit insurance and/or amounts that are not insured under credit insurance, as the case may be), at the discretion of the financing entities, will be assigned to financing entities 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 Banks 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 USD 100 million, valid until September 30, 2023.

As of December 31, 2022, debts of Group companies' customers under the said agreements amounting to USD 113 million were not recognized (as of December 31, 2021 - Group companies' customers under the said agreements were not derecognized).

Actual factoring amounts are affected, among other things, by the product sales to relevant customers, customer credit days, product prices significantly affected by the price of crude oil, as well as the range of working capital factoring sources and management of the Group's liquidity requirements. Assuming maximum utilization of the discount agreements at the report publication date, and given the crude oil price of USD 81 per barrel (Brent crude price as at the report publication date), the maximum discount is estimated at USD 400 million.

**NOTE 7 – OTHER RECEIVABLES AND DEBT BALANCES**

**Composition:**

	As at December 31	
	2022	2021
Deposits, inventory derivatives, and margins <sup>(1)</sup>	53,314	–
Institutions (mainly VAT)	26,871	27,464
Current maturities of loans to Haifa Early Pension <sup>(2)</sup>	12,358	11,009
Prepaid expenses	8,526	5,646
Other	7,812	6,243
	<b>108,881</b>	<b>50,362</b>

(1) Primarily in respect of refining margins, see Note 29d3.

(2) See also Note 18B2B.

For information about the Group's exposure to credit and currency risks and the risk management policy in respect of certain other receivables, see Notes 29, 30A and 30C.

**NOTE 8 - INVENTORIES**

**Composition:**

	As at December 31	
	2022	2021
Crude oil and intermediate products in the Fuels activity	303,235	343,585
Petroleum products	268,831	182,068
Products - Polymers Carmel Olefins	90,648	128,738
Products - polymers Ducor	13,372	14,544
Products - Aromatics	45,965	35,562
Inventory of chemicals, petrochemical raw materials and other	27,845	26,176
	<b>749,896</b>	<b>730,673</b>



## **NOTE 9 - INVESTEEES**

### **A. Information about investees**

As at the reporting date, the Company holds, indirectly, 100% of the share capital of the companies: Carmel Olefins, Gadiv, 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 (through a wholly-owned subsidiary of Carmel Olefins) Ducor Petrochemicals BV. (Ducor), a company registered and operating in the Netherlands.

On March 30, 2022, a wholly-owned subsidiary of Carmel Olefins signed an agreement for the purchase of 76% of V.P.M. Plast Ltd., which is engaged in the mechanical recycling of plastic, at a company value of NIS 20 million subject to certain adjustments. On August 14, 2022, the purchase transaction was completed.

### **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 Gadiv), 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, 2022 (without excess cost and without eliminating intra-company gains) is USD 48,362 thousand (as at December 31, 2021, USD 63,253 thousand).

## **NOTE 10 - LONG-TERM LOANS AND RECEIVABLES**

### **Composition:**

	As at December 31	
	2022	2021
Employee benefit assets, net <sup>(1)</sup>	2,373	3,747
Net charge for inventory availability agreement <sup>(2)</sup>	11,943	14,713
Investments at fair value through other comprehensive income <sup>(3)</sup>	20,765	16,328
Deposits for financial derivatives	5,228	—
Other	2,466	827
	<b>42,775</b>	<b>35,615</b>

(1) See also Note 18C.

(2) See Note 20B4.

(3) 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
<b>Cost</b>				
Balance as at January 1, 2021	4,007,812	75,522	123,200	4,206,534
Additions during the year	92,849	–	2,833	95,682
Derecognitions during the year	–	(9,922)	–	(9,922)
Net exchange rate differences from translation of foreign operations	(10,078)	–	–	(10,078)
<b>Balance as at December 31, 2021</b>	<b>4,090,583</b>	<b>65,600</b>	<b>126,033</b>	<b>4,282,216</b>
Additions during the year (3)	200,705	–	1,073	201,778
Derecognitions during the year	(130,698)	(10,785)	–	(141,483)
Net exchange rate differences from translation of foreign operations	(5,664)	–	8	(5,656)
<b>Balance as at December 31, 2022</b>	<b>4,154,926</b>	<b>54,815</b>	<b>127,114</b>	<b>4,336,855</b>
<b>Accumulated depreciation and impairment losses</b>				
Balance as at January 1, 2021	2,096,303	–	56,388	2,152,691
Additions during the year	126,893	–	2,529	129,422
Reversal of an impairment loss	(8,336)	–	–	(8,336)
Net exchange rate differences from translation of foreign operations	(6,580)	–	–	(6,580)
<b>Balance as at December 31, 2021</b>	<b>2,208,280</b>	<b>–</b>	<b>58,917</b>	<b>2,267,197</b>
Additions during the year	130,624	–	2,259	132,883
Impairment loss	6,815	–	–	6,815
Derecognitions during the year	(130,423)	–	–	(130,423)
Net exchange rate differences from translation of foreign operations	(3,099)	–	6	(3,093)
<b>Balance as at December 31, 2022</b>	<b>2,212,197</b>	<b>–</b>	<b>61,182</b>	<b>2,273,379</b>
<b>Amortized cost, net</b>				
<b>As at December 31, 2022</b>	<b>1,942,729</b>	<b>54,815</b>	<b>65,932</b>	<b>2,063,476</b>
<b>As at December 31, 2021</b>	<b>1,882,303</b>	<b>65,600</b>	<b>67,116</b>	<b>2,015,019</b>

(1) Presented on a net basis, net of other accrued depreciation and amortization as described in Note 3E1b above.

(2) For further information, see Section B below.

(3) During the reporting period, periodic maintenance work was carried out in all of Carmel Olefins' production facilities and in some of the Company's production facilities, specifically the fluid catalytic cracker (FCC) facility, whose direct total cost (before capitalization of payroll and other costs) amounted to USD 105 million.

**NOTE 11 – PROPERTY, PLANT AND EQUIPMENT, NET (CONT.)**

**B. Land**

1. Facilities of the Company, Ducor, and Gadiv – located on leased land; for further information about the companies' rights to the land, see Note 12B.
2. The Carmel Olefins Facilities are on a tract of 390 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 381 hectares, of which the Company sold 86 hectares to Carmel Olefins. The remainder of the tract (9 hectares), which is registered under the Company's ownership, was leased to Carmel Olefins.

**C. Measurement of the recoverable amount of non-financial assets**

Due to the deterioration in the operating results of Ducor in 2020 and the impairment in the forecasts of IHS for the polypropylene margin above propylene in Europe (hereinafter - the "IHS Forecast"), on December 31, 2020, an assessment was prepared for the recoverable amount of Ducor's activity in accordance with IAS 36, based on the valuation of an independent appraiser with expertise in the field, Ernst & Young (Israel) Ltd.

The recoverable amount of Ducor assets was calculated according to the fair value (classified at Level 3) net of costs to sell, which was estimated using the discounted cash flow (DCF-Discounted Cash Flow) method and the discount rate after tax was 9.75%. The revised recoverable amount of Ducor as at December 31, 2020, is estimated at USD 46 million and it was lower than the carrying amount at that date, which amounted to USD 56 million. Therefore, in 2020 the Group recognized a pre-tax impairment loss (before tax) of USD 10 million in respect of excess cost allocated to depreciable assets; the loss was recognized in the other expenses line item.

In view of the significant improvement in Ducor's operating results in 2021, and the improvement in IHS' long-term forecasts, as of December 31, 2021, the said independent appraiser assessed the recoverable amount of the assets of Ducor's activity in accordance with the provisions of IAS 36, and in accordance with the methodology described above, while using a post-tax discount rate of 10.5%. The revised recoverable amount of Ducor as at December 31, 2021 is estimated at USD 73 million and it is higher than the carrying amount at that date, which amounted to USD 59 million. Therefore, in 2021, the USD 8 million (before tax) balance of pre-tax impairment loss (that was recognized in 2020 as aforesaid) was reversed under the other income line item.

Due to the significant rise in interest rates and inflation in Europe during the reporting period, as at December 31, 2022, efforts have been made to assess the recoverable amount of the Ducor operation assets pursuant to the provisions of IAS 36 by the same appraiser and pursuant to the methodology set forth above, using the capitalization rate after taxes of approximately 12%. The revised recoverable amount of Ducor as at December 31, 2022 is estimated at USD 56 million and it is higher than the carrying amount at that date, which amounted to USD 49 million. Therefore, no impairment loss was recognized.

## NOTE 12 – INTANGIBLE ASSETS, RIGHT-OF-USE ASSETS, AND DEFERRED EXPENSES, NET

## A. Composition and changes in the line item:

	Land, buildings, and other <sup>(1)</sup>	Right-of-use assets Tankers	Total	Intangible assets and deferred expenses <sup>(2)</sup>
<b>Cost</b>				
Balance as at January 1, 2021	150,807	27,254	178,061	86,385
Additions during the year	1,804	10,103	11,907	1,880
Derecognitions during the year <sup>(3)</sup>	–	(18,033)	(18,033)	–
Net exchange rate differences from translation of foreign operations	(675)	–	(675)	(391)
<b>Balance as at December 31, 2021</b>	<b>151,936</b>	<b>19,324</b>	<b>171,260</b>	<b>87,874</b>
Additions during the year	8,161	9,751	17,912	7,246
Derecognitions during the year <sup>(3)</sup>	–	(20,031)	(20,031)	–
Net exchange rate differences from translation of foreign operations	(1,657)	–	(1,657)	(244)
<b>Balance as at December 31, 2022</b>	<b>158,440</b>	<b>9,044</b>	<b>167,484</b>	<b>94,876</b>
<b>Accumulated depreciation and impairment losses</b>				
Balance as at January 1, 2021	14,402	14,081	28,483	63,352
Additions during the year	2,544	16,499	19,043	4,847
Derecognitions during the year <sup>(3)</sup>	–	(18,033)	(18,033)	–
Net exchange rate differences from translation of foreign operations	1,165	–	1,165	(308)
<b>Balance as at December 31, 2021</b>	<b>18,111</b>	<b>12,547</b>	<b>30,658</b>	<b>67,891</b>
Additions during the year	2,521	11,871	14,392	3,393
Derecognitions during the year <sup>(3)</sup>	–	(20,031)	(20,031)	–
Net exchange rate differences from translation of foreign operations	(453)	–	(453)	(214)
<b>Balance as at December 31, 2022</b>	<b>20,179</b>	<b>4,387</b>	<b>24,566</b>	<b>71,070</b>

**Amortized cost, net**

<b>As at December 31, 2022</b>	<b>138,261</b>	<b>4,657</b>	<b>142,918</b>	<b>23,806</b>
<b>As at December 31, 2021</b>	<b>133,825</b>	<b>6,777</b>	<b>140,602</b>	<b>19,983</b>

(1) As at December 31, 2022, including mainly land under lease and buildings with amortized cost of USD 133,048 thousand (as at December 31, 2021 - USD 128,270 thousand). For further information, see Section B below.

(2) The balance includes mainly rights and know-how.

(3) Tankers with a contractual lease term that has expired.

**NOTE 12 – INTANGIBLE ASSETS, RIGHT-OF-USE ASSETS, AND DEFERRED EXPENSES, NET (CONT.)**

**B. Lease of land and buildings**

1. The Company's facilities: In accordance with the new property agreement as set out below, the Company is entitled to register as a lessee of the State of Israel for 2,133 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 1600 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.

According to the Asset Agreement, the rights of the Company in the Company's Assets are as follows:

**A. Rights to assets which are not real estate assets**

The Company has the same rights to all of the Company's Assets, except for real estate assets, which it would have were it not for the claim of the State of Israel that the assets should be transferred to the State, for no consideration.

**B. Rights to the Company's land**

1. 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.

2. 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 levels, 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).

For information about the profit-dependent lease payments recognized in profit and loss, see Note 23.

**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.)**

**B. Rights to the Company's land (cont.)**

3. 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.

4. 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.

When signing the Asset Agreement as set out above, the Company returned 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. In the period until February 28, 2010, the Company was 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.

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 government incurs harm in this respect and the government 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.

As at the report date, the Company operates and makes use of the distillate pipeline.

**NOTE 12 – INTANGIBLE ASSETS, RIGHT-OF-USE ASSETS, AND DEFERRED EXPENSES, NET (CONT.)**

**B. Lease of land and buildings (cont.)**

2. Gadiv's facilities are on an area of 8.6 hectares including 80 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 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 further information, 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.

Referring to a land plot of 215 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: (A) will vacate the land underlying the dispute between the parties on December 31, 2020 and will return it to the Company, vacant and clean (unless the Company instructs otherwise) and in compliance with any environmental law applicable to it, after the lessee clears it of any pollution it caused. As of the approval date of the Report, the lessee returned the land, executed the steps it was required to execute under the mediation agreement, and is in the process of completing these steps; (B) will pay the Company appropriate usage fees of USD 4 million in respect of the agreed period; the usage fees were received in 2020 and recognized under revenues.

**C. Leasing of vessels**

1. Leases in which the Group is the lessee: Trading and Shipping charter 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, generally up to one year, and some of the agreements include an option for an extension of up to one more year.

In 2022, 2021 and 2020, 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 and Shipping leases out ships to the Company and third parties. In 2022, the Group recognized revenue in profit and loss for the sublease of tankers in the amount of USD 25 million (in 2021 - USD 20 million and in 2020 - USD 30 million).

- 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	
	2022	2021
<b>Current maturities of long-term liabilities</b>		
Current maturities of bank loans	59,057	85,203
Current maturities of debentures	207,221	218,698
	<b>266,278</b>	<b>303,901</b>

**2. Short-term credit facilities**

- A. Below is information about the short-term credit facilities from banks of the Group companies (in USD millions):

	Shortly before the report's approval date <sup>(*)</sup>	As at December 31	
		2022	2021
Consolidated secured credit facilities			
Scope of credit facility <sup>(1)</sup>	510	510	390
<b>Actual utilization <sup>(2)</sup></b>	<b>27</b>	<b>95</b>	<b>10</b>
Consolidated unsecured credit facilities <sup>(3)</sup>			
<b>Actual utilization <sup>(2)</sup></b>	<b>38</b>	<b>11</b>	<b>13</b>

(\*) As at March 6, 2023.

(1) As of December 31, 2022, the Company has short-term secured credit facilities of USD 510 million, in effect until September 30, 2023.

(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. As at the approval date of the report, Ducor entered into an agreement with a bank for a credit facility of up to EUR 20 million for 3 years (as from 2020). 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 (USD 21 million). For further information, see also Note 13B.

## NOTE 13 - LOANS AND BORROWINGS FROM BANKS AND OTHERS (CONT.)

## A. Composition and interest (cont.)

## 3. Liabilities to banks (presented under non-current liabilities)

	Weighted interest as at December 31, 2022	As at December 31 2022	2021
<b>Long-term bank loans</b>			
Local banks - at variable interest <sup>(1) (2)</sup>	7.7%	440,022	479,434
Net of adjustment for amendments to the terms of the loans <sup>(3)</sup>		(15,465)	(18,443)
Less raising costs, net		(4,856)	(6,110)
<b>Total local banks - at variable interest</b>		<b>419,701</b>	<b>454,881</b>
Foreign banks - at fixed interest		–	8,905
Less raising costs, net		–	(132)
<b>Total loans from foreign banks - at fixed interest</b>		<b>–</b>	<b>8,773</b>
<b>Total long-term bank loans</b>		<b>419,701</b>	<b>463,654</b>
Less current maturities		(59,057)	(85,203)
		<b>360,644</b>	<b>378,451</b>

- (1) Including dollar loans at variable interest and a non-material amount in respect of shekel loans. Weighted interest as at December 31, 2021, is 3.2%.
- (2) In 2022, the Company took out a long-term bank loan amounting to USD 40 million with an average duration of 4 years in variable USD interest (SOFR plus spread). For the loan, the Company is subject to the same financial covenants as in the syndication agreement (see Section B below).
- (3) For information about reductions in the interest rate for the syndication loan and temporary additions to interest, see Section B below.

## 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 financing entities (hereinafter - the "Banks"), 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 set out 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 another loan under the Syndication Agreement, at the total amount of USD 80 million.

As of the report date, the loan's outstanding balance is USD 288 million, and the weighted interest is LIBOR + 3%.

The amortization schedule is as follows: in 2023, USD 3.4 million per quarter; in 2024-2026, USD 13.5 million per quarter; in 2027, USD 16.9 million per quarter; and in 2028, USD 11.2 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. Temporary changes**

Two waiver letters were signed in 2020 in relation to a temporary change in the terms of the Syndication Agreement; the waiver letters focused mainly on a temporary amendment of the financial covenants applicable to the Company through December 31, 2021; it was also determined that a declaration of a dividend by the Company during certain quarters, the latest of which ending on December 31, 2021, or in accordance with the financial statements in respect of the said quarters shall be subject to the approval of the banks, in writing and in advance.

On March 15, 2022, an amendment was signed to the second waiver letter, such that as from December 31, 2021, and thereafter, the provisions of the original agreement will apply again, both in relation to the financial covenants and in relation to dividend distribution.

The said temporary changes to the Syndication Agreement also apply to the Company's other financing agreements with the banks.

For the temporary changes to the Syndication Agreement and the other agreements with banks, as aforesaid, the Company paid, during 2021 and the first quarter of 2022, the temporary additions to interest for the relief period and fees in a total amount that is not material to the Company, which was recognized in full in 2020 under finance expenses.

2. 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, 2022:

	Required	Required ratio / amount	Actual ratio / amount
Consolidated adjusted equity <sup>(1)</sup> (in USD millions)	≤	750	1,714.0
Consolidated adjusted equity <sup>(1)</sup> to net total consolidated balance sheet <sup>(2)</sup>	≤	20.0%	44.9%
Consolidated ratio net financial debt <sup>(3)</sup> to consolidated adjusted EBITDA <sup>(4), (5), (6)</sup>	≥	5.0	0.8
Consolidated principal and interest coverage ratio <sup>(7)</sup>	≤	1.1	3.9
Cash flows <sup>(8)</sup> plus the unused balance of binding credit facilities <sup>(9)</sup> - separate statement (in USD millions)	≤	75	1,010.8

As at December 31, 2022, the Company is in compliance with the financial covenants.

**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.)**

- (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 (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; the 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 when determining the net debt amount, payable interest was not taken into account.

- (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.

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

**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, then instead of that quarter, the EBITDA will include the prior quarter that is closest to the maintenance quarter, so that in any event, four quarters will always be taken into account. If the Company elects not to include maintenance quarters in the adjusted EBITDA, then the contents of Section 5(B) above will not apply regarding multiplication of years.

In a period of five consecutive years, no more than four quarters of maintenance will be adjusted, no more than two maintenance quarters will be adjusted consecutively, and no more than two maintenance quarters in the same 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) adjusted consolidated EBITDA for the four quarters preceding the measurement, calculated in accordance with the provisions of Subsections (4), (5) and (6) above, less investments in 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.

**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**

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

1. The ratio between (i) net 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.
3. There was no event of default as defined in the Syndication Agreement, which is still ongoing (other than suspension of the work or a significant part thereof at the Company, which does not exceed 15 days) and there will be no event of default due to the distribution of a dividend; 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.

**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**

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 banks 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, 2022, 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 credit to Ducor, see Note 13A.

- C) Guarantees in favor of the activities of the trading and shipping companies, which will sign guarantees for the banks 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.
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.

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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**

The Syndication Agreement includes the Company's undertakings to the banks, 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 banks. "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; and (D) an undertaking to carry out any of these activities.

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

**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.)****E. Events of default**

The Syndication Agreement includes events, which, if they occur, grant the banks 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 suspended for 60 consecutive days or more, except due to renovations planned in advance and except in cases where the damage resulting from suspension of the work does not exceed a cumulative amount of USD 50 million.
3. The banks 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 banks.

**NOTE 14 – DEBENTURES****A. Composition**

	Weighted interest as at December 31, 2022 <sup>(2)</sup>	As at December 31	
		2022	2021
Debentures at amortized cost with application of hedge accounting, net <sup>(1)</sup> (shekel series)	4.7%	649,525	717,277
Less current maturities		(87,272)	(98,749)
		<b>562,253</b>	<b>618,528</b>
Balance of debentures at amortized cost, net (USD-linked series)	5.5%	254,564	375,408
Less current maturities		(119,949)	(119,949)
		<b>134,615</b>	<b>255,459</b>
<b>Total debentures</b>		<b>904,089</b>	<b>1,092,685</b>
<b>Less current maturities</b>		<b>(207,221)</b>	<b>(218,698)</b>
<b>Total debentures, net</b>		<b>696,868</b>	<b>873,987</b>

(1) For more information about series expansions 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 and IRS is 6.0%.

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## Bazan Ltd. - Notes to the Consolidated Financial Statements, in USD thousands

### NOTE 14 – DEBENTURES (CONT.)

#### B. Additional information about the Company's public debentures

Series	Original date of issue	Par value at the original issue date in USD thousands <sup>(1)(2)</sup>	Par value adjusted as at December 31, 2022, in USD thousands <sup>(2)</sup>	Market value as at December 31, 2022, in USD thousands <sup>(2)(3)</sup>	Coupon interest	Principal repayment dates	Interest repayment dates <sup>(4)</sup>	Linkage basis and terms (principal and interest)
Series E	2.6.2015	335,804	149,546	151,281	5.9%	6 unequal annual payments on June 30 of each of the years 2019-2024 (inclusive); in the first payment, 5% of the principal will be repaid; for each of the second and third payments, 10% of the principal will be repaid; and in each of the fourth to the last payments, 25% of the principal will be repaid.	June 30 and December 31 of each of the years 2019-2024	Non-linked
Series F	2.6.2015	310,706	108,747	108,964	6.7%	5 unequal annual payments, paid on June 30 of each of the years from 2019 to 2023 (inclusive); in the first payment, 5% of the principal will be repaid; in the second payment, 10% of the principal will be repaid; in the third payment, 15% of the principal will be repaid; and in each of the fourth to the last payments, 35% of the principal will be repaid.	June 30 and December 31 of each of the years 2019-2023	USD linked (base rate - 3.876)
Series I	April 26, 2017	224,038	145,625	141,778	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 (base rate - 3.649)
Series J	September 15, 2019	282,848	218,727	200,332	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.	March 25 and September 25 of each of the years 2020-2031	Non-linked
Series L	September 16, 2020	300,612	294,096	285,391	5.0%	12 unequal semi-annual payments, payable on September 25 and March 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.	March 25 and September 25 of each of the years 2029-2021	Non-linked

- (1) In addition to the original issuance date, Series E and F were expanded in 2016-2015, Series E and I were expanded in 2018, and Series E, J, and L were expanded in 2020 and Series L was expanded in 2021-2022.
- (2) For the shekel series, converted based on the exchange rate as at December 31, 2022, and for series linked to the US dollar, converted based on the effective USD exchange rate for each series.
- (3) Market capitalization is based on the closing price quoted on the TASE.
- (4) As at December 31, 2022, the interest balance due in respect of the debentures is approximately USD 15 million, of which approximately USD 8 million was paid after the reporting date in light of the fact that December 31, 2022 was not a business day.

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**NOTE 14 – DEBENTURES (CONT.)**

**B. Additional information about 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.

On March 8, 2023, the rating of the Company and its debentures was upgraded to 'ilA+' with a stable outlook.

**Information about the debentures issued in 2021-2022:**

<u>Date</u>	<u>Type of issue</u>	<u>Par value at the issue date, in USD thousands</u>	<u>Net consideration net of issuance costs, in USD thousands</u>
August 2022	Expansion of Series L <sup>(1)</sup>	61,106	61,278
March 2022	Expansion of Series L <sup>(2)</sup>	55,849	55,719
August 2021	Expansion of Series L <sup>(2)</sup>	92,879	94,513
March 2021	Expansion of Series L <sup>(2)</sup>	44,991	43,111

- (1) Concurrently with the expansion of the debenture series, to reduce currency and interest exposure, the Company entered into: (a) principal and interest swap transactions (including fixing the USD interest) for half of the issued debentures, and elected to apply cash flow hedge accounting principles; (b) principal and interest swap transactions (including a swap to a SOFR interest with a spread), as for half of the issued debentures, and elected to apply fair value hedge accounting principles.
- (2) Concurrently with the expansion of the debentures, the Company entered into principal and interest swap transactions (including fixing the USD interest) to reduce currency and interest exposure, and elected to apply cash flow hedge accounting principles.

On June 30, 2020, the Company made full early redemption of Debentures (Series D) with par value (USD 79 million) plus the accrued interest (USD 2 million) amounting to USD 81 million (NIS 282 million) for a consideration of USD 85 million (NIS 294 million). The loss for the early redemption is recognized as finance expenses in 2020.

**NOTE 14 – DEBENTURES (CONT.)**

**C. Key financial covenants**

**A. Series E, F, I, J, and L**

The Company undertook that until the repayment date of Debentures (Series E, F, I, J, and L), it will comply with the financial covenants.

Below are the financial covenants of Debentures (Series E, F, I, J, and L) as defined in the deed of trust:

	Required	Required ratio / amount	Actual ratio / amount
Adjusted equity (in USD millions) (*)	≤	630	1,952.3
Adjusted equity plus shareholder loans to total assets	≤	15%	50.7%
Net debt divided by the average consolidated annual adjusted EBITDA	≥	8	0.8
Consolidated cash and cash equivalents (in USD millions)	≤	50	751.1

(\*) For Debentures (Series E and F), adjusted required equity is USD 600 million

As at December 31, 2022, the Company is in compliance with the financial covenants of the public debentures.

- (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 directors' reports; 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, for two consecutive quarters from the quarter of initial recognition.
- (2) Total balance sheet means total consolidated assets less cash in an amount exceeding USD 75 million. 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).

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**NOTE 14 – DEBENTURES (CONT.)**

**C. Key financial covenants (cont.)**

**A. Series E, F, I, J, and L (cont.)**

- (4) Consolidated adjusted EBITDA means the consolidated adjusted EBITDA as presented by the Company in its interim and annual directors' reports 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.
- 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 below; 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, then instead of that quarter, the EBITDA will include the prior quarter that is closest to the maintenance quarter, so that in any event, four quarters will always be taken into account. If the Company elects not to include maintenance quarters in the EBITDA, then 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.
- (5) Cash means cash and cash equivalents, deposits and securities portfolio, 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 (and for Debentures (Series E and F) a deviation rate that does not exceed 15%), 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 obligations to holders of Debentures (Series E, F, I, J, and L)**

**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. If a going concern qualification is recorded in the Company's financial statements as set out in the deed of trust (other than the deeds of trust of Debentures (Series J and L)).

**NOTE 14 – DEBENTURES (CONT.)**

**D. Additional main obligations to holders of Debentures (Series E, F, I, J, and L) (cont.)**

**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 1.5% interest (for Debentures (Series J) plus 2%; and for Debentures (Series L), plus 1.75%).

**3. Restrictions on the distribution of a dividend**

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, in particular: (1) failure to meet financial covenants; (2) the Company's equity, as defined in the deeds of trust, is less than USD 660 million in Debentures (Series E and F), USD 690 million in Debentures (Series I and J), and USD 720 million in Debentures (Series L); (3) For Debentures (Series E and F) the distribution will impair the debenture rating as it was immediately prior to the distribution.

In addition, for Debentures (Series L), adjusted equity plus shareholder loans to total consolidated balance sheet (as calculated for the covenant) is less than 20% 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 1-4 above, the deeds of trust include additional standard market provisions and obligations.



**NOTE 15 – OTHER PAYABLES**

**A. Trade payables**

	As at December 31	
	2022	2021
Trade payables with extension of credit days <sup>(1)</sup>	155,193	352,871
Trade payables without extension of credit days and others	584,458	438,547
	<b>739,651</b>	<b>791,418</b>

(1) See below. For further information about finance expenses for the extension of credit days, see Note 26.

For information 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.

**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 crude oil suppliers, allowing it to purchase crude oil from the suppliers (in relation to the framework agreements setting the minimum amount), and receive credit terms of 60-90 days without any 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 amount of suppliers' credit due to the extension of the credit days depends on the amount of crude oil purchases, the credit days to be determined by the Company for each transaction (within the set range of days), and changes in the price of crude oil. Assuming the Company's maximum utilization of the credit days agreements that are in effect during 2023, and given the crude oil price of USD 81 per barrel (the price of Brent crude oil as at the reporting date), the estimated amount of suppliers' credit under all the Master Agreements is USD 490 million.

**NOTE 15 – OTHER PAYABLES (CONT.)**

**B. Other payables and credit balances**

	As at December 31	
	2022	2021
Deposits from customers <sup>(1)</sup>	46,874	40,250
Customer advances	36,837	38,867
Employees <sup>(2)</sup>	58,218	94,882
Institutions	7,848	9,467
License fees payable <sup>(3)</sup>	3,125	13,019
Taxes payable <sup>(4)</sup>	13,013	16,933
Lease liability - current maturities	5,342	7,487
Interest payable	15,549	6,722
Other	15,185	11,442
	<b>201,991</b>	<b>239,069</b>

(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) See also Note 12B.

(4) As of December 31, 2021, mostly includes a liability in respect of a one-off tax payment; see also Note 16A3c.

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 Ducor).

**1. Rate of corporate tax**

The rate of corporate tax in Israel for 2020-2022 is 23%. The corporate tax rate in the Netherlands for 2020-2021 was 25%, and as from 2022 - 25.8%.

For further information 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.

**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.

**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**

**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 outlined 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%.

No tax will apply to a dividend distributed out of preferred income to a shareholder that is a 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.

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.

**NOTE 16 – INCOME TAX (CONT.)**

**A. Tax environment of the Group (cont.)**

**3. Amendment of the Law for the Encouragement of Capital Investments, 1959 (cont.)**

**B. Carmel Olefins and Gadiv**

Carmel Olefins and Gadiv entered into the application of the amendment to the Law beginning from 2016 and 2019, 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 the reporting period they paid a reduced-rate one-off tax payment of 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 of 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, so that it can be expected that the temporary difference will not be reversed in the foreseeable future.

**NOTE 16 – INCOME TAX (CONT.)**

**B. Expenses (income) for income tax components**

	For the year ended December 31		
	2022	2021	2020
Current tax expenses	9,202	8,087	2,736
Deferred tax expenses (revenue)	65,235	44,163	(44,962)
<b>Expenses (income) for income tax</b>	<b>74,437</b>	<b>52,250</b>	<b>(42,226)</b>

**C. Reconciliation between the theoretical tax on pre-tax income (loss) and carrying amount of taxes on income:**

	For the year ended December 31		
	2022	2021	2020
Profit (loss) before taxes on income	515,658	305,092	(316,331)
<b>The main statutory tax rate of the Company</b>	<b>16%</b>	<b>23%</b>	<b>23%</b>
Tax based on the statutory tax rate	82,505	70,171	(72,756)
<u>Addition (saving) in tax liability for:</u>			
Effect of the creation of deferred taxes at a tax rate that is different from the main tax rate	(1,501)	(16,963)	23,108
Non-deductible expenses	508	690	802
Expenses and losses for tax purposes for which deferred taxes were not generated	107	1,549	3,527
Utilization of carry-forward losses for which deferred taxes were not created	(1,050)	(2,989)	(368)
Utilization of advance payments due to surplus quantities which were amortized in previous years	(6,116)	—	—
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	(16)	(208)	3,461
<b>Expenses (income) for income tax</b>	<b>74,437</b>	<b>52,250</b>	<b>(42,226)</b>

**NOTE 16 – INCOME TAX (CONT.)****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 stated 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.

**Deferred tax assets and liabilities are attributed to the following items:**

	Property, plant and equipment	Employee benefits	Losses carried forward for tax purposes <sup>(1)</sup>	Other	Total
<b>Deferred tax asset (liability) as at January 1, 2021</b>	(233,019)	24,979	45,949	4,603	(157,488)
Other changes recognized directly in other comprehensive income	81	358	–	(8,558)	(8,119)
Changes recognized directly in profit and loss	(8,223)	(221)	(37,270)	1,551	(44,163)
Other changes	–	–	12,433	–	12,433
<b>Deferred tax asset (liability) as at December 31, 2021</b>	<b>(241,161)</b>	<b>25,116</b>	<b>21,112</b>	<b>(2,404)</b>	<b>(197,337)</b>
Changes recognized directly in other comprehensive income	66	(1,947)	7	(7,726)	(9,600)
Changes recognized directly in profit and loss	(43,975)	(3,731)	(20,508)	2,979	(65,235)
Other changes	(542)	–	–	–	(542)
<b>Deferred tax asset (liability) as at December 31, 2022</b>	<b>(285,612)</b>	<b>19,438</b>	<b>611</b>	<b>(7,151)</b>	<b>(272,714)</b>

(1) As at December 31, 2022, the Company has transferrable business losses at non-significant amounts. In addition, as at December 31, 2022, the Group companies have carry-forward capital losses of USD 51 million (as at December 31, 2021, USD 58 million) for which no deferred tax assets, since the management believes that in the foreseeable future, there is no anticipated taxable income against which they can be offset.

**E. Tax assessments and discussions**

1. The Company and Gadiv have final tax assessments up to and including the 2017 tax year.
2. Carmel Olefins has final tax assessments up to and including the 2019 tax year.
3. Ducor has final tax assessments up to and including 2020.

**NOTE 17 - OTHER LONG-TERM LIABILITIES****A. Composition:**

	As at December 31	
	2022	2021
Lease liability (without current maturities) <sup>(1)</sup>	95,383	98,253
Liability for the water treatment plant	3,155	4,353
Liability for dismantling and evacuation of land - Ducor (2)	11,236	15,370
Receivables for financial derivatives	–	2,499
	<b>109,774</b>	<b>120,475</b>

(1) For further information, see Note 12B1.

(2) For further information, see Note 12B3.

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**NOTE 18 - EMPLOYEE BENEFITS**

**A. Employment agreements**

1. 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. In addition, some employees of the Group companies, including executives, have signed individual employment agreements.
2. A new collective agreement was signed with the representatives of the employees of the Company, Carmel Olefins and Gadiv in the fourth quarter of 2021; the term of the agreement starts on the date on which the prior agreements expire (December 31, 2017) and ends at the end of 2024; accordingly, in 2021, the Company bore a USD 17 million one-off expense in respect of prior periods, which was included in the other expenses line item.

**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).

**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; the fixed contributions paid by the Group 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 2020-2022 are USD 17 million.

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**NOTE 18 - EMPLOYEE BENEFITS (CONT.)**

**B. Main types of employee benefits (cont.)**

**1. Post-employment benefit plans (cont.)**

**B. Defined benefit plan**

1. Some of the employees with personal employment agreements (and some employees at Carmel Olefins) are eligible for compensation without being subject to Section 14 (based on the employee's last salary, which management believes generates 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.

**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.

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 recognizes a liability for these amounts.

In 2020, the Company's Board of Directors approved an early retirement plan for employees (before the statutory retirement age), according to which 50 employees will retire, at a total cost of NIS 80 million (USD 24 million), which was recognized in 2020 as other expenses.

**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 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 payment is scheduled for January each year, commencing from 2010, subject to approval of the workers' union of the calculation method for payment of the principal.

## NOTE 18 - EMPLOYEE BENEFITS (CONT.)

## C. Composition of employee benefits

	As at December 31	
	2022	2021
<b>Presented as current liabilities - other payables</b>		
Short-term employee benefits <sup>(1)</sup>	50,709	81,566
Liabilities for early retirement <sup>(2)</sup>	5,926	11,552
Current maturities for early retirement	1,583	1,764
	<b>58,218</b>	<b>94,882</b>
<b>Presented as non-current liabilities - employee benefits</b>		
Recognized liabilities for a defined benefit plan (mainly benefits for retirees)	53,353	72,561
Liabilities for other long-term benefits	2,674	3,162
Termination benefits - early retirement	8,351	9,867
Less current maturities for dismissal - early retirement	(1,583)	(1,764)
Less fair value of plan assets	(7,208)	(8,559)
	<b>55,587</b>	<b>75,267</b>

(1) Short-term employee benefits include obligations for salary and social benefits, liabilities for leave and a provision for bonuses. As of December 31, 2022, and December 31, 2021, includes liabilities in respect of bonuses in respect of 2021-2022, respectively; in addition, as at December 31, 2021 - a USD 17 million one-off amount in respect of the signing of a collective agreement as described in Section A above; the said amount was paid during the report date.

(2) For further information, see Section B2A above.

	As at December 31	
	2022	2021
<b>Presented as current assets – other receivables</b>		
<b>Current maturities of loans to Haifa Early Pension</b>	<b>12,358</b>	<b>11,009</b>
<b>Presented as non-current assets</b>		
Loan to Haifa Early Pension	38,229	46,492
Less current maturities of loan to Haifa Early Pension	(12,358)	(11,009)
	<b>25,871</b>	<b>35,483</b>
Fair value of plan assets	4,723	6,964
Less liabilities recognized for defined benefit plan	(2,350)	(3,217)
	<b>2,373</b>	<b>3,747</b>

## D. Expense (income) recognized in profit and loss for a defined benefit plan

	For the year ended December 31		
	2022	2021	2020
Cost of current service	1,884	1,924	1,741
Interest expenses, net	1,815	1,483	1,346
Exchange rate differences	(6,220)	1,985	3,877
	<b>(2,521)</b>	<b>5,392</b>	<b>6,964</b>

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**NOTE 18 - EMPLOYEE BENEFITS (CONT.)**

**E. Main actuarial assumptions**

1. Main actuarial assumptions for benefits for the Company's retirees in the reporting period (in %):

	2022	2021
Discount rate (CPI-linked)	2.7-2.8	0.8-1
Churn rate	1.1-3.0	1.1-2.9

1. Future mortality rates are based on standard mortality tables and demographic assumptions as published by the Ministry of Finance's circulars.
2. 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 information, about benefits for officers, see Notes 21B and 27.**

**NOTE 19 - GUARANTEES AND LIENS**

- A. As at December 31, 2022, the Company provided bank guarantees to institutions and others in immaterial amounts.
- B. As at December 31, 2022, the Company opened short-term documentary letters of credit for suppliers in the ordinary course of business. For further information, see Note 13A.
- C. The Company provides a bank guarantee for an available inventory transaction. As at December 31, 2022, guarantees amounted to USD 10 million. For further information, 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 information, see Note 13.
- E. For information 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	Amount of the claim	Essence of the claim	Odds of the claim
<b>1. Proceedings involving local authorities</b>				
Mei Carmel against the Company and the subsidiaries	Letters of demand (2/2021)	Approx. NIS 79 million	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 its 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.
The Haifa Municipality against the Company and the subsidiaries Carmel Olefins and Gadiv	Letters of demand (11/2021)	Approx. NIS 113 million	On November 24 2021, the Company, Carmel Olefins and Gadiv were delivered with payment demands totaling NIS 113 million in respect of an open public spaces levy.	According to the estimates of the companies, based on evaluations by its legal counsels, the companies included provision that appropriately reflect the costs in respect of these requirements that will be paid, at a probability rate over 50%.

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**NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS (CONT.)**

**A. Contingent liabilities (cont.)**

Parties	Court	Amount of the claim	Essence of the claim	Odds of the claim
<b>2. Liabilities relating to the environment</b>				
Third party against the Company, Carmel Olefins, Gadiv and 8 other defendants	Tel Aviv District (6/2015)	NIS 14.4 billion (at the date the claim was filed, June 2015)	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.	The Company and the subsidiaries believe, based on the assessment of its legal counsel, that it is more likely than not that the motion for certification 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 together with a motion for certification of 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 applicant is petitioning for declarative 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 member of the class to sue for damages in a separate proceeding. In the reporting period the applicant filed supplementary opinions, which include new claims.	The Company and its legal counsels are assessing the documents that were filed, and at this stage, it is impossible to estimate the exposure for the said motion and its implications, if any, on the operating results of the Company, Carmel Olefins and Gadiv.
The Ministry of Environmental Protection vs. 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.	The Company and Carmel Olefins believe, based on the opinion of their legal counsels, that at this early stage, it is impossible to estimate the exposure for the said indictment.
The Ministry of Environmental Protection vs. 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.	The Company believes, based on the opinion of its legal counsels, that at this early stage, it is impossible to estimate the exposure for the said indictment.

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**NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS (CONT.)**

**A. Contingent liabilities (cont.)**

Parties	Court	Amount of the claim	Essence of the claim	Odds of the claim
<b>3. Derivative claims</b>				
A shareholder against OPC, Israel Corporation and directors who served in the Company in 2011 when the transaction was approved	Tel Aviv District (12/2017)	--	A petition filed by a shareholder to certify a claim as a derivative claim on behalf of the Company against the defendants on the grounds that the transaction for the purchase of electricity from OPC was not approved as required and it is not under market conditions. In 2018, the defendants, including the Company, filed their response to the motion and in 2019, the petitioners filed their response to the response and a preliminary hearing was held. Evidentiary hearings scheduled to October 2021 were canceled at the agreement of the parties. In August 2022, the parties filed a settlement with the Court that was approved subsequent to the report date.	This settlement did not have material ramifications on the Company's outcomes.
A shareholder (KRNA) on behalf of the Company against OPC, Israel Corporation, its controlling shareholders, and directors who served in the Company in 2012 when the transaction with Tamar was approved or who served in the Company at the date the claim was filed.	Tel Aviv District (1/2018)	--	A petition filed by a shareholder to certify a claim as a derivative claim on behalf of the Company against the defendants in the matter of transactions for the purchase of natural gas from Tamar and from Energean, claiming that the transaction with Tamar was not approved as required and that both transactions are not in favor of the Company and are not under market conditions. In 2018, the defendants, including the Company, filed their response to the motion and in 2019, the petitioners filed their response to the response and a pre-trial hearing was held. Evidentiary hearings were held in 2020-2022, and the parties will be required to submit their summations.	The Company believes, based on the opinion of its legal counsel, that it is more likely than not that the motion for certification will be dismissed, and in any event, the Company will not be required to pay any amounts claimed in the motion.

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**NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS (CONT.)**

**A. Contingent liabilities (cont.)**

4. 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 set out 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, poisons permits, 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, including the Ministry's demand to restore certain lands.

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 the personal orders, poisons permits, provisions of various environmental laws, including emission permits issued to the companies at the dates on which they were valid, and/or due to malfunctions in their facilities. 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, 2022. 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.

5. In addition to that set out in Sections A1 to A3 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 USD 31 million as at December 31, 2022, less deductibles. In addition, the Company received demands from time to time, which it dismisses.
6. 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 USD 68 million as at December 31, 2022 (without proceedings regarding environmental issues, for which the exposure cannot be estimated, and without the motion for certification of a class action amounting to NIS 14.4 billion for air pollution, as set out in Section A2 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 transmission agreement 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. On December 12, 2010, the Company signed an agreement with East Mediterranean Gas S.A.E. (hereinafter - "EMG") for the supply of natural gas from Egypt to the companies' plants, for 20 years commencing from the start of supply. Following repetitive sabotage to the natural gas pipeline used by EMG and after EMG informed the Company that the natural gas agreement with its suppliers for the sale of gas to its customers, including the Company, has been canceled, and it breached its obligations to supply natural gas to the Company, the Company canceled the EMG agreement, while reserving its full legal rights towards EMG. In 2018, the Company initiated arbitration, in which the Company demands indemnification for damages it incurred due to the failure of EMG to comply with its obligations under the agreement. An arbitral award was received in 2021, whose effect on the Company's operating results is immaterial. As at the report approval date, the Company continues to consider realization of its legal rights.
- B. On November 25, 2012, the Company signed an agreement with the Tamar Group to purchase natural gas as an energy source and as raw material for Bazan Group plants (hereinafter - the "First Tamar Agreement"). The term of the First Tamar Agreement was from November 2012 to June 2020. The First Tamar Agreement included terms generally accepted in agreements of this type. The gas price was determined according to an agreed formula, which is based mainly on the price of oil (including floor and ceiling prices), and to a smaller degree, on the electricity generation component (with an adjustable floor price).

For information about the motion for certification of a derivative claim in connection with the transaction for the purchase of natural gas from the Tamar Group, see Note 20A3.

**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.)**

- C. To ensure a continuous supply of natural gas after the First Tamar Agreement expires (in June 2020, as set out in Section B above) and until Energean starts to deliver gas to the Company under the agreement signed with Energean (as set out in Section D below), and with the aim of improving the terms of the First Tamar Agreement, in 2019 and 2020, two mediation agreements were signed<sup>1</sup> with the Tamar partners for the purchase of natural gas and were approved by the Company's general meeting.<sup>2</sup> The first mediation agreement was effective from June 28, 2020 until December 27, 2020, and the second mediation agreement (in this section hereinafter - the "Agreement") was effective from October 1, 2020 until December 31, 2022; the following are the terms of the second mediation agreement:

The main terms of the agreement are as follows:

1. As customary in natural gas supply agreements, due to Tamar's supply capacity limitations and in light of its obligations toward certain consumers, two contractual periods were established in the Agreement as follows:
  - A) From the beginning of the Agreement until May 1, 2022 - a "firm" arrangement, meaning a commitment to supply all of the Company's gas needs at the price established in the Agreement (approximately USD 4 per MMBTU and without any linkage mechanisms whatsoever);
  - B) As of May 1, 2022 and until December 31, 2022 - an "interruptible" arrangement, meaning a commitment to supply natural gas at the price established in the Agreement for the amounts of natural gas available at Tamar (in other words, amounts regarding which Tamar does not have firm contractual obligations).
2. The Agreement includes additional provisions and arrangements, as is standard in agreements for the purchase of natural gas.

<sup>1</sup> The Company and ICL Group Ltd. (a public company controlled by Israel Corporation Ltd., which is the controlling shareholder in the Company, as of 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.

<sup>2</sup> The first mediation agreement was approved by the Company's general meeting on May 28, 2019, and the second mediation agreement was approved by the Company's general meeting on October 1, 2020.

**NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS (CONT.)**

**B. Commitments (cont.)**

**1. Agreements for purchase of natural gas for the Company's plants (cont.)**

- D. 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 will purchase 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 2018, the agreement was approved by the Company's general meeting by a special majority and all the conditions precedent were fulfilled.

The Company, ICL Group Ltd.,<sup>3</sup> and OPC Energy Ltd.<sup>4</sup> negotiated with Energean together, to leverage the aggregate buying power of the companies to obtain preferential buying terms from Energean. However, the supply agreement was signed by each of the companies separately and the agreement with each of them stands on its own and is not dependent on the other agreements.

The main terms of the agreement are as follows:

1. The total quantity of gas that the Company expects to purchase from Energean is 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.
7. In addition, the agreement includes milestones for activities necessary for the development of the gas reservoir, which, if not achieved, will be able to bring it to an end. In addition, under certain circumstances, compensation was determined in the event of a delay in the gas flow.

<sup>3</sup> A public company controlled by Israel Corporation Ltd., the controlling shareholder of the Company as of the signing date of the agreement.

<sup>4</sup> The Company was informed that the company is controlled by Kenon Holdings Ltd. (hereinafter - "Kenon"). Kenon is a company related to the controlling shareholders in Israel Corporation, the shares of which are dually-listed - on the NYSE and the Tel Aviv Stock Exchange Ltd.

**NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS (CONT.)**

**B. Commitments (cont.)**

**1. Agreements for purchase of natural gas for the Company's plants (cont.)**

**D. Agreement between the Company and Energean Limited (hereinafter - "Energean") (cont.)**

The total financial volume of the agreement is likely to reach 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.

For information about the motion for certification of a derivative claim in connection with the transaction for the purchase of natural gas from Energean, see Note 20A3.

Energean started flowing natural gas to the Israeli market within a rig trial run in the fourth quarter of 2022. Energean believes that the transmission of natural gas, on a firm basis, shall commence during the first half of 2023, instead of the original date set in the agreement - March 2021. The Company contacted Energean in connection with the delay of the commencement of natural gas transmission in order to retain its rights. Furthermore, in 2021, the Company recognized in the cost of sales line item a contractual financial compensation of USD 10 million; the full amount of the compensation was received.

The Company worked and is working to find alternatives that will ensure the continuity of the natural gas supply to the group companies' facilities in the period from May 1, 2022 (as detailed in Section C above) until the date of commencement of the natural gas flow from Energean on a binding basis, at its optimal price, including by regulatory and/or legal means at its disposal.

As of the report's approval date, the actions the Company had taken over the reporting period ensured the supply of the natural gas quantities required for the Group companies' operations in Israel, and the Company estimates that these actions will ensure the required natural gas quantities for the Group companies' operations in Israel by the time Energean starts flowing natural gas on a firm basis. In light of the sharp increases during the reporting period in the prices of crude oil and natural gas worldwide, the purchase of natural gas for the aforementioned period was made at an average price that was higher than the Agreement price with Energean, reflecting an additional cost in 2022 of approximately USD 28 million.

**NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS (CONT.)**

**B. Commitments (cont.)**

**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, which is a by-product of the natural gas production process, will flow 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 Petroleum & Energy Infrastructures Ltd. (hereinafter - “PEI”), 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 1% of the total mix of raw materials that will flow to the Company’s facilities. Under the Agreement, the Leviathan Partners undertook that the amount of condensate to be diluted with the crude oil, refined by the Company, will not exceed 3% of the Company’s total crude oil stored in the PEI at any given time. Under the Agreement, the condensate will be transmitted to the Company’s facility at zero value, and the Leviathan Partners will bear all expenses of transmitting it.

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.

The Agreement came into effect on January 29, 2020. During the reporting period the Leviathan partnership raised for the first-time claims to the effect that the agreement to supply condensate to the Company at zero value is illegal, and that a price should be set for condensate. The Company rejects the claims made by the Leviathan partnership in accordance with the position of the Company’s legal counsels, whereby the parties have a valid agreement and there are no grounds to demand the change to the terms of that agreement. During the Reporting Period, some of the partners in the Leviathan Partnership reported that a binding agreement was signed between Chevron Mediterranean Limited, the Leviathan Project Operator, and Energy Infrastructures Ltd., to flow the condensate from Project Leviathan through a pipe owned by Energy Infrastructures Ltd.; the engagement is subject to a number of conditions precedent. After the reporting period, 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 Paz Ashdod Refinery Ltd. As stated in the report, flow of condensate is expected to begin in the fourth quarter of 2023, subject, among other things, to completion of works on the pipeline of Energy Infrastructures Ltd., finalization of the Transmission Agreement, and adaptation of the infrastructure to the flow of condensate.

As of the report approval date, the Company has not received notice of the agreement's rescission from the Leviathan Partnership. The Company is examining realization of its legal rights.

In the Reporting Period, condensate at quantities equal to 1.3% of the refined crude oil was flowed 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.

**NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS (CONT.)**

**B. Commitments (cont.)**

**3. Receipt of services from infrastructure companies**

To maintain the Company's operations, the Company is dependent on services from the infrastructure companies PEI 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. ("INGL"), which owns crucial infrastructure for delivery of natural gas.

**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 (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 Capacity Fees will be recognized as an operating expense in the statement of income over the Agreement Period, and they are expected to amount to a few millions of US dollars per year (considering the amounts that the Company would have covered if it would have held similar quantities of crude oil inventory itself, the additional cost is immaterial).
- C. To fulfill its obligations under the Agreement, the Second Party will hold the Crude Oil in storage in the facilities of an infrastructure supplier, or under certain conditions, in tankers 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. As at the current date, based on spot market price of crude oil, the value of the oil in the transaction is estimated at USD 145 million.
- 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 set out 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 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.

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



**NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS (CONT.)**

**B. Commitments (cont.)**

**4. Inventory availability agreement (cont.)**

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. For information about agreements with crude oil suppliers for extension of credit days, see Note 15A.
6. For information about factoring agreements, see Note 6.
7. For information about lease agreements, see Note 12.
8. For information about agreements with banks and about the deeds of trust issued by the Company, see Notes 13 and 14.
9. For information about transactions and agreements with employees of Group companies, see Note 18A.
10. For information 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 decision, 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 materials; 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 decision 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).



**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:
  - A. The Government team, composed as set out 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 decision. 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.
  - 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.

**NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS (CONT.)**

**C. Government resolution (cont.)**

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's decisions 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.

**NOTE 20 – CONTINGENT LIABILITIES, AGREEMENTS AND OTHER DEVELOPMENTS AND EVENTS (CONT.)**

**C. Government resolution (cont.)**

**8. Restoration of contaminated land in Haifa Bay:**

- A. Any operation to destroy facilities and infrastructures containing hazardous materials, 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.
- 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 all stated in the decision in connection therewith, the Company began to negotiate with the government, out of the understanding the importance of the Company's activities to the Israeli energy sector. The Company will stand up for its rights and for the rights of stakeholders, including employees, shareholders, debtors, suppliers and customers.

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. The coalition agreements that predated the establishment of the current government contain a reference to an amendment of several aspects of the government resolution, including the day the petrochemical and chemical industries will vacate the Haifa Bay. At this stage, it is unclear whether and how the government resolution will be amended.

Further to that set forth in Section 3A above, as of the Reporting Period, the National Planning and Building Council discussed the authorization of 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. Subsequent to the report date, the National Building and Planning Council decided to transfer the plan to the regional committees for their review. Considering the potential effect on the Company's operations, if NOP 75 is approved in its current format, the Company intends to file an appeal and request the National Planning and Building Committee to allow the Company to present its position on NOP 75, even though the Company does not have a legal right to file an appeal.

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 should be 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 so long as the facilities operate properly, it is impossible to reliably estimate the cost of land restoration.

As of the date of approval of the report, the Company is unable to assess the implications of the said decision and its derivatives as described above, and its impact on its activities, business, and/or financial results.

The Company's management believes that the decision does not change the assumptions and estimates on which the financial statements are based.

**NOTE 21 – EQUITY**

**A. Share capital**

The Company has ordinary share capital.

	December 31, 2022	December 31, 2021	December 31, 2020
	NIS thousand par value		
Issued and paid-up share capital	3,206,515	3,205,713	3,205,713
Registered share capital	4,000,000	4,000,000	4,000,000

**B. Capital reserve for share-based payment**

**1. Description of the plan**

In accordance with the Company's options plan of 2007, the options that were offered as described below are without consideration, are non-marketable and each option entitles the offeree the right to purchase from the Company one ordinary share of NIS 1 par value of the Company and subject to adjustments set out in the plan. When exercising the options, the Company's employees will not be allotted all the underlying shares, but only the number of shares reflecting the amount of the financial benefit in the options. The shares underlying the options will be registered for trade on the TASE, and from the allotment 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. For information about the exercise addition and the vesting terms, see Section 2 below. In the event of termination of the employee's service, the employee's 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 they will be exercisable during the 180-day period following termination of employment or service (but in any event, no later than the expiry date of the options). All the other options allotted to employees will expire on the date the offeree's employment or service ends.

The plan was registered in accordance with Section 102 of the Income Tax Ordinance, according to which the options will be deposited with a trustee for a period of at least two years after allotment of the options. The options were allotted according to an equity track and the recipients of the options will pay the tax arising from the benefit when the shares are sold.

**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 allotting the Company's options in 2020-2022, and the information used to determine the fair value of the benefit:

The year in which the options were granted	No. of instruments (in millions) <sup>(1)</sup>	Average interest rate <sup>(2)</sup>	Expected volatility	Exercise premium at the grant date <sup>(3)</sup>	The share price used as a basis for pricing the option <sup>(4)</sup>	Total fair value of total options at the grant date
		%		NIS		NIS thousands
2020	2.5	(0.98) - (0.93)	21.9-21.0	1.816	1.410	219
2020	13.5	(0.35) - (0.25)	44.2-39.6	1.102	0.637	1,161
2021	15	(1.63) - (1.77)	42.9-48.2	0.995	0.775	1,375
2021	13.5	(1.63) - (1.77)	42.9-48.2	0.995	0.775	2,412
2022	3	0.39-0.46	46.0-52.0	1.379	1.337	1,381

- (1) In general, the options that were allotted will vest over three years as from the effective date, in three equal lots at the end of each year for three years.
- (2) The risk-free interest rate was determined on the basis of the yield to maturity of CPI-linked shekel government bonds, with the time to maturity being equal to the expected lifespan of the options.
- (3) Linkage differences will be added to the exercise price, and adjustments will be made in respect of dividend distribution.
- (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 allotment date of each of the tranches.

**3. Terms of the grant and other information**

- A. In 2022 and 2020, 3 million and 2.5 million option warrants, respectively, were allotted to Company officers. Subsequent to the reporting period, 5 million option warrants were allotted 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 of Directors on that same date.

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 described in Note 27B3b, he was allotted 15 million new option warrants under the terms described in the Company's options plan of 2007. At the same time, 9 million options allotted to Mr. Kaplinsky in respect of his service as the Company's CEO, and which have not yet vested, were canceled. During the reporting period, Mr. Kaplinsky exercised 4.5 million options for Company shares.

**NOTE 21 – EQUITY (CONT.)****B. Capital reserve for share-based payment (cont.)****3. Terms of the grant and other information (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 allotment 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.

At the end of Mr. Alper's tenure, as described in Note 27B3e, the vesting of 9 million options granted to him was accelerated, against the backdrop of the change in the control of the Company, as noted in Note 1A, and in accordance with the options' grant terms. During the reporting period, an expense was recognized due to a share-based payment due to the above acceleration, at USD 210 thousand.

- D. After the reporting period, the Compensation Committee and the Company's Board of Directors approved the employment terms of Mr. Asaf Almagor, Company CEO as of December 1, 2022, including an allocation of 13.5 million options at the terms set forth in the Company's 2007 options plan. His employment terms, set forth in Note 27b3d, are subject to approval by the Company's General Meeting which is scheduled to convene after the report approval date.

**4. Allotted options**

	For the year ended December 31					
	2022		2021		2020	
	No. of options, in thousands	Weighted average of exercise price in NIS <sup>(1)</sup>	No. of options, in thousands	Weighted average of exercise price in NIS <sup>(1)</sup>	No. of options, in thousands	Weighted average of exercise price in NIS <sup>(1)</sup>
At the beginning of the year	50,717	1.34	38,150	1.65	31,150	1.91
Expired or forfeited during the year	(14,767)	1.97	(15,933)	1.47	(9,000)	1.78
Exercised during the year	(4,500)	1.10	—	—	—	—
Allotted during the year	3,000	1.38	28,500	1.00	16,000	1.21
<b>At the end of the year</b>	<b>34,450</b>	<b>1.10</b>	<b>50,717</b>	<b>1.34</b>	<b>38,150</b>	<b>1.65</b>

(1) As at the grant date.

(2) As at the reporting date, there are 21,450 thousand exercisable options.

5. Total payroll expenses recognized in the statement of income for share-based payments for employees and the Chairman of the Board in 2022, 2021, and 2020 is USD 868 thousand, USD 377 thousand, and USD 585 thousand, respectively.



**NOTE 21 – EQUITY (CONT.)**

**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:

The financial conditions: The ratio between the net financial debt<sup>5</sup> plus the dividend amount and the consolidated adjusted EBITDA<sup>6</sup> 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. 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 financing entities 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. Following on the signing of the amendment to the second waiver letter as outlined in Note 13B2a1, on March 15, 2022, the Company's Board of Directors approved subject to the approval of the general meeting of the shareholders with a special majority the distribution of a dividend in the amount of USD 60 million, based on the Company's financial statements as at December 31, 2021. On April 28, 2022, the general shareholders' meeting approved, by a special majority, the distribution of the dividend, and on May 15, 2022 the dividend was paid.
3. On November 10, 2022, the Company's Board of Directors approved the distribution of a dividend in the amount of USD 60 million, based on the Company's financial statements as at September 30, 2022, and on December 4, 2022 - the dividend was paid.
4. On March 8, 2023, the Company's Board of Directors approved the distribution of a dividend in the amount of USD 200 million, based on the Company's financial statements as at December 31, 2022. Furthermore, the Company's Board of Directors approved the adoption of a share buyback plan of the Company's shares at the total amount of up to USD 20 million.

**D. Shelf prospectus**

As at the report's approval date, the Company's shelf prospectus is valid until January 10, 2024.

<sup>5</sup> 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.

<sup>6</sup> As defined in Note 28A below.

**NOTE 22 – REVENUE**

	For the year ended December 31		
	2022	2021	2020
Sales in Israel	6,460,590	3,610,585	2,220,481
Sales in other countries	4,356,185	2,955,827	1,830,971
	<b>10,816,775</b>	<b>6,566,412</b>	<b>4,051,452</b>
Supply of services to external entities and other revenue	11,231	10,641	12,578
	<b>10,828,006</b>	<b>6,577,053</b>	<b>4,064,030</b>

**NOTE 23 – COST OF SALES**

	For the year ended December 31		
	2022	2021	2020
Materials consumed <sup>(1)</sup>	9,595,091	5,647,751	3,486,866
Salary and incidentals	163,402	183,223	152,447
Changes in inventory derivatives and margins	16,139	27,688	(937)
Depreciation and amortization	153,662	169,383	207,600
Other production expenses <sup>(2)</sup>	177,784	154,281	134,840
Decrease (increase) in product inventories	(58,747)	(174,917)	95,809
	<b>10,047,331</b>	<b>6,007,409</b>	<b>4,076,625</b>

- (1) In 2022, including approximately USD 431 million in respect of exercising future transactions for hedging refining margins in which the Company has engaged; for further information, see Note 29d3.
- (2) In 2022 and 2021, the Company recognized expenses in profit and loss for profit-dependent lease payments amounting to USD 12 million and USD 13 million, respectively. For further information, see Note 12B.

**NOTE 24 – SELLING AND MARKETING AND ADMINISTRATIVE AND GENERAL EXPENSES**

**A. Selling and marketing expenses**

	For the year ended December 31		
	2022	2021	2020
Salary and incidentals	7,009	7,031	5,544
Transportation and storage	108,578	84,563	81,867
Other	8,901	7,061	6,590
	<b>124,488</b>	<b>98,655</b>	<b>94,001</b>

**B. General and administrative expenses**

	For the year ended December 31		
	2022	2021	2020
Salary and incidentals	31,018	31,280	23,619
Communication and data processing	8,963	6,930	4,900
Professional and legal services	9,214	8,934	9,020
Depreciation and amortization	2,227	2,529	2,792
Doubtful and bad debts <sup>(1)</sup>	214	(7,654)	600
Other	6,058	3,325	4,731
	<b>57,694</b>	<b>45,344</b>	<b>45,662</b>

- (1) As of 2021, including reversal of the provision for expected credit losses amounting to USD 8 million, which was attributed to trade receivables in the Palestinian Authority, which was fully reversed in the first quarter of 2021, upon the repayment of the entire debt balance.

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**NOTE 25 - OTHER EXPENSES (INCOME), NET**

	For the year ended December 31		
	2022	2021	2020
Non-recurring expenses in respect of new wage agreements <sup>(1)</sup>	–	17,000	–
Early retirement expenses <sup>(2)</sup>	–	–	31,528
Impairment loss (reversal of an impairment loss) of a cash-generating unit <sup>(3)</sup>	–	(8,336)	10,370
Other expenses, net	4,632	6,751	11,261
	<b>4,632</b>	<b>15,415</b>	<b>53,159</b>

(1) For information regarding collective wage agreements signed in the reporting period, see Note 18A.

(2) For information about the early retirement plan approved in 2020, see Note 18B.

(3) See Note 11C.

**NOTE 26 - FINANCE INCOME AND EXPENSES**

	For the year ended December 31		
	2022	2021	2020
<b>Finance income</b>			
Interest income from bank deposits	7,983	669	1,918
Changes in fair value of the loan to Haifa Early Pension	–	895	–
Net profit from change in exchange rate	37,078	–	–
<b>Finance income</b>	<b>45,061</b>	<b>1,564</b>	<b>1,918</b>
<b>Finance expenses</b>			
Interest expenses for debentures	57,379	59,340	58,860
Interest expenses for long-term loans <sup>(1)</sup>	28,707	21,395	29,689
Interest expenses for short-term loans and borrowings	2,589	2,183	3,611
Net interest expenses for working capital items <sup>(2)</sup>	15,414	4,517	2,563
Net loss from change in exchange rate	–	10,562	5,795
Net change in fair value of debentures and financial derivatives	6,839	97	731
Changes in fair value of the loan to Haifa Early Pension	2,970	–	16
Finance expenses for a lease	5,256	5,168	4,892
Finance expenses for employee benefits (actuary)	1,963	1,592	1,476
Other finance expenses <sup>(3)</sup>	2,147	1,848	5,409
<b>Finance expenses</b>	<b>123,264</b>	<b>106,702</b>	<b>113,042</b>

**Net finance expenses recognized in profit and loss** **78,203** **105,138** **111,124**

(1) For further information about interest rates, changes to the interest rate for the syndicated loan, and temporary interest additions for waivers signed in 2020, see Note 13.

(2) During the reporting period – mostly consisting of fees for receivables factoring agreements and the costs of extending the credit terms for crude oil suppliers, at USD 7 million and USD 6 million, respectively.

(3) In 2020, including mainly a loss from early redemption of Debentures (Series D); see Note 14B.

## NOTE 27 – RELATED AND INTERESTED PARTIES

## A. Transactions and balances with interested and related parties

## 1. Balances with interested and related parties

	As at December 31	
	2022	2021
	Asset (liability)	
<b>Key management personnel (including directors)</b>		
Employee benefits (mainly in payables and employee benefits)	(5,807)	(6,126)
<b>Other related parties</b>		
Other receivables	731	1,263
Trade payables (1)	(9,248)	(8,187)
<b>Bank Mizrahi Group</b>		
Cash and cash equivalents (2)	60,076	20,044
The loans include current maturities (2)	(75,035)	(71,744)
	<b>(23,476)</b>	<b>(58,624)</b>
<b>Total balances</b>	<b>(29,283)</b>	<b>(64,750)</b>

## 2. Transactions with related and interested parties

	For the year ended December 31		
	2022	2021	2020
<b>Key management personnel (including directors)</b>			
Operating expenses (including share-based payment)	(10,808)	(9,192)	(6,211)
<b>Other interested and related parties</b>			
Revenues	11,154	5,763	1,999
Operating expenses (1)	(82,952)	(79,840)	(84,821)
Finance expenses, net (2)	(4,463)	(3,534)	(1,047)
	<b>(76,261)</b>	<b>(77,611)</b>	<b>(83,869)</b>
<b>Total transactions (3)</b>	<b>(87,069)</b>	<b>(86,803)</b>	<b>(90,080)</b>

- (1) Mainly OPC Rotem Ltd. For further information, see Section D.
- (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.
- (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.

**NOTE 27 – RELATED AND INTERESTED PARTIES (CONT.)****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. Some of the senior executives in the Group also participate in option plans for the Company's shares (see Note 21B).

The directors' fees (other than the fees paid to the Chairman of the Board of Directors) do not exceed the maximum compensation allowed under the Compensation Regulations (Rules Regarding Compensation and Expenses for External Director), 2000. On June 21 2021, the Company's Board of Directors decided (after approval by the Compensation Committee) to update the compensation paid to directors, such that directors who are controlling shareholders, their relatives or those employed by controlling shareholders, and who meet the expertise requirements set out in the definition of "external director with accounting and financial expertise", shall also be entitled to the maximum amount payable to expert external director as set out in the Compensation Regulations as described above.

In 2020, all the Company's directors, including the external directors, the Company's CEO and the other management members, announced that they are waiving 10% of the compensation due to them from the Company,<sup>7</sup> or, as the case may be, 10% of their current salary (other than social security contributions and related benefits), for the period from the beginning of June 2020 to the end of 2020.

**1. Benefits for key management personnel (including directors), who are employed by the Group include:**

	For the year ended December 31					
	2022		2021		2020	
	No. of persons	Amount	No. of persons	Amount	No. of persons	Amount
Benefits without share-based payments	13	8,830	11	7,900	13	4,780
Share-based payments <sup>(1)</sup>	5	868	5	377	5	585
		<b>9,698</b>		<b>8,277</b>		<b>5,365</b>

(1) For information about the allotment of options to employees, see Note 21B.

**2. Benefits for key management personnel (including directors), who are not employed in the Group include:**

	For the year ended December 31					
	2022		2021		2020	
	No. of persons	Amount	No. of persons	Amount	No. of persons	Amount
Benefits for directors who are not employees <sup>(1) (2)</sup>	13	1,110	12	915	10	846

- (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) In 2022, this includes an expense of approximately USD 200,000 for meetings held via digital means during 2020-2021 (COVID-19 pandemic).
- (3) Including benefits in respect of the operations of Mr. Alex Passal at the municipal company; for further information see Note B3f.

<sup>7</sup> It should be noted that even after the above waiver, the directors' compensation was above the minimum compensation set out in the Companies Regulations (Rules for Compensation and Expenses for an External Director), 2000.

**NOTE 27 – RELATED AND INTERESTED PARTIES (CONT.)**

**B. Benefits for key management personnel (including directors) (cont.)**

**3. Compensation for directors and key management personnel**

- A. On April 13, 2021, the General Meeting of the Company's shareholders approved the Company's compensation policy for 2021-2023, which was amended in July 4, 2022, and 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 June 1, 2020, Moshe Kaplinsky (hereinafter - "Mr. Kaplinsky") was appointed as CEO of the Company and chairman of the board of directors of the subsidiaries. In accordance with Mr. Kaplinsky's employment agreement, which was approved by the General Meeting of the Company's shareholders on July 13, 2020 (after approval by the Company's Compensation Committee and Board of Directors), his terms of employment were not materially different than the employment terms of the Company's CEO, Mr. Malachi Alper, described in Section D below.

As outlined in Section C below, on August 13, 2021, Mr. Ovadia Eli terminated his tenure as Chairman of the Company's Board of Directors and director in the Company. As from that date, Mr. Moshe Kaplinsky, who served as the Company's CEO, was appointed Chairman of the Company's Board of Directors and director in the Company's Board of Directors.

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 Chairman of the Company's Board of Directors, and the allotment of new options as outlined 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 provide him with a car that is compatible with his position and status.

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 incrementals 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. On termination of his employment for any reason whatsoever, except termination under special circumstances, Mr. Kaplinsky will be entitled to compensation in an amount equal to 100% 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 will be deducted, and this amount will be deposited in the name of Mr. Kaplinsky on termination of his employment.

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**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.)**

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 NIS 2,000 thousand bonus to Mr. Kaplinsky in respect of 2022, totaling NIS 2,000 thousand (in 2021 - in respect of his term in office as the Company's CEO until August 13, 2021, and as from that date until the end of 2021 - in respect of his term in office as the Chairman of the Company's Board of Directors).

- C. On February 4, 2015, Mr. Ovadia Eli (hereinafter - "Mr. Eli") was appointed chairman of the Company's Board of Directors. On June 9, 2015, the general meeting of the Company's shareholders approved the employment terms of Mr. Eli. Mr. Eli's terms of employment were not materially different from the terms of employment of the serving Chairman of the Board of Directors, Mr. Moshe Kaplinsky, described in Section B above.

On August 13, 2021, Mr. Ovadia Eli terminated his tenure as Chairman of the Company's Board of Directors and director in the Company. Upon the termination of Mr. Eli's term in office, a total of 6.1 million options warrants were allotted to him as part of his employment terms, have expired, and accordingly, a share-based payment expense of USD 190 thousand was reversed in 2021.

During the reporting period, the Company's Board of Directors approved (after approval by the Compensation Committee) a NIS 1,240 thousand bonus to Mr. Ovadia in respect of the proportionate share of 2021 (from the beginning of the year and up to August 13, 2021 - the termination date of his term in office).

- D. 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 of December 1, 2022. Mr. Almagor's employment terms and option allocations as set forth below were approved by the Compensation Committee and the Company's Board of Directors, and are subject to approval by the General Meeting, scheduled after the report approval date.

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, on termination, a company car and underlying expenses, including grossing up of tax).



**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 addition, Mr. Almagor will be 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 accumulated in a linear manner over three 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 retention 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 will cease to be eligible for the retention bonus allocated to him in his position as VP of the Polyolefins Corporate Unit.

- E. As of 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 Directors 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 allotment of options as outlined in Note 21B3C. Upon termination of Mr. Alper’s service, all of the options allocated to him were vested, as set forth in Note 21b3c.

Mr. Alper is 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 will be 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 will not be 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 will be deducted, and this amount will be deposited in the name of Mr. Alper on termination of his employment.

**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.)**

**E. (cont.)**

In addition, Mr. Alper will be 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.

Subsequent to the reporting period, the Company's Board of Directors approved (after approval by the Compensation Committee), for 2022, a NIS 2,000 thousand bonus to Mr. Alper (in respect of the proportionate share of 2021 - from the commencement date of his term in office until the end of 2021 - NIS 680 thousand).

- F.** In 2019, the Company's general meeting approved an agreement with 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 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 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.

Subsequent to the reporting period, the Company's Board of Directors approved (after approval by the Company's Audit Committee), subject to the approval of the Company's General Meeting, 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 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 of the Company, whichever is earlier.

- C.** Regarding Sections D-H below, at the report approval date, Israel Corporation does not hold Company shares, and accordingly, 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"), a company held by Kenon Holdings Ltd., in which Idan Ofer, who is considered as a controlling shareholder of the Company, is a related party as of the contract approval dates. Accordingly, the transaction was discussed and approved as a transaction in which a controlling shareholder 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.

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, the Group's expenses for shipping products by Zim amounted to USD 1.9 million (in 2021 - USD 1.2 million and in 2020 - USD 1.7 million).

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**NOTE 27 – RELATED AND INTERESTED PARTIES (CONT.)**

- 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 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 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 Public Utility 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 in 2022 amounted to USD 73 million (in 2021 - USD 71 million and in 2020 - USD 76 million).

As set forth in Note 20a3, after the reporting period, a settlement was approved regarding a motion filed to recognize a derivative claim related to the aforementioned transaction.

- 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 of 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.

During 2021-2022, services were not acquired in respect of product shipments by Ace Quantum Tankers, and in 2020, the scope of expenses was approximately USD 0.6 million.

- 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 of the approval date by the Board of Directors) 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.

In 2022, net finance expenses for transactions with Bank Mizrahi amounted to USD 4.5 million (in 2021 - USD 3.5 million and in 2020 - finance income of USD 1 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 personal interest in them – see Notes 20B1 and 12B4, respectively.

**NOTE 27 – RELATED AND INTERESTED PARTIES (CONT.)**

**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 not material for 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 (meaning, according to the classification of the expense in the financial statements), in the most recent consolidated annual 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 shareholder, 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 consolidated annual 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 aromatic materials 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 feedstock in the plastics industry.

The "Others" segment includes the other business activities of the Group, which are not material, mainly trade and 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 EBITDA<sup>8</sup> (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.

<sup>8</sup> 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.

**Bazan Ltd. - Notes to the Consolidated Financial Statements, in USD thousands**

**NOTE 28 – SEGMENT REPORTING (CONT.)**

**B. Information regarding reportable segments**

	Refining	Polymers	Total reportable segments For the year ended December 31, 2022	Other	Adjustments to consolidated	Consolidated
Revenue from external sources - Israel	6,186,085	285,237	6,471,322	–	–	6,471,322
Revenue from external sources - other countries	3,686,098	639,188	4,325,286	31,398	–	4,356,684
<b>Total revenue from external sources</b>	<b>9,872,183</b>	<b>924,425</b>	<b>10,796,608</b>	<b>31,398</b>	<b>–</b>	<b>10,828,006</b>
Revenue from inter-segment sales - Israel	256,274	1,132	257,406	9,910	(267,316)	–
<b>Segment revenue</b>	<b>10,128,457</b>	<b>925,557</b>	<b>11,054,014</b>	<b>41,308</b>	<b>(267,316)</b>	<b>10,828,006</b>
<b>Reported EBITDA</b>	<b>701,825<sup>(1)</sup></b>	<b>31,604</b>	<b>733,429</b>	<b>20,653</b>	<b>300</b>	<b>754,382</b>
<b>Depreciation and amortization</b>	<b>(90,558)</b>	<b>(42,171)</b>	<b>(132,729)</b>	<b>(11,870)</b>	<b>–</b>	<b>(144,599)</b>
<b>Reported EBITDA less depreciation and amortization</b>						<b>609,783</b>
Amortization of excess cost arising on acquisition of consolidated companies						(11,290)
Other expenses, net						(4,632)
<b>Operating profit</b>						<b>593,861</b>
Finance expenses, net						(78,203)
<b>Profit before taxes on income</b>						<b>515,658</b>

(1) Adjusted EBITDA in the Refining Segment in 2022 - USD 723,670 thousand.

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**Bazan Ltd. - Notes to the Consolidated Financial Statements, in USD thousands**

**NOTE 28 – SEGMENT REPORTING (CONT.)**

**B. Information regarding reportable segments (cont.)**

	Refining	Polymers	Total reportable segments For the year ended December 31, 2021	Other	Adjustments to consolidated	Consolidated
Revenue from external sources - Israel	3,192,500	428,493	3,620,993	–	–	3,620,993
Revenue from external sources - other countries	2,268,315	663,130	2,931,445	24,615	–	2,956,060
<b>Total revenue from external sources</b>	<b>5,460,815</b>	<b>1,091,623</b>	<b>6,552,438</b>	<b>24,615</b>	<b>–</b>	<b>6,577,053</b>
Revenue from inter-segment sales - Israel	315,977	1,015	316,992	3,013	(320,005)	–
<b>Segment revenue</b>	<b>5,776,792</b>	<b>1,092,638</b>	<b>6,869,430</b>	<b>27,628</b>	<b>(320,005)</b>	<b>6,577,053</b>
<b>Reported EBITDA</b>	<b>285,654<sup>(1)</sup></b>	<b>301,310</b>	<b>586,964</b>	<b>10,621</b>	<b>(28)</b>	<b>597,557</b>
<b>Depreciation and amortization</b>	<b>(113,215)</b>	<b>(32,335)</b>	<b>(145,550)</b>	<b>(16,499)</b>	<b>–</b>	<b>(162,049)</b>
<b>Reported EBITDA less depreciation and amortization</b>						<b>435,508</b>
Amortization of excess cost arising on acquisition of consolidated companies						(9,863)
Other expenses, net						(15,415)
<b>Operating profit</b>						<b>410,230</b>
Finance expenses, net						(105,138)
<b>Profit before taxes on income</b>						<b>305,092</b>

(1) Adjusted EBITDA in the Refining Segment in 2021 - USD 199,143 thousand.

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**Bazan Ltd. - Notes to the Consolidated Financial Statements, in USD thousands**

**NOTE 28 – SEGMENT REPORTING (CONT.)**

**B. Information regarding reportable segments (cont.)**

	Refining	Polymers	Total reportable segments For the year ended December 31, 2020	Other	Adjustments to consolidated	Consolidated
Revenue from external sources - Israel	1,969,778	262,417	2,232,195	730	–	2,232,925
Revenue from external sources - other countries	1,293,122	498,386	1,791,508	39,597	–	1,831,105
<b>Total revenue from external sources</b>	<b>3,262,900</b>	<b>760,803</b>	<b>4,023,703</b>	<b>40,327</b>	<b>–</b>	<b>4,064,030</b>
Revenue from inter-segment sales - Israel	191,508	1,187	192,695	2,851	(195,546)	–
<b>Segment revenue</b>	<b>3,454,408</b>	<b>761,990</b>	<b>4,216,398</b>	<b>43,178</b>	<b>(195,546)</b>	<b>4,064,030</b>
<b>Reported EBITDA</b>	<b>(85,651) <sup>(1)</sup></b>	<b>121,890</b>	<b>36,239</b>	<b>23,197</b>	<b>(1,302)</b>	<b>58,134</b>
<b>Depreciation and amortization</b>	<b>(130,018)</b>	<b>(46,601)</b>	<b>(176,619)</b>	<b>(22,322)</b>	<b>–</b>	<b>(198,941)</b>
<b>Reported EBITDA less depreciation and amortization</b>						<b>(140,807)</b>
Amortization of excess cost arising on acquisition of consolidated companies						(11,451)
Other expenses, net						(53,159)
<b>Operating loss</b>						<b>(205,417)</b>
Finance expenses, net						(111,124)
<b>Loss before taxes on income</b>						<b>(316,541)</b>

(1) Adjusted EBITDA in the Refining Segment in 2020 - USD (23,380) thousand.

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## NOTE 28 – SEGMENT REPORTING (CONT.)

## 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:

Revenues from external sources	2022	%	2021	%	2020	%
<b>Refining</b>						
Diesel fuel	4,400,840	41%	2,256,520	34%	1,444,828	35%
Gasoline	2,270,844	21%	1,176,185	18%	693,465	17%
Fuel oil	941,858	9%	658,157	10%	370,559	9%
Kerosene	780,312	7%	242,712	4%	133,505	3%
Aromatics	594,734	5%	465,882	7%	312,198	8%
Other	883,595	8%	661,359	10%	308,345	8%
	<b>9,872,183</b>	<b>91%</b>	<b>5,460,815</b>	<b>83%</b>	<b>3,262,900</b>	<b>80%</b>
<b>Polymers</b>						
Polyethylene	215,101	2%	244,931	3%	168,599	4%
Polypropylene	704,041	7%	844,318	13%	590,630	15%
Other	5,283	(a)	2,374	(a)	1,574	(a)
	<b>924,425</b>	<b>9%</b>	<b>1,091,623</b>	<b>16%</b>	<b>760,803</b>	<b>19%</b>
<b>Other</b>	31,398	(a)	24,615	1%	40,327	1%
	<b>10,828,006</b>	<b>100%</b>	<b>6,577,053</b>	<b>100%</b>	<b>4,064,030</b>	<b>100%</b>

(A) Less than 1%.

## 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		
	2022	2021	2020
<b>Israel <sup>(1)</sup></b>			
Petroleum products	6,152,772	3,086,173	1,909,864
Polymer products	285,237	428,493	262,417
Aromatics	33,313	106,327	59,914
Other	—	—	730
<b>Total</b>	<b>6,471,322</b>	<b>3,620,993</b>	<b>2,232,925</b>
<b>Asia (mainly Turkey)</b>			
Petroleum products	2,161,169	1,303,663	689,404
Polymer products	92,570	(*) 62,418	132,915
Aromatics	172,537	102,632	129,555
Other	5,449	1,198	9,872
<b>Total</b>	<b>2,431,725</b>	<b>1,469,911</b>	<b>961,746</b>
<b>Europe</b>			
Petroleum products	962,762	605,248	351,510
Polymer products	483,509	(*) 503,218	291,084
Aromatics	338,524	215,945	88,635
Other	22,894	23,418	29,725
<b>Total</b>	<b>1,807,689</b>	<b>1,347,829</b>	<b>760,954</b>
<b>Other</b>	<b>117,270</b>	<b>(*) 138,320</b>	<b>108,405</b>
<b>Total</b>	<b>10,828,006</b>	<b>6,577,053</b>	<b>4,064,030</b>

(1) Including sales to the Palestinian Authority in 2020.

(\*) Reclassified.

## 3. Major customers

Group revenue from the major external customers (more than 10%) in the Refining Segment:

Revenues from external sources	For the year ended December 31					
	2022	%	2021	%	2020	%
Customer A	1,728,287	16%	880,180	14%	564,158	14%
Customer B	1,605,667	15%	648,203	10%	405,035	10%

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**NOTE 29 - FINANCIAL RISK MANAGEMENT**

**A. General**

The Group has operations that expose it to credit, liquidity and market risks (including crude oil price and margin risks, currency rate, 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), interest rate swaps (IRS), and cross-currency interest rate swap (CCIRS) transactions.

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 revenues are denominated in dollars (the Group's remaining revenues are denominated mainly in shekels), and are not linked to the Consumer Price Index. Substantially all of Group's expenses are incurred in respect of acquisitions of raw materials (mainly crude oil), which are denominated in dollars; all other Group expenses are mainly variable and fixed expenses denominated in dollars and in shekels. Substantially all of the Group's expenses is not linked to the Consumer Price Index. Therefore, changes in inflation trends do not have a significant direct impact on the Group's revenues 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, and credit risks is the VP Finances and Economics. 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 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 and 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 LIBOR), and credit risks in trade receivables, cash, and deposits.

**NOTE 29 - FINANCIAL RISK MANAGEMENT (CONT.)**

**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, letters of credit and bank guarantees, taking into account the financial robustness of the relevant banks, advances and deposits. In addition, from time to time, the Group companies sell some of its trade receivables in non-recourse factoring arrangements, as set out 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.

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 credit facilities from banks, non-secured bank credit, 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 information, see Notes 6, 13, 15, 14, 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.

**NOTE 29 - FINANCIAL RISK MANAGEMENT (CONT.)**

**D. Market risks (cont.)**

**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 functional currency of most of the Group companies. The Group is also exposed to currency risks in respect of the NIS debentures and loans (unlinked). The Group also has equity exposures to long-term balances denominated in NIS, mainly relating to employee benefits, including the loan to Haifa Early Pension (for further information, see Note 18C) and to leases (for further information, 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 issues USD-linked debentures, takes out long-term USD loans, 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 refer to Debentures (Series E, I, and L), were accounted for as hedge instruments by applying fair value and/or cash flow hedge accounting.

**2. Interest rate risk**

The Group is exposed to changes in interest rates (mainly LIBOR) for various short-term financing channels, long-term loans bearing variable interest, and for USD CCIRS transactions bearing interest at a variable rate.

To reduce 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 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 some of the loans, were accounted for as hedge instruments by applying cash flow hedge accounting.

**NOTE 29 - FINANCIAL RISK MANAGEMENT (CONT.)**

**D. Market risks (cont.)**

**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 hedge inventory (basic), with a volume - as at the Company's estimation - as at December 31, 2022, of 480 thousand tons (730 thousand tons less the volume of inventory underlying the inventory availability transaction described in Note 20B4) through futures contracts.

For the balance of the Company's inventories (crude oil, intermediate materials, and products) (beyond the unhedged inventory), 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. In addition, the subsidiaries (Carmel Olefins and Gadiv) hedge the inventory value given certain Brent prices, through the sale of futures on Brent, in a total volume of up to 100 thousand tons.

**B. Cash flow exposure for acquisition of inventory (basic) at the end of the inventory availability transaction**

The Company has a future cash flow exposure for the expected transaction for acquisition of inventory (basic) of 250 thousand tons (1.8 million barrels - the volume of inventory underlying the availability transaction outlined in Note 20B4) at the market prices prevailing on the termination of the availability transaction (February 2025). As at the reporting date, the Company hedges the full exposure by purchasing marketable futures on crude oil (Brent), 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.

**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 not 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 30% of the annual refining volume and for a period not exceeding 24 months. During the reporting period, prior to the outbreak of the war between Russia and Ukraine as outlined in Note 1D above, it was decided to update the volume for 2022 to 40% of the refining volume.



**NOTE 29 - FINANCIAL RISK MANAGEMENT (CONT.)**

**D. Market risks (cont.)**

**3. Other market price risks (cont.)**

**C. Refining margins (cont.)**

The volume of futures to hedge refining margins in 2022 was approx. 40% of the annual refining volume, reflecting an average refining margin of USD 8 per barrel for the Company, while in relation to 2023, the volume of hedge transactions is approx. 20% of the annual refining volume, reflecting, as of the report date, an average refining margin of USD 12 per barrel for the Company. Based on Company management's professional experience, the said margins are attractive. In light of the significant hike in refining margins as from March 2022, following the outbreak of the war in Ukraine, the Company recognized a loss in respect of the realization of futures to hedge refining margins totaling USD 431 million, which was included in the cost of sales line item. Furthermore, as of the report date, the Company deposited approximately USD - 37 million in margin calls, mostly in respect of futures that were exercised but not yet settled, which are included in the other receivables and debit balances line items.

On the other hand, it should be emphasized that the unusual refining margins that have prevailed in the market since March 2022, and even more so since the beginning of the second quarter of 2022, have a significant positive effect on the Company's results during the reporting period and until the approval date of the Report, and as long as such a margins environment will continue to prevail, this will also be the case for the results in subsequent periods.

**D. Polymer margins**

In addition, from time to time, Carmel Olefins fixes a margin (over naphtha) for polymer quantities, through SWAP transactions and/or through futures contracts on naphtha, and on the other hand, fixing the selling prices of the products in agreements with customers. Future contracts on naphtha against fixing product prices to customers will remain be up to 25% of Carmel Olefins' sales in the next 12 months and swap transactions together with naphtha contracts will account for up to 40% of Carmel Olefins' sales in the next 12 months. In addition, the swap transactions 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	
	2022	2021
Customers in Israel	457,975	449,231
Customers in other countries	130,895	146,094
	<b>588,870</b>	<b>595,325</b>

3. **Aging of debts and impairment losses:**

	As at December 31			
	2022		2021	
	Gross	Impairment loss	Gross	Impairment loss
Not past due	538,930	(300)	565,133	–
Past due up to six months <sup>(1)</sup>	49,951	(137)	29,131	(128)
Past due between six months and one year	–	–	831	(118)
Past due more than one year	1,563	(1,137)	3,041	(2,565)
	<b>590,444</b>	<b>(1,574)</b>	<b>598,136</b>	<b>(2,811)</b>

(1) As at December 31, 2022, an amount of USD 46 million is for debts past due up to 30 days (USD 26 million as at December 31, 2021).

For information about the management of the Group's credit risks, see Note 29B.

## NOTE 30 – FINANCIAL INSTRUMENTS (CONT.)

## 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, 2022						
	Carrying amount	Contractual cash flow				Total contractual cash flows <sup>(3)</sup>
		Up to 1 year	1-2 years	2-5 years	More than 5 years	
<b>Non-derivative financial liabilities</b>						
Trade payables	739,651	739,651	—	—	—	739,651
Other payables <sup>(1)</sup>	69,344	69,344	—	—	—	69,344
Debentures <sup>(2)</sup>	904,089	237,587	182,406	364,784	257,310	1,042,087
Liabilities to banks <sup>(2)</sup>	419,701	92,556	129,294	265,132	46,542	533,524
Lease liabilities <sup>(2)</sup>	100,724	9,515	4,857	14,571	310,652	339,595
Other long-term liabilities	3,155	252	1,183	2,366	—	3,801
	<b>2,236,664</b>	<b>1,148,905</b>	<b>317,740</b>	<b>646,853</b>	<b>614,504</b>	<b>2,728,002</b>
<b>Financial liabilities - derivative instruments <sup>(2)</sup></b>						
CCIRS used for hedging	33,194	9,690	7,854	26,201	20,050	63,795
Derivatives in respect of margin not used as hedges	35,450	35,450	—	—	—	35,450
Forward contracts	1,172	1,172	—	—	—	1,172
	<b>69,816</b>	<b>46,312</b>	<b>7,854</b>	<b>26,201</b>	<b>20,050</b>	<b>100,417</b>
<b>Total</b>	<b>2,306,480</b>	<b>1,195,217</b>	<b>325,594</b>	<b>673,054</b>	<b>634,554</b>	<b>2,828,419</b>

(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.

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.

## NOTE 30 – FINANCIAL INSTRUMENTS (CONT.)

## B. Liquidity risk (cont.)

As at December 31, 2021						
	Carrying amount	Contractual cash flow				Total contractual cash flows <sup>(3)</sup>
		Up to 1 year	1-2 years	2-5 years	More than 5 years	
<b>Non-derivative financial liabilities</b>						
Trade payables	791,418	791,418	–	–	–	791,418
Other payables <sup>(1)</sup>	67,954	67,954	–	–	–	67,954
Debentures <sup>(2)</sup>	1,092,685	260,367	253,658	464,036	277,949	1,256,010
Liabilities to banks <sup>(2)</sup>	463,654	102,561	72,271	266,756	117,725	559,313
Lease liabilities <sup>(2)</sup>	105,739	12,196	5,419	16,258	358,918	392,791
Other long-term liabilities	6,853	326	2,540	5,001	–	7,867
	<b>2,528,303</b>	<b>1,234,822</b>	<b>333,888</b>	<b>752,051</b>	<b>754,592</b>	<b>3,075,353</b>
<b>Financial liabilities - derivative instruments <sup>(2)</sup></b>						
CCIRS used for hedging	2,420	2,617	–	–	–	2,617
Interest swap contracts used for hedging	2,298	1,540	633	181	–	2,354
Derivatives in respect of margin used as hedges	9,700	9,700	–	–	–	9,700
Derivatives in respect of margin not used as hedges	15,354	15,354	–	–	–	15,354
Forward contracts	577	577	–	–	–	577
	<b>30,349</b>	<b>29,788</b>	<b>633</b>	<b>181</b>	<b>–</b>	<b>30,602</b>
<b>Total</b>	<b>2,558,652</b>	<b>1,264,610</b>	<b>334,521</b>	<b>752,232</b>	<b>754,592</b>	<b>3,105,955</b>

(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.

## 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, 2022				
	Non-financial and/or non financial	Financial and monetary			
		Unlinked NIS	CPI-linked NIS	USD <sup>(1)</sup>	Total
<b>Assets:</b>					
Cash and cash equivalents	–	24,263	–	726,797	751,060
Deposits	–	68	–	1,319	1,387
Trade receivables	–	96,456	–	492,414	588,870
Other receivables <sup>(2)</sup>	43,208 <sup>(3)</sup>	–	–	53,314	96,522
Financial derivatives, short term	–	(107,922)	–	128,857	20,935
Inventories	749,896	–	–	–	749,896
Loan to Haifa Early Pension Ltd. <sup>(4)(5)</sup>	–	20,132	18,098	–	38,230
Long term loans and debit balances	23,852 <sup>(6)</sup>	–	–	18,923	42,775
Financial derivatives, long term	–	198,181	–	(191,522)	6,659
Property, plant and equipment, net	2,063,476	–	–	–	2,063,476
Right-of-use assets, net	142,918	–	–	–	142,918
Intangible assets and deferred expenses, net	23,806	–	–	–	23,806
<b>Total assets</b>	<b>3,047,156</b>	<b>231,178</b>	<b>18,098</b>	<b>1,230,102</b>	<b>4,526,534</b>
<b>Liabilities:</b>					
Trade payables	–	(83,994)	(932)	(654,725)	(739,651)
Other payables <sup>(2)</sup>	(127,306) <sup>(7)</sup>	(29,728)	(3,125)	(36,491)	(196,650)
Financial derivatives, short term	–	55,324	–	(100,774)	(45,450)
Provisions	(9,264)	–	–	–	(9,264)
Liabilities to banks <sup>(4)</sup>	–	(17,770)	–	(401,931)	(419,701)
Debentures <sup>(4)</sup>	–	(649,525)	–	(254,564)	(904,089)
Lease liability <sup>(4)</sup>	–	–	(78,094)	(22,630)	(100,724)
Other long-term liabilities	(11,236)	–	(3,155)	–	(14,391)
Financial derivatives, long term	–	405,770	–	(430,136)	(24,366)
Employee benefits, net	(55,587)	–	–	–	(55,587)
Deferred tax liabilities, net	(272,714)	–	–	–	(272,714)
<b>Total liabilities</b>	<b>(476,107)</b>	<b>(319,923)</b>	<b>(85,306)</b>	<b>(1,901,251)</b>	<b>(2,782,587)</b>
<b>Total equity balance, net</b>	<b>2,571,049</b>	<b>(88,745)</b>	<b>(67,208)</b>	<b>(671,149)</b>	<b>1,743,947</b>

(1) Including EUR exposure of USD 32 million (credit) and non-material balances in other currencies.

(2) Without current maturities.

(3) Including balances denominated in NIS in the amount of USD 27 million for institutions.

(4) Including current maturities.

(5) Asset for employee benefits that does not constitute a financial instrument.

(6) Includes a USD 21 million investment in shares measured at fair value through other comprehensive income.

(7) Including balances denominated in NIS in the amount of USD 58 million for liabilities to employees and USD 8 million for institutions.

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## NOTE 30 – FINANCIAL INSTRUMENTS (CONT.)

## C. Exposure to CPI and foreign currencies risks (cont.)

	As at December 31, 2021				
	Non-financial and/or non-financial	Financial and monetary			
		Unlinked NIS	CPI-linked NIS	USD <sup>(1)</sup>	Total
<b>Assets:</b>					
Cash and cash equivalents	—	14,371	—	623,360	637,731
Deposits	—	—	—	31,685	31,685
Trade receivables	—	99,894	—	495,431	595,325
	(				
	39,354 <sup>3</sup>	—	—	—	39,354
Other receivables <sup>(2)</sup>	)				
Financial derivatives, short term	—	9,017	—	6,942	15,959
Inventories	730,673	—	—	—	730,673
Loan to Haifa Early Pension Ltd. <sup>(4)(5)</sup>	—	23,855	22,636	—	46,491
	(				
	20,829 <sup>6</sup>	—	—	14,786	35,615
Long term loans and debit balances	)				
Financial derivatives, long term	—	737,186	—	(658,905)	78,281
Property, plant and equipment, net	2,015,019	—	—	—	2,015,019
Right-of-use assets, net	140,602	—	—	—	140,602
Intangible assets and deferred expenses, net	19,983	—	—	—	19,983
<b>Total assets</b>	<b>2,966,460</b>	<b>884,323</b>	<b>22,636</b>	<b>513,299</b>	<b>4,386,718</b>
<b>Liabilities:</b>					
Trade payables	—	(75,585)	(935)	(714,898)	(791,418)
	(				
	(163,628) <sup>7</sup>	(21,012)	(13,019)	(33,923)	(231,582)
Other payables <sup>(2)</sup>	)				
Financial derivatives, short term	—	(13,053)	—	(16,508)	(29,561)
Provisions	(3,857)	—	—	—	(3,857)
Liabilities to banks <sup>(4)</sup>	—	(26,446)	—	(437,208)	(463,654)
Debentures <sup>(4)</sup>	—	(717,277)	—	(375,408)	(1,092,685)
Lease liability <sup>(4)</sup>	—	—	(82,791)	(22,948)	(105,739)
Other long-term liabilities	(15,370)	—	(4,353)	(2,500)	(22,223)
Financial derivatives, long term	—	—	—	(788)	(788)
Employee benefits, net	(75,267)	—	—	—	(75,267)
Deferred tax liabilities, net	(197,337)	—	—	—	(197,337)
<b>Total liabilities</b>	<b>(455,459)</b>	<b>(853,373)</b>	<b>(101,098)</b>	<b>(1,604,181)</b>	<b>(3,014,111)</b>
<b>Total equity balance, net</b>	<b>2,511,001</b>	<b>30,950</b>	<b>(78,462)</b>	<b>(1,090,882)</b>	<b>1,372,607</b>

(1) Including EUR exposure of USD 22 million net (credit) and non-material balances in other currencies.

(2) Without current maturities.

(3) Including balances denominated in NIS in the amount of USD 27 million for institutions.

(4) Including current maturities.

(5) Asset for employee benefits that does not constitute a financial instrument.

(6) Includes a USD 16 million investment in shares measured at fair value through other comprehensive income.

(7) Including balances denominated in NIS in the amount of USD 95 million for liabilities to employees and USD 9 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 strengthening of the USD against the NIS as at December 31, 2022 and an increase in the CPI would have increased (decreased) capital and profit and 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 is performed on the same basis for 2021.

For the year ended December 31, 2022					
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)	1,089	544	10,886	(544)	(1,089)
Lease liability <sup>(1)</sup>			(78,094)		
			<u>(67,208)</u>		
<b>Change in NIS/USD exchange rate</b>					
Non-derivative instruments	64,301	33,681	(707,306)	(37,227)	(78,590)
Derivative instruments - cross-currency interest rate swaps (CCIRS)	(62,651)	(32,854)	724,603	36,376	77,020
Forward contracts	15,751	8,251	(173,250)	(9,119)	(19,252)
			<u>(155,953)</u>		

For the year ended December 31, 2021					
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)	433	216	4,329	(216)	(433)
Lease liability <sup>(1)</sup>			(82,791)		
			<u>(78,462)</u>		
<b>Change in NIS/USD exchange rate</b>					
Non-derivative instruments	70,969	37,174	(780,663)	(41,088)	(86,740)
Derivative instruments - cross-currency interest rate swaps (CCIRS)	(77,728)	(41,036)	874,536	45,418	95,885
Forward contracts	12,854	6,733	(141,385)	(7,442)	(15,710)
			<u>(47,512)</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 affects the Company's own capital by USD 6 million.

In accordance with the currency risk management policy outlined in Note 29D1 above, this effect is offset, in whole or in part, insofar as the Company enters into futures contracts.



## NOTE 30 – FINANCIAL INSTRUMENTS (CONT.)

## D. Interest rate risk

## 1. Type of interest

Set forth below is a breakdown of the carrying amount of the Group's interest-bearing financial instruments by interest type:

	As at December 31	
	2022	2021
<b>Fixed interest non-derivative instruments</b>		
Cash and cash equivalents - bank deposits	716,601	579,669
<b>Total financial assets</b>	<b>716,601</b>	<b>579,669</b>
Bank loans <sup>(1)</sup>	–	(8,773)
USD-linked debentures <sup>(1)</sup>	(254,564)	(375,408)
NIS debentures <sup>(1), (2)</sup>	(649,525)	(717,277)
Lease liability <sup>(1)</sup>	(100,724)	(105,739)
Other long-term liabilities <sup>(1)</sup>	(4,084)	(5,285)
<b>Total financial liabilities</b>	<b>(1,008,897)</b>	<b>(1,212,482)</b>
<b>Total</b>	<b>(292,296)</b>	<b>(632,813)</b>
<b>Fixed interest non-derivative instruments</b>		
Deposits for financial derivatives - short term	54,632	24,854
Deposits for financial derivatives - long term	5,228	–
<b>Total financial assets</b>	<b>59,860</b>	<b>24,854</b>
Bank loans <sup>(1), (3)</sup>	(419,701)	(454,881)
Liabilities for financial derivatives - short term	–	(1,316)
Liabilities for financial derivatives - long-term	–	(2,499)
<b>Total financial liabilities</b>	<b>(419,701)</b>	<b>(458,696)</b>
<b>Total</b>	<b>(359,841)</b>	<b>(433,842)</b>
<b>Financial derivatives - hedging transactions on debentures and loans</b>		
<u>Derivatives used for accounting hedging</u>		
Hedging transactions on debentures and loans - NIS component <sup>(1)</sup>	724,602	874,536
Hedging transactions on debentures and loans - USD component <sup>(1)</sup>	(745,539)	(785,468)
<b>Total derivatives used for accounting hedging</b>	<b>(20,937)</b>	<b>89,068</b>

(1) Including current maturities.

(2) As at December 31, 2022, includes an amount of USD 58 million (as at December 31, 2021, including an amount of USD 41 million), converted through cross-currency interest rate swap contracts to USD debt at variable interest (LIBOR or SOFR), and the remaining amount was converted through principal and interest swap transactions to USD debt at fixed interest.

(3) As at December 31, 2022, includes an amount of USD 35 million (as at December 31, 2021, including an amount of USD 50 million), converted through cross-currency interest rate swap contracts and interest swap transactions to USD debt at fixed interest.

Not including operating liabilities bearing interest as set out in Note 15A.

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## NOTE 30 – FINANCIAL INSTRUMENTS (CONT.)

## D. Interest rate risk (cont.)

1. Sensitivity analysis of the fair value of hedging transactions on debentures and loans<sup>(1)</sup>

For the year ended December 31, 2022					
Increase (decrease), before tax, in profit for the period					
Change in NIS interest	+1%	+0.5%	Base value	-0.5%	-1%
Hedging transactions on debentures and loans used for hedging - NIS component <sup>(2)</sup>	(22,375)	(11,373)	724,602	11,707	23,670
			724,602		

For the year ended December 31, 2021					
Increase (decrease), before tax, in profit for the period					
Change in NIS interest	+1%	+0.5%	Base value	-0.5%	-1%
Hedging transactions on debentures used for hedging - NIS component <sup>(2)</sup>	(31,011)	(15,808)	874,536	16,325	31,183
			874,536		

(1) A change in NIS interest for cross-currency interest rate swap contracts used to hedge fair value and to hedge cash flows will be recognized at the carrying amount of the hedge fund, respectively.

## 2. Cash flow sensitivity analysis for variable rate non-derivative instruments and hedging on debentures at fixed interest measured at fair value

A change in interest rates at the reporting date would have increased (decreased) equity and profit and 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.

For the year ended December 31, 2022					
Increase (decrease), before tax, in profit for the period					
Change in USD interest	+1%	+0.5%	Base value	-0.5%	-1%
Fixed interest non-derivative instruments	(3,421)	(1,710)	(342,071)	1,710	3,421
Hedging transactions on debentures and loans used for hedging - USD component <sup>(1)</sup>	22,743	11,570	(745,539)	(11,895)	(24,074)
			(1,087,610)		

For the year ended December 31, 2021					
Increase (decrease), before tax, in profit for the period					
Change in USD interest	+1%	+0.5%	Base value	-0.5%	-1%
Fixed interest non-derivative instruments	(4,074)	(2,037)	(407,396)	2,037	4,074
Hedging transactions on debentures used for hedging - USD component <sup>(1)</sup>	27,529	13,977	(785,468)	(14,415)	(29,188)
			(1,192,864)		

(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.

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## NOTE 30 – FINANCIAL INSTRUMENTS (CONT.)

## 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, 2022				
	Increase (decrease), before tax, in profit for the period				
Price change	+20%	+10%	Base value	-10%	-20%
<b>Derivatives used for accounting hedging <sup>(1)</sup></b>					
Futures <sup>(2)</sup>	29,394	14,697	47,212	(14,697)	(29,394)
Hedges on margins - polymers <sup>(3)</sup>	(7,746)	(3,873)	14,192	3,873	7,746
<b>Derivatives not used for accounting hedging</b>					
Futures <sup>(2)</sup>	(52,363)	(26,182)	(7,588)	26,182	52,363
Hedges on margins - fuels <sup>(3)</sup>	(47,845)	(23,922)	(35,450)	23,922	47,845
Inventory <sup>(4)</sup>	85,233	42,616	426,164	(42,616)	(85,233)

	As at December 31, 2021				
	Increase (decrease), before tax, in profit for the period				
Price change	+20%	+10%	Base value	-10%	-20%
<b>Derivatives used for accounting hedging <sup>(1)</sup></b>					
Futures <sup>(2)</sup>	25,098	12,549	25,377	(12,549)	(25,098)
Hedges on margins - polymers <sup>(3)</sup>	(21,468)	(10,734)	(9,700)	10,734	21,468
<b>Derivatives not used for accounting hedging</b>					
Futures <sup>(2)</sup>	(38,037)	(19,018)	11,903	19,018	38,037
Hedges on margins - fuels <sup>(3)</sup>	(33,761)	(16,881)	(15,354)	16,881	33,761
Inventory <sup>(4)</sup>	96,137	48,069	480,687	(48,069)	(96,137)

- (1) A change in the fair value of derivatives used to apply cash flow hedge accounting is recognized in capital reserve.
- (2) Fuels are sensitive to change in the Brent price and polymers to change in the naphtha price.
- (3) Fuels are sensitive to change the refining margin and polymers to change in polymer margins.
- (4) The analysis does not include inventory with a selling price that was set as at the reporting date.

## NOTE 30 – FINANCIAL INSTRUMENTS (CONT.)

## F. Fair value of financial instruments for disclosure purposes only

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, deposits, trade receivables, other receivables, long-term receivables and debit balances, financial derivatives, short-term loans and borrowings, trade payables, other payables, 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, 2022					Discount rates used for determining fair value
	Adjusted par value	Carrying amount	Fair value - Level 1	Fair value - Level 2	
<b>Financial liabilities:</b>					
Marketable Debentures (Series F and I) <sup>(1)</sup> <sup>(2)</sup>	254,372	254,564	250,742	—	
Marketable Debentures (Series E, J, and L) <sup>(1)</sup> <sup>(2)</sup>	662,369	649,525	637,004	—	
Bank loans <sup>(3)</sup>	440,022	419,701	—	444,760	5.16%-7.56%
	<b>1,356,763</b>	<b>1,323,790</b>	<b>887,746</b>	<b>444,760</b>	

As at December 31, 2021					Discount rates used for determining fair value
	Adjusted par value	Carrying amount	Fair value - Level 1	Fair value - Level 2	
<b>Financial liabilities:</b>					
Marketable Debentures (Series F and I) <sup>(1)</sup> <sup>(2)</sup>	374,321	375,408	381,245	—	1.77%-5%
Marketable Debentures (Series E, J, and L) <sup>(1)</sup> <sup>(2)</sup>	726,040	717,277	756,511	—	
Bank loans <sup>(3)</sup>	488,339	463,654	—	489,197	
	1,588,700	1,556,339	1,137,756	489,197	

- (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.
- (2) The carrying amount is presented net of raising costs and net of adjustments for changes in the loan terms, as set out in Note 13C3.

See Note 4 regarding the basis for determining the fair value of these financial liabilities on Level 2.

## 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, 2022	December 31, 2021
<b>Financial assets</b>		
<b>Non-derivative</b>		
Investments in stocks at fair value through other comprehensive income (Level 3)	20,765	16,328
<b>Derivatives used for accounting hedging <sup>(1) (2)</sup></b>		
Cross-currency interest rate swap contracts (Level 2)	12,256	93,786
Derivatives for polymers margin (Level 3)	14,192	–
Derivatives not used for accounting hedging		
Forward contracts (Level 2)	1,146	454
	<b>48,359</b>	<b>110,568</b>
<b>Financial liabilities</b>		
<b>Derivatives used for accounting hedging <sup>(1) (2)</sup></b>		
Cross-currency interest rate swap contracts (Level 2)	33,194	4,718
Derivatives for polymers margin (Level 3)	–	9,700
<b>Derivatives not used for accounting hedging</b>		
Derivatives for refining margins (Level 2) <sup>(3)</sup>	35,450	15,354
Forward contracts (Level 2)	1,172	577
	<b>69,816</b>	<b>30,349</b>

- (1) The fair value of marketable derivatives for inventory and 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 2022, other comprehensive income (before tax) in the amount of USD 22 million was recognized in a hedge fund for the effective part of the change in the fair value of futures on Brent. As at December 31, 2022, the balance of the hedge fund in respect of the inventory availability transaction (before tax) amounts to USD 47 million (credit).
- (3) For further information, see Note 29D3.

Below are the main assumptions used to measure the fair value of cross-currency interest rate swap contracts (Level 2):

	December 31, 2022	December 31, 2021	December 31, 2020
NIS interest (used for discounting the NIS component)	2.42% - 2.95%	0.64% - (0.55%)	0% - (0.58%)
USD interest (used for discounting the USD component)	3.64% - 5.12%	0.12% - 1.57%	0.08% - 0.97%
Exchange rate (NIS/USD)	3.519	3.11	3.22

**NOTE 31 – SIGNIFICANT SUBSEQUENT EVENTS**

- A.** For information about the developments in legal claims, other contingencies, and other significant events subsequent to the reporting period, see Note 20.
- B.** For information about developments in engagements with related and interested parties, see Note 27B.
- C.** For details regarding the decision on dividend distribution and the Company's share buyback plan subsequent to the reporting period, see Note 21C.
- D.** For details regarding the upgrading of the Company's credit rating as determined by Maalot S&P after the reporting period, see Note 14B.

## Periodic Report for 2022

Name of Company:	Bazan Ltd.
Number of Company:	520036658
Address:	POB 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, 2022
Date of approval of the financial statements:	March 8, 2023

### **Regulation 10A - Condensed Statements of Comprehensive Income by Quarters**

For the condensed statements of comprehensive income of the Company, according to quarters in 2022, see Chapter 2, Section D of the Company's Board of Directors' Report, in Chapter B of the Periodic Report.

### **Regulation 10C - Use of the Proceeds from Securities**

For information regarding expansions of Debentures (Series L) in the Reporting Period, see Note 14B of the Consolidated Financial Statements.

The proceeds of the extensions outlined in Note 14B to the Consolidated Financial Statements 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 further information, see Note 9 to the Consolidated Financial Statements.

### **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 further information, see Note 3B to the Company's separate financial information as at December 31, 2022.

### **Regulation 20 - TASE Trading – Listed Securities – Dates and Reasons for Suspended Trading**

Further to the provisions under Regulation 10C above, in the Reporting Period, NIS 380,000 thousand par value debentures were listed for trading (Series L).

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.



## Regulation 21 – Compensation of Interested Parties and Senior Officers

- A. In accordance with the provisions of the Temporary Order set in the Companies Regulations (Rules regarding Compensation and Expenses to an External Director) (Temporary Order), 2022, the Company's Board of Directors decided that Company's directors will be paid full compensation in respect of each meeting that would have been held face to face, had it not been for the Covid-19 pandemic; this will apply as from March 2020 until the end of the period as set out in the Temporary Order.
- B. In the reporting period, the Company's Compensation Committee, Board of Directors and General Meeting approved an amendment to the Compensation Policy according to which officers who report to the CEO may be granted a persistence incentive arrangement under the terms specified in the immediate report of May 29, 2022 which is presented here as a reference (Ref. No.: 2022-01-053712).
- C. Below is a breakdown of the compensation given in 2022 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).

Compensation recipient's details				Compensation for services <sup>(1)</sup>			Compensation	Total	
Name	Position	Appointment percentage	Rate of holding in the Corporation's equity	Salary	Bonuses <sup>(9)</sup>	Share-based payment	Other	Not including share-based compensation	Including share-based compensation
Moshe Kaplinsky <sup>(2)</sup>	Chairman of the Board of Directors	100%	-	2,654	2,000	877	-	4,654	5,531
Asaf Almagor <sup>(3)</sup>	CEO	100%	-	1,664	880	-	618 <sup>(4)</sup>	3,162	3,162
Malachi Alper <sup>(5)</sup>	Outgoing CEO	100%	-	2,979	2,000	1,849 <sup>(6)</sup>	-	4,979	6,828
Shlomi Basson <sup>(7)</sup>	Deputy CEO, VP Safety, Security, Environment, Procurement and Contracts	100%	-	1,722	890	-	-	2,612	2,612
Yariv Gretz <sup>(7)</sup>	VP - Head of Fuels and Aromatics Business Unit	100%	-	1,523	610	-	-	2,133	2,133
Directors <sup>(8)</sup>			-	3,729	-	-	-	3,729	3,729

- (1) The compensation amounts are presented at cost to the Company.
- (2) For information on the terms of employment of Mr. Moshe Kaplinsky, see Note 27B3B to the Consolidated Financial Statements. Mr. Moshe Kaplinsky also holds an immaterial share of the Company's share capital.
- (3) For further information concerning the terms of employment of Mr. Asaf Almagor, who serves as the Company's CEO as from December 2022, and which are subject to the approval of the Company's General Meeting, see Note 27B3D to the Consolidated Financial Statements. For information about the terms of employment of Mr. Asaf Almagor, who serves as VP and Head of the Polyolefins Business Unit, see Section D below.
- (4) Amounts carried into the Company's profit and loss during the Reporting Period under generally accepted accounting principles, due to perseverance arrangement under the employment agreement.
- (5) For further information concerning the terms of employment of Mr. Malachi Alper, the outgoing Company CEO, who ended his term in office on December 1, 2022, see Note 27B3E to the Consolidated Financial Statements.
- (6) Upon the termination of Mr. Malachi Alper's term in office, the vesting of 9 million options that were awarded to him was accelerated, following the change of control in the Company as stated in Note 1A to the Consolidated Financial Statements, and in accordance with the options' terms of award. For further information, see Note 21B3C to the Consolidated financial statements.
- (7) For information about their terms of employment, see Section D below in this chapter.
- (8) The aggregate compensation amount for all Directors (except the Chairman of the Board of Directors). For further information on the Company directors' compensation terms, see Note 27B to the Consolidated Financial Statements.
- (9) 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 Chief Executive Officer and the other officers is partially based on the Company's performance). In 2022, eligibility for the component of the bonus based on the Company's performance is full, because 80% of it is set according to the EBITDA target for 2022, which was USD 474 million, and 20% is set based on the net profit target, set at USD 160 million.

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## **Regulation 21 – Compensation of Interested Parties and Senior Officers - cont.**

### **A. Compensation of senior officers**

- (1) The terms of employment of Mr. Shlomi 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.
- (2) Terms of employment of Mr. Asaf Almagor - until his appointment as Company's CEO on December 1, 2022 - the engagement to employ Mr. Almagor is for an unlimited time, and either party may terminate it by a six months' advance notice. On the date of termination of his employment, for any reason whatsoever other than under special circumstances as set out in the employment agreement, Mr. Almagor 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. Furthermore, during the Reporting Period, Mr. Almagor was given an entitlement to a perseverance arrangement in accordance with the Company's compensation policy.
- (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.

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**

At the date of approval of the statements, the controlling shareholder of the Company 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) approximately 24% of the issued capital of the Company.

For additional details, see Note 1A to the Consolidated Financial Statements and Sections 1.3.3-1.3.7 to Chapter A to the Periodic Report.

## **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 2022 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 February 1, 2021, and on February 28, 2021, the Company's Compensation Committee and the Company's Board of Directors, respectively, authorized the Company's compensation policy for 2021 to 2023, stipulating that the Company policy is to obtain D&O insurance at uniform terms for all Company officers, as applicable from time to time, and at the standard coverage terms considering the Company's properties; and on April 12, 2021, the Company's General Meeting authorized it. It was further decided that the Compensation Committee and the Company's Board of Directors 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 220 million per claim, and will not be less than USD 150 million per insurance period (part of this amount will constitute direct coverage (Side A) to directors and officers, at the scope of no more than USD 40 million, for situations where a director or an officer may not be indemnified by the Company or by the joint insurance policy of the Company and the

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officers); (b) the purchase of the insurance policy, including the annual premium amount and the deductible shall be made under prevailing market conditions and is not expected to have a material effect on the Company's profitability, assets or liabilities. For more information, 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 further information, see Note 27B3F to the Consolidated Financial Statements.
- E. For information about additional significant transactions in which the controlling shareholder had a personal interest on the engagement approval date, see Note 27C-H to the Consolidated Financial Statements.
- F. Further to the foregoing, in the course of its business, the Company and its subsidiaries engage in transactions with related parties, including companies controlled by any of the controlling shareholders of the Company, primarily in purchase and selling agreements of industrial and logistics products and services that are needed for the running of the plants of the Company and its subsidiaries, and which fall under the definition of negligible transactions. For information regarding the Company's policy regarding negligible transactions, see Note 27I to the financial statements.
- G. For further information, see Note 27 to the Consolidated financial statements.

#### **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**

##### **A. Details of Shareholders**

Shareholders	Class of shares Ordinary	No. of shares
Israel Petrochemical Enterprises Ltd <sup>1</sup> .	NIS 1	769,732,423
Moshe Kaplinsky	NIS 1	576,641

##### **B. Total Holdings of Interested Parties**

Name	Type of securities	No. of securities
Moshe Kaplinsky	Employee options - August 2021	15,000,000
Ron Hadassi	Bazan Debentures I - 2590461	6,023

#### **Regulation 24A – Registered and Issued Share Capital, and Convertible Securities**

For details, see Note 21 to the Consolidated financial statements.

#### **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 dated February 13, 2023 (Ref. No.: 2023-01-014206).

#### **Regulation 25A - Registered Address**

For details of the Company's address and means of contact, see the letterhead of this report.

#### **Regulation 26 - The Directors of the Company as at the Report Date**

For details regarding the Company's directors at the date of the report - see Regulation 26 below.

<sup>1</sup> Including through its subsidiary Petroleum Capital Holdings Ltd.

### **Regulation 26A - The Senior Officers of the Company as at the Date of the Report**

For details regarding the Company's senior officers as at the date of the report - see Regulation 26A below.

### **Regulation 26B - Independent Authorized Signatories**

The Company has no independent authorized signatories.

### **Regulation 27 – The Company's Independent Auditors**

Somekh Chaikin, Certified Public Accountants, of 7 Nahum Het Street, Haifa.

### **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 – Recommendations and Resolutions of the Board of Directors during the Reporting Period**

#### **Regulation 29(a) - Recommendations and Resolutions of the Directors prior to the General Meeting and Decisions that Do Not Require Approval by the General Meeting on Matters Set Out under Regulation 29(a)**

- A. Resolutions regarding dividend distribution as specified in Notes 21C2 and 21C3 to the Consolidated Financial Statements.
- B. A resolution of March 24, 2022, to recommend that the General Meeting of Company shareholders approves extending the agreement with Alex Passal, a director and controlling shareholders of the Company, for the provision of services for a consideration in addition to the directors compensation specified in Note 27B3F to the Consolidated Financial Statements.

#### **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. Resolution regarding dividend distribution as detailed in Note 21C2 to the Consolidated Financial Statements.
- B. A resolution regarding approval of an extension of the engagement with Alex Passal, as specified in Section B of Regulation 29(a) above.
- C. A resolution of July 4, 2022, regarding revision of the Company's Compensation Policy in respect of directors and officers insurance and a persistence incentive arrangement.

#### **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 190 million limits of liability (the limit of liability for the Company's own liabilities is at USD 150 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 information 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 (with the exclusion of Mordehai Lipshitz), as well as a letter of undertaking to indemnify directors and officers of the Company, including directors who are controlling shareholders of the Company, Messrs. 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 8, 2023

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Bazan Ltd.

**Names and Titles of Signatories:**

Moshe Kaplinsky

Asaf Almagor

**Positions:**

Chairman of the Board

CEO

**Regulation 26 - The Directors of the Corporation as of the Report's Approval Date**

	<b>Moshe Kaplinsky, Chairman of the Board of Directors</b>	<b>Rafael Arad, Director</b>	<b>Yaakov Gutenstein, Director</b>	<b>Alexander Passal, Director</b>	<b>Mordehai Zeev Lipshitz, External Director</b>
<b>ID No.:</b>	054679550	059259408	51176063	042540195	06851687
<b>Year of birth</b>	1957	1965	1952	1949	1948
<b>Address</b>	6 Nissim Aloni, Tel Aviv	37 Ahim Yitkovsky, Petach Tikva	35A Bustenay St., Ramat Hasharon	31 Katzin St., Raanana	108 Derech HaHar, Mount Gilo
<b>Citizenship</b>	Israeli	Israeli	Israeli	Israeli	Israeli
<b>Membership on Board of Directors Committees</b>	Environment, Safety and ESG Committee, Security Committee (Chair), Committee for Negotiations with the Government (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	Finance and Financial Investments Committee, Trade and Hedging Committee, Security Committee, Environment, Safety and ESG Committee, Investment in Existing Activity Committee (Chair)	Audit, Balance Sheet and Compensation Committee, Environment, Safety and ESG Committee (Chair), Investment in Existing Activity Committee, Security Committee
<b>Is he/she an independent director / external director</b>	No	No	No	No	Yes
<b>Does he/she have accounting and financial expertise</b>	No	Yes	No	Yes	Yes
<b>Is he/she an employee of the Company, its subsidiaries, affiliates or of an interested party</b>	Chairman of the Board of Directors of the Company.	CEO of Israel Petrochemical Enterprises	No	No	No

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**Bazan Ltd.**

	<b>Moshe Kaplinsky, Chairman of the Board of Directors</b>	<b>Rafael Arad, Director</b>	<b>Yaakov Gutenstein, Director</b>	<b>Alexander Passal, Director</b>	<b>Mordehai Zeev Lipshitz, External Director</b>
<b>Date of commencement of office as director</b>	Aug. 13, 2021	Nov. 4, 2020	Apr. 28, 2014	Apr. 28, 2014	Jun. 9, 2015
<b>Education</b>	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.	Doctor of Medicine (MD), Hebrew University of Jerusalem; MPH in Public Health specializing in Administration of Health Systems and Hospitals, School of Public Health (UCLA), California; graduate of Community Medicine Studies, Faculty of Continuing Education at the School of Medicine, Tel Aviv University
<b>Occupation during the past five years</b>	CEO of Bazan Group; CEO of Nesher Cement Enterprises.	CEO of Israel Petrochemical Enterprises; providing financial and accounting advice.	Chairman of Israel Petrochemical Enterprises Ltd.	CEO and owner of Bargal Economic Enterprises Ltd.; Gima Investments Ltd.; Bargal Research and Development Investments (1996) Ltd.; Passal Investments Ltd.	External Director and Chairman of the Audit Committee of Clalit Medical Engineering Ltd.

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**Bazan Ltd.**

	<b>Moshe Kaplinsky, Chairman of the Board of Directors</b>	<b>Rafael Arad, Director</b>	<b>Yaakov Gutenstein, Director</b>	<b>Alexander Passal, Director</b>	<b>Mordehai Zeev Lipshitz, External Director</b>
<b>Companies in which he/she serves as a director</b>	Augwind Energy Tech Storage Ltd.; Kaplina K.P.L. Ltd.; Electreon Wireless Ltd.	Tnuport (1990) Ltd.; Apex Issuances Ltd.; Arad Finance Ltd.; Arad Management and Development Ltd.	Israel Petrochemical Enterprises Ltd. (Chairman); Modgal Group; Gima Investments Ltd.; Bargal Financial Enterprises Ltd.; Aposcience Ltd.; Got (Y.R.N.) Investments Ltd.; Sirvir Ltd.; Hudson Industries Ltd.	Israel Petrochemical Enterprises Ltd.; Modgal Ltd.; Modgal Metals Ltd.	Clalit Medical Engineering Ltd.
<b>Is he/she a family member of another interested party in the Company</b>	No	No	No	No	No

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**Bazan Ltd.**

	<b>Ron Hadassi, Director</b>	<b>Nira Dror, Independent director</b>	<b>Mordechai (Modi) Peled, External Director</b>	<b>Adi Federman, Director</b>
<b>ID No.:</b>	059258269	052726551	056092711	014680789
<b>Year of birth</b>	1965	1954	1959	1972
<b>Address</b>	13 Yigael Yadin, Hod HaSharon	7 Dvora HaNevi'a, Ramat HaSharon	47 HaNesher Street, Shoham, 4372633	Ramat Yam 12, Herzliya Pituach
<b>Citizenship</b>	Israeli	Israeli	Israeli	Israeli and British
<b>Membership on Board of Directors Committees</b>	Balance Sheet, Audit and Compensation Committee, Innovation Committee, Finance and Financial Investments Committee	Innovation Committee, Finance and Financial Investments Committee, Audit Committee, Environment, Safety and ESG Committee, Investment in Existing Activity Committee	Audit, Balance Sheet and Compensation Committee (Chair), Trade and Hedging Committee, Innovation Committee	Finance and Financial Investments Committee, Trade and Hedging Committee (Chair), Committee for Negotiations with the Government.
<b>Is he/she an independent director / external director</b>	No	Yes	Yes	No
<b>Does he/she have accounting and financial expertise</b>	Yes	Yes	Yes	No
<b>Is he/she an employee of the Company, its subsidiaries, affiliates or of an interested party</b>	No	No	No	No
<b>Date of commencement of office as director</b>	Jun. 21, 2021	Jun. 21, 2021	Jan. 16, 2014	Oct. 6, 2022
<b>Education</b>	BA Economics, Political Science and Law, Tel Aviv University; MBA - Finance and Marketing	BA Economics, Tel Aviv University; MBA Tel Aviv University	BA Economics and Management, Tel Aviv University; MBA - Finance and Strategy, Tel Aviv University	

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**Bazan Ltd.**

	<b>Ron Hadassi, Director</b>	<b>Nira Dror, Independent director</b>	<b>Mordechai (Modi) Peled, External Director</b>	<b>Adi Federman, Director</b>
<b>Occupation during the past five years</b>	Chairman and CEO of Elbit Imaging; Chairman and CEO of Elbit Medical Technologies Ltd.; lecturer in the areas of banking and finance in various higher education institutions	Director at Amot Investments Ltd.; Director at S. Shlomo Holdings Ltd.; Director at S. Shlomo Insurance Company Ltd., Director at Union Bank of Israel Ltd., Director at Isrotel Ltd., Partner in the AfterDox Foundation.	Chairman and CEO of Pelgo Ltd.; CEO and Founder of Tabookey Ltd.	Director at Modgal Ltd., Modgal Industries 99 Ltd., Alverstone Ltd., Hudson Ltd., Fedanco Ltd., I.D. Federman Holdings Ltd. and Fedanco UK
<b>Companies in which he/she serves as a director</b>	Chairman of the Board of Directors of Elbit Imaging Ltd.; Chairman of the Board of Directors of Elbit Medical Technologies Ltd.; Director at Plaza Centers N.V; Director at Brack Capital Properties N.V.; Director at Qualitau Ltd.; Director at Carmel Winery Ltd.; Director at Iskoor Metals and Steels Ltd.; Director at Liguy Hadassi Management and Investments Ltd.; Bareket Capital Ltd.	Director at S. Shlomo Holdings Ltd.; Director at S. Shlomo Insurance Company Ltd.; external director at Amot Investments Ltd.	Turpaz Industries Ltd.; Razor Labs Ltd.	Modgal Ltd., Modgal Industries 99 Ltd., Alverstone Ltd., Hudson Ltd., Fedanco Ltd., I.D. Federman Holdings Ltd. and Fedanco UK, Crithmun Industries Ltd., A.Y.A. Dynamic Enterprises Ltd.
<b>Is he/she a family member of another interested party in the Company</b>	No	No	No	Yes - a relative of David Federman and Irit Federman, who are among the Company's controlling shareholders.

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**Regulation 26A - Senior Officers of the Company as at the Date of the Report**

	<b>Asaf Almagor</b>	<b>Shlomo Basson</b>	<b>Shmuel Holzkan</b>	<b>Guy Liberman</b>	<b>Mark Hana</b>
<b>Year of birth</b>	1965	1964	1969	1982	1976
<b>Date of commencement of term of office</b>	2022	2012	2022	2022	2014
<b>Position</b>	CEO	Deputy CEO, VP Safety, Security, Environment, Procurement and Contracts	VP Human Resources	VP Finances and Economics	VP Marketing and Sales
<b>An interested party in the Company or a relative of a senior officer and/or an interested party in the Company</b>	No	No	No	No	No
<b>Education</b>	Academic: Bsc and Msc Chemical Engineering, Technion - Israel Institute of Technology	Academic: BA in Middle Eastern Studies, Haifa University. MBA, Haifa University. PhD candidate	Academic: BA in Political Science and Middle Eastern Studies - Hebrew University MA in Political Science and Social Sciences and National Security, Haifa University	Academic: BA in Accounting and Law - The College of Management - Academic Studies MBA, Haifa University - Hebrew University of Jerusalem	Academic: BA in Business Administration - University of Southern California MBA studies at Mercer University, Atlanta.
<b>Business experience in the past five years</b>	CEO and Chairman of the Board of Directors 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 Directors 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).	VP Finances and Economics; 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 Ltd.

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**Bazan Ltd.**

	<b>Yariv Gretz</b>	<b>Limor Fasher Cohen</b>	<b>Orit Barjorder</b>	<b>Yonatan Gershon</b>
<b>Year of birth</b>	1965	1969	1977	1980
<b>Date of commencement of term of office</b>	2016	2012	2022	2022
<b>Position</b>	VP - Head of Fuels and Aromatics Business Unit	VP Integrated Planning and Trade	VP - Head of Polyolefins Business Unit	VP, Chief Legal Counsel.
<b>An interested party in the Company or a relative of a senior officer and/or an interested party in the Company</b>	No	No	No	No
<b>Education</b>	Academic: B.Sc. in Chemical Engineering - Technion - Israel Institute of Technology. MBA, Heriot Watt University at Ramat Gan College.	Academic: B.Sc. in Chemical Engineering - Technion - Israel Institute of Technology. MBA, Haifa University.	Academic: B.Sc. in Chemical Engineering - Technion - Israel Institute of Technology.	Academic: BA in Law - The College of Management. BA in Business Administration - The College of Management.
<b>Business experience in the past five years</b>	VP - Head of Fuels and Aromatics Business Unit (since 2021); VP - Head of Fuels Business Unit.	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)

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**Bazan Ltd.**

	<b>Eliahu Mordoch</b>	<b>Orly Abramovitch</b>	<b>Shai Abramovitz</b>	<b>Ronen Artzi</b>
<b>Year of birth</b>	1969	1973	1982	1957
<b>Date of commencement of term of office</b>	2011	2022	2019	2017
<b>Position</b>	Company Secretary	VP IT&OT	Manager, Accounting Department	Internal Auditor
<b>An interested party in the Company or a relative of a senior officer and/or an interested party in the Company</b>	No	No	No	No
<b>Education</b>	Academic: LLB - Haifa University. BA in Economics, Haifa University. MBA, Tel Aviv University.	Academic: B.Sc. in Industrial Engineering and Management, major in Information Systems - Ben Gurion University of the Negev MBA - Ben Gurion University	Academic: CPA. BA in Economics and Accounting, Open University.	Academic: BA in Labor and Political Science, Tel Aviv University. MA in Internal and Public Auditing, Haifa University.
<b>Business experience in the past five years</b>	Company Secretary.	VP IT & OT; Director of IT and Innovation at Bank of Jerusalem	Manager, Accounting Department; Director at Ducor, at United Petroleum Export Co. Ltd. and at V.P.M. Plast Ltd.; Head of Financial Reporting Department of the Company (until 2019).	A partner in Shiff Hazenfratz & Co. CPAs.

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Somekh Chaikin  
17 Ha'arba'a Street, PO Box 609  
KPMG Millennium Tower  
Tel Aviv 6100601, Israel  
+972 3 684 8000

Attn.

**the Shareholders of Bazan Ltd.**

To whom it may concern,

**Re: Special report by the independent auditors 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 at December 31, 2022, and 2021 and for each of the three preceding years, the last of which ended on December 31, 2022. 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.

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 audit provides a fair basis for our opinion.

In our opinion, 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.

Without qualifying our 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'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(4) to the Company's consolidated financial statements) regarding proceedings against 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.

Somekh Chaikin  
Certified Public Accountants

Tel Aviv, March 8, 2023

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## Bazan Ltd - Data on the Separate Financial Position, in USD thousands

		As at December 31	
	Note	December 31, 2022	December 31, 2021
<b>Current assets</b>			
Cash and cash equivalents		595,836	360,378
Deposits		1,319	31,685
Trade receivables		460,254	451,815
Other receivables and debit balances		159,513	60,799
Current maturities of long-term loans to an investee	7F	–	10,000
Financial derivatives		20,437	15,665
Inventories		592,645	545,328
<b>Total current assets</b>		<b>1,830,004</b>	<b>1,475,670</b>
<b>Non-current assets</b>			
Investments with respect to investees, net	3A	1,166,734	1,371,013
Loan to Haifa Early Pension Ltd.		25,871	35,483
Long-term receivables and debit balances		18,450	14,713
Long-term loans to an investee	7F	10,000	–
Financial derivatives		6,659	78,281
Property, plant and equipment, net		1,208,396	1,184,496
Right-of-use assets, net		113,446	106,664
Intangible assets and deferred expenses, net		15,388	13,608
<b>Total non-current assets</b>		<b>2,564,944</b>	<b>2,804,258</b>
<b>Total assets</b>		<b>4,394,948</b>	<b>4,279,928</b>

**Moshe Kaplinsky**  
Chairman of the Board of  
Directors

**Asaf Almagor**  
CEO

**Guy Liberman**  
CFO

Approval date of the financial statements: March 8, 2023

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

This translation of the financial statement is for convenience purposes only.  
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**Bazan Ltd - Data on the Separate Financial Position, in USD thousands**

		As at December 31	
	Note	December 31, 2022	December 31, 2021
<b>Current liabilities</b>			
Loans and borrowings (including current maturities)		266,014	303,901
Current maturities of long-term loans from an investee	7E	100,000	50,000
Trade payables		697,814	753,720
Other payables and credit balances		180,355	174,056
Financial derivatives		44,278	29,142
Provisions		3,403	3,521
<b>Total current liabilities</b>		<b>1,291,864</b>	<b>1,314,340</b>
<b>Non-current liabilities</b>			
Liabilities to banks, net		359,824	378,451
Debentures, net		696,868	873,987
Other long-term liabilities		81,154	89,541
Financial derivatives		24,366	788
Employee benefits, net		33,920	45,909
Deferred tax liabilities, net	4C	163,005	104,305
Long-term loans from an investee	7E	—	100,000
<b>Total non-current liabilities</b>		<b>1,359,137</b>	<b>1,592,981</b>
<b>Total liabilities</b>		<b>2,651,001</b>	<b>2,907,321</b>
<b>Equity</b>			
Share capital		807,850	807,604
Share premium		32,623	32,761
Capital reserves		93,083	53,440
Retained earnings		810,391	478,802
<b>Total equity</b>		<b>1,743,947</b>	<b>1,372,607</b>
<b>Total liabilities and equity</b>		<b>4,394,948</b>	<b>4,279,928</b>

**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 Thousand

	Note	For the year ended December 31		
		2022	2021	2020
Revenues		10,071,235	5,708,244	3,371,502
Cost of sales		(9,361,158)	(5,494,722)	(3,545,762)
<b>Gross profit (loss)</b>		<b>710,077</b>	<b>213,522</b>	<b>(174,260)</b>
Selling and marketing expenses		(42,006)	(30,669)	(31,651)
General and administrative expenses		(33,615)	(23,668)	(25,857)
Other income (expenses), net		1,705	(13,566)	(25,203)
<b>Operating profit (loss)</b>		<b>636,161</b>	<b>145,619</b>	<b>(256,971)</b>
Finance income		35,172	2,751	3,458
Finance expenses		(124,875)	(116,562)	(122,913)
<b>Finance expenses, net</b>		<b>(89,703)</b>	<b>(113,811)</b>	<b>(119,455)</b>
Company's share in profits (losses) of investees, net of tax		(31,330)	228,523	49,845
<b>Profit (loss) before taxes on income</b>		<b>515,128</b>	<b>260,331</b>	<b>(326,581)</b>
Income (expenses) for income tax	4B	(73,907)	(7,489)	52,266
<b>Net profit (loss)</b>		<b>441,221</b>	<b>252,842</b>	<b>(274,315)</b>
<b>Items of other comprehensive income (loss) transferred to profit and loss:</b>				
Other comprehensive income (loss) for investees, net of tax		19,023	(6,898)	(4,156)
Effective share of the change in fair value of cash flow hedges, net of tax		20,305	42,107	(23,950)
Other, net		188	177	(88)
<b>Other comprehensive income (loss), transferred to profit and loss, net of tax</b>		<b>39,516</b>	<b>35,386</b>	<b>(28,194)</b>
<b>Items of other comprehensive income (loss) not transferred to profit and loss:</b>				
Remeasurement of defined benefit plan, net of tax		6,776	(1,726)	(163)
Other comprehensive income in respect of investees, net of tax		2,959	192	270
Other, net		—	5,930	682
<b>Other comprehensive income, not transferred to profit and loss, net of tax</b>		<b>9,735</b>	<b>4,396</b>	<b>789</b>
<b>Total other comprehensive income (loss) for the year, net of tax</b>		<b>49,251</b>	<b>39,782</b>	<b>(27,405)</b>
<b>Comprehensive income (loss) for the year</b>		<b>490,472</b>	<b>292,624</b>	<b>(301,720)</b>

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 thousands**

	For the year ended December 31		
	2022	2021	2020
<b>Cash flows from operating activities</b>			
<b>Net profit (loss) for the year</b>	<b>441,221</b>	<b>252,842</b>	<b>(274,315)</b>
<b>Adjustments to cash flows from operating activities:</b>			
Revenue and expenses not involving cash flows (Appendix A – Section A)	328,234	44,546	141,942
	<b>769,455</b>	<b>297,388</b>	<b>(132,373)</b>
Changes in assets and liabilities items (Appendix A - Section B)	(140,446)	(499,864)	377,999
Income tax paid, net	(881)	(1,140)	(876)
<b>Net cash from (used for) operating activities</b>	<b>628,128</b>	<b>(203,616)</b>	<b>244,750</b>
<b>Cash flow used in investing activities</b>			
Interest received	7,931	668	2,949
Interest received from investees	1,648	1,627	1,841
Change in deposits, net	(21,629)	(27,192)	76,047
Dividend received from investees (see Note 7I)	200,000	–	–
Repayment of long-term loans from investees	10,000	–	–
Provision of long-term loans to investees	(10,000)	–	–
Change in cash from investing activities with investees, net	(81,641)	70,262	11,680
Repayment of a loan from Early Pension Haifa	–	–	4,233
Purchase of property, plant & equipment (including periodic maintenance) (1)	(108,662)	(68,733)	(68,098)
<b>Net (used for) provided by investing activities</b>	<b>(2,353)</b>	<b>(23,368)</b>	<b>28,652</b>
<b>Cash flow used in financing activities</b>			
Change in deposits from customers and others, net	(910)	17,196	(26,390)
Interest paid (2)	(95,120)	(91,886)	(87,051)
Interest paid to investees	(4,327)	(16,043)	(10,763)
Derivative transactions, net	4,603	5,297	10,361
Change in cash from financing activities with investees, net	11,203	(3,532)	926
Receipt of short-term loans from an investee	–	50,000	–
Receipt of long-term loans from an investee	–	140,000	110,000
Repayment of long-term loans from an investee	(50,000)	(310,000)	–
Receipt of long-term loans from banks	40,000	110,000	124,095
Repayment of long-term loans from banks	(86,541)	(75,167)	(44,476)
Repayment of debentures, including early repayment (3)	(209,403)	(133,102)	(229,355)
Issue of debentures, less issuance expenses	116,997	137,624	239,080
Dividend paid	(120,000)	–	–
Other	(179)	(170)	(148)
<b>Net (used for) provided by financing activities</b>	<b>(393,677)</b>	<b>(169,783)</b>	<b>86,279</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>232,098</b>	<b>(396,767)</b>	<b>359,681</b>
Effect of exchange rate fluctuations on balance of cash and cash equivalents	3,360	(820)	509
Cash and cash equivalents at the beginning of the year	360,378	757,965	397,775
<b>Cash and cash equivalents at the end of the year</b>	<b>595,836</b>	<b>360,378</b>	<b>757,965</b>

- (1) During the reporting period, periodic maintenance work was carried out in some of the Company's production facilities, specifically the fluid catalytic cracker (FCC) facility, whose direct cost (before capitalization of direct costs) amounted to USD 46 million.
- (2) As of December 31, 2022, interest payments for debentures in the amount of million 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.
- (3) In 2020, including early repayment of the principal of Debentures (Series D) in the amount of USD 79 million. For further information, see Note 14B to the consolidated financial statements.

**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 thousands (cont.)**

**Appendix A - Adjustments Required to Present Cash Flows from Operating Activities**

	For the year ended December 31		
	2022	2021	2020
<b>A. Income and expenses not included in cash flows</b>			
Depreciation and amortization	79,310	100,443	117,343
Other expenses (income), net	(1,705)	13,566	25,203
Finance expenses, net	100,775	107,472	111,891
Change in the balance of inventory and margins derivatives	41,186	44,795	(10,709)
Sharein losses (profits) of investees, net	31,330	(228,523)	(49,845)
Expenses (income) for income tax	73,907	7,489	(52,266)
Other	3,431	(696)	325
	<b>328,234</b>	<b>44,546</b>	<b>141,942</b>
<b>B. Changes in asset- and liability line items</b>			
Change in trade receivables	(8,439)	(206,747)	63,247
Change in other receivables and debit balances	(453)	(13,505)	2,864
Change in inventory	(47,317)	(267,043)	384,036
Change in trade payables	(46,447)	37,656	(158,080)
Change in other payables and provisions	(33,868)	(52,829)	82,981
Change in employee benefits, net	(3,922)	2,604	2,951
	<b>(140,446)</b>	<b>(499,864)</b>	<b>377,999</b>

**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 at December 31, 2022 is 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 at December 31, 2022 (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 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 Note 3 to the consolidated financial statements, except for the amounts of assets, liabilities, income, expenses and cash flows for investees, as set out 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 item balances with respect to investees.
- B.** Balances with respect to investees reflect the net amount, based on the Consolidated Financial Statements, attributed 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 that are 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 profits (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 information regarding investees see Note 9 to the consolidated financial statements.

It should be 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 <sup>(1)</sup>	Total par value	Balance of investment	
				As at December 31, 2022	As at December 31, 2021
				In NIS	In USD thousand
Carmel Olefins	100%	31,200,000	312,000,000	940,237	1,118,984
Ducor	100%	11,211	18,933,885	53,769	70,582
Gadiv	100%	4,500,000	45,000,000	140,156	161,623
Other				32,572	19,824
<b>Total</b>				<b>1,166,734</b>	<b>1,371,013</b>

(1) Ordinary shares.

**B. Additional Information on the Investments in Investees**

For theyear ended December 31, 2022, USD thousands						
Company name	Company's share of net profit (loss) <sup>(1)</sup>	Amortization of excess costs, net of tax	Company's share in other comprehensive income (loss), net of tax	Interest income (expenses) <sup>(3)</sup>		
				Dividend	Investment	
Carmel Olefins	3,002	(7,833)	22,430	(200,000)	—	(5,593)
Ducor	(11,112)	(1,481)	(1,087)	—	—	—
Gadiv	(21,914)	—	639	—	—	2,507
Other	8,008 <sup>(2)</sup>	—	—	—	4,662	30
<b>Total</b>	<b>(22,016)</b>	<b>(9,314)</b>	<b>21,982</b>	<b>(200,000)</b>	<b>4,662</b>	<b>(3,056)</b>

For theyear ended December 31, 2021, USD thousands						
Company name	Company's share of net profit (loss) <sup>(1)</sup>	Amortization of excess costs, net of tax	Company's share in other comprehensive income (loss), net of tax	Interest income (expenses) <sup>(3)</sup>		
				Investment		
Carmel Olefins	203,443	(7,832)	(6,497)	—		(14,902)
Ducor	24,653	5,827 <sup>(4)</sup>	(249)	—		—
Gadiv	7,854	—	40	—		479
Other	(5,422) <sup>(2)</sup>	—	5,930	7,794		(16)
<b>Total</b>	<b>230,528</b>	<b>(2,005)</b>	<b>(776)</b>	<b>7,794</b>		<b>(14,439)</b>

(1) Excluding amortization of excess costs.

(2) Including unrealized gains.

(3) Interest income (expenses) in respect of balances between the Company and the subsidiaries.

(4) In 2021, including reversal of a USD 6 million impairment loss (net of tax); for details, see Note 11C 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.



**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 information about 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		
	2022	2021	2020
Current tax expenses (income)	11,953	(1,422)	2,169
Deferred tax expenses (revenue)	61,954	8,911	(54,435)
<b>Expenses (income) for income tax</b>	<b>73,907</b>	<b>7,489</b>	<b>(52,266)</b>

**C. Recognized Deferred Tax Assets and Liabilities and Movements Therein:**

	Property, plant and equipment	Employee benefits	Losses carried forward for tax purposes	Other	Total
<b>Deferred tax asset (liability) as at January 1, 2021</b>	<b>(131,472)</b>	<b>17,687</b>	<b>45,529</b>	<b>2,602</b>	<b>(65,654)</b>
Utilization of losses by investees	–	–	(32,678)	–	(32,678)
Changes recognized in other comprehensive income	–	329	–	(9,824)	(9,495)
Changes recognized in profit and loss	(5,182)	(444)	(5,116)	1,831	(8,911)
Other changes	–	–	12,433	–	12,433
<b>Deferred tax asset (liability) as at December 31, 2021</b>	<b>(136,654)</b>	<b>17,572</b>	<b>20,168</b>	<b>(5,391)</b>	<b>(104,305)</b>
Carryforward losses from investees	–	–	8,448	–	8,448
Changes recognized in other comprehensive income	–	(1,291)	–	(3,903)	(5,194)
Changes recognized in profit and loss	(32,670)	(2,856)	(28,616)	2,188	(61,954)
<b>Deferred tax asset (liability) as at December 31, 2022</b>	<b>(169,324)</b>	<b>13,425</b>	<b>–</b>	<b>(7,106)</b>	<b>(163,005)</b>

**D. For further information concerning the Company's income tax and tax assessments, see Note 16 to the Consolidated Financial Statements.**

**NOTE 5 – CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND LIENS,  
AND OTHER SIGNIFICANT EVENTS DURING THE REPORTING PERIOD**

- A.** For more information about guarantees and liens, see Note 19 to the Consolidated Financial Statements.
- B.** For more information 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 information 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 information about the Company's debentures, including expansions of debenture series during the reporting period and financial covenants applicable to the Company, see Note 14 to the Consolidated Financial Statements.
- E.** For information about the impact of the Covid-19 crisis and the war in Ukraine on the Company's operating results, see Notes 1C and 1D to the Consolidated Financial Statements.

**NOTE 6 – FINANCIAL INSTRUMENTS**

**A. Liquidity risk**

As at December 31, 2022, and 2021, more than 90% of the Group's long term financial liabilities (for which contractual cash flows exceed one year) were taken by the Company (separate). 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, 2022 and 2021, 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 index and foreign currency risks.

## **NOTE 7 – MATERIAL AGREEMENTS WITH INVESTEES**

### **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 Company, in the ordinary course of business and at market conditions. The transaction was approved by the Board of Directors of the Company.

### **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, if relevant, 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 each time and are renewed automatically for an additional term of one year, 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, reformat, 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 reformat, 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.

**NOTE 7 – MATERIAL AGREEMENTS WITH INVESTEEES (CONT.)**

**E. Receipt of loans from Carmel Olefins**

1. A framework agreement for receipt of a long-term loan from Carmel Olefins was signed in 2018; the agreement was revised from time to time; the principal loan amount will not exceed USD 350 million, and the loan will be repaid in a single installment on December 31, 2022. The loan bore interest at the rate of 5.5% per year, which, in management's opinion, reflects prevailing market rates as of the inception date. The loan was repaid in full (USD 310 million) on December 31, 2021, as part of an early repayment.
2. 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 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 will bear annual interest at the rate of 3.35%, which, in management's opinion, reflects prevailing market rates as of the inception date; (2) a 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 will bear annual interest of 2.7%, which, in management's opinion, reflects prevailing market rates as of the inception date. The loan was repaid in full during the reporting period.

**F. Long-term loan made to Gadiv**

1. In 2017, the Company provided Gadiv with a long-term loan in the amount of 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 bears interest at the rate of LIBOR + 3%, which, in the opinion of the Company's management, reflects prevailing market rates as of the inception date. The loan was repaid in full during the reporting period.
2. During the reporting period, the Company provided a long-term loan to Gadiv totaling 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, in the opinion of the Company's management, reflects prevailing market rates as of the inception date.

**G. Merger of Haifa Basic Oils**

In 2020, upon obtaining the approval of the Company's Board of Directors, Haifa Basic Oils' merger with and into the Company was completed. The merger did not have a material effect on the Company's financial statements.

**H. Borrowings by the Group companies**

As of December 31, 2022, the short-term borrowings balances between the Group companies (presented in the separate information on the financial position under other accounts receivable and debit balances and/or other accounts payable and credit balances, as applicable) bear a SOFR rate plus 2.25% interest (as of December 31, 2021 - 3%).

**I. Dividend**

1. For further information concerning the dividend distribution policy and dividends that were declared and paid by the Company in 2022, see Note 21C to the Consolidated Financial Statements.
2. During the reporting period, Carmel Olefins' Board of Directors approved the distribution of approximately USD 200 million in dividend, which was received in January 2022.
3. For information 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.

## NOTE 7 – MATERIAL AGREEMENTS WITH INVESTEEES (CONT.)

### J. 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.

### K. 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.

### L. Balances with consolidated companies

	As at December 31	
	2022	2021
	Asset (liability)	
Trade receivables	67,965	103,673
Other receivables and debit balances	59,976	17,871
loans granted	10,000	10,000
Trade payables	(1,634)	(1,088)
Other payables and credit balances	(11,399)	(3,811)
Loans received	(100,000)	(150,000)
<b>Total balances</b>	<b>24,908</b>	<b>(23,355)</b>

### M. Transactions with consolidated companies

	For the year ended December 31		
	2022	2021	2020
Revenues	793,579	713,350	420,806
Operating expenses	(48,433)	(35,921)	(36,685)
Interest expenses, net	(3,056)	(14,439)	(8,216)
<b>Total transactions</b>	<b>742,090</b>	<b>662,990</b>	<b>375,905</b>

## NOTE 8 – ADDITIONAL SIGNIFICANT EVENTS SUBSEQUENT TO THE REPORTING PERIOD

See Note 31 to the Consolidated Financial Statements.