



OIL REFINERIES LTD

# **Condensed Consolidated Interim Financial Statements as at June 30 , 2021**

**(Unaudited)**

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

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## **Directors' Report on the State of the Company's Affairs for the Period ended June 30, 2021**

The Board of Directors is pleased to present the Directors' Report on the State of the Company's Affairs for the period ended June 30, 2021 ("the Reporting Period"). This report is presented under the assumption that the entire interim report and the entire 2020 Periodic Report, including the description of the Corporation's business for 2020, are also available to the reader.

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

#### **A. Bazan Group Operating Segments**

Bazan Ltd. ("the Company" or "Bazan") and its subsidiaries ("Bazan Group" or "the Group") are industrial companies involved in two primary synergistic segments of operation: the Refinery Segment (through the Company and Gadiv) and the Polymers Segment (through Carmel Olefins and Ducor). In addition, Group companies also engage in operations that are not material: primarily the Trade segment (through Trading and Shipping).

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

#### **B. Bazan Group Business Environment and Profitability**

The outbreak of the Covid-19 pandemic in 2020 substantially impacted the Group's business environment and operating results. For further details, see Chapter 10B below.

In the fourth quarter of 2020, the structure of the Group's operating segments was changed so that the Fuels and Aromatics Segments were merged into the Refinery Segment and the Polymer - Carmel Olefins and Polymers - Ducor segments were merged into the Polymers Segment.

For further information see Chapter 1B to the Board of Directors Report for 2020.

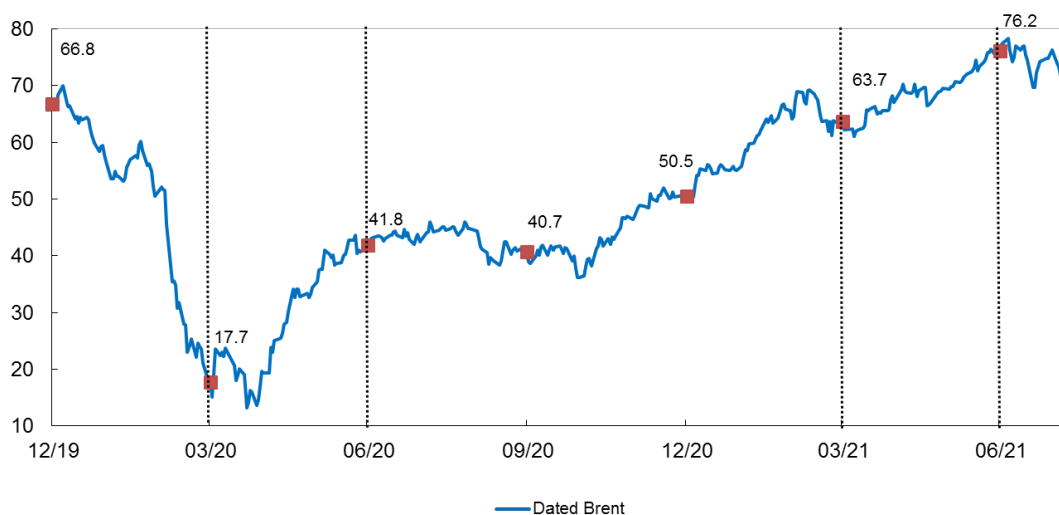
**Chapter 1 - Description of the Company and its Business Environment - contd.**

**B. Bazan Group Business Environment and Profitability - contd.**

**Refinery Segment (the Company and Gadiv)**

**Crude oil prices**

**Brent<sup>1</sup> crude oil prices in 2020-2021 (USD/barrel)**



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

**Average price of Brent crude (USD/barrel)**

1-6.2021	1-6.2020	Change	4-6.2021	4-6.2020	Change
65.0	40.1	62%	69.0	29.6	133%

In the Reporting Period the price of Brent crude increased and traded between USD 50 and USD 76 per barrel.

In the first quarter of 2021, the Brent price was affected, among other things, by the gradual recovery in demand for oil due to lifting of travel restrictions and the expected rate of progress of vaccination against Covid-19, along with the ongoing OPEC+ oil production limits.

In the second quarter of 2021, the Brent price was affected mainly by further recovery in demand for oil due to lifting of travel restrictions, primarily in Europe and the US, as well as a decrease in surplus inventories that accrued during the Covid-19 pandemic and the OPEC+ decision to gradually revise the production cut agreement (gradually increasing quotas compared to the preceding months) as of May, but at a slower pace than market expectations.

Close to Reporting Date, the Brent price was fixed at USD 76 per barrel.

Subsequent to Reporting Date, the Brent traded between USD 70 and USD 78 per barrel, its price being affected, among other things, by OPEC+ decision to reach agreements that would ensure continued cooperation until the end of 2022 and remove concerns of a price war in the oil market and opposed to new travel restrictions to slow down the spread of the virus worldwide.

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

**B. Bazan Group Business Environment and Profitability - contd.**

**Refinery Segment (the Company and Gadiy) – contd.**

**Crude oil prices – contd.**

**Average price of Brent crude (USD/barrel) – contd.**

Close to Reporting Date, the Brent price was fixed at USD 72 per barrel.

In the Reporting Period and the second quarter of 2021, the crude futures market curve was in backwardation at average of USD 0.4 per barrel compared to contango at USD 0.7 and USD 1.2 per barrel, respectively, in the corresponding period last year.

**Refining margin**

**Reuters Average Ural Margin and Bloomberg Average Ural and Azeri Margins in 2020-2021 (USD per barrel)**



Source: Reuters; Bloomberg.

**Average Benchmark Margins (USD/barrel)**

	1-6.2021	1-6.2020	Difference	4-6.2021	4-6.2020	Difference
Reuters Ural	-	0.6	-0.6	0.3	-0.5	0.8
Bloomberg Average Ural	2.5	0.4	2.1	2.3	-2.3	4.6
Bloomberg Average Azeri	3.8	2.0	1.8	3.6	0.4	3.2

- In the Reporting Period, the Reuters Ural margin decreased compared to the corresponding period last year, mainly due to the increase in supply of diesel fuel, despite the decrease in the Ural crude price compared to Brent. In the second quarter of 2021, the Reuters Ural margin increased compared to the corresponding period last year, mainly due to an increase in demand for gasoline together with a decrease in the Ural crude price compared to Brent.

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

### B. Bazan Group Business Environment and Profitability - contd.

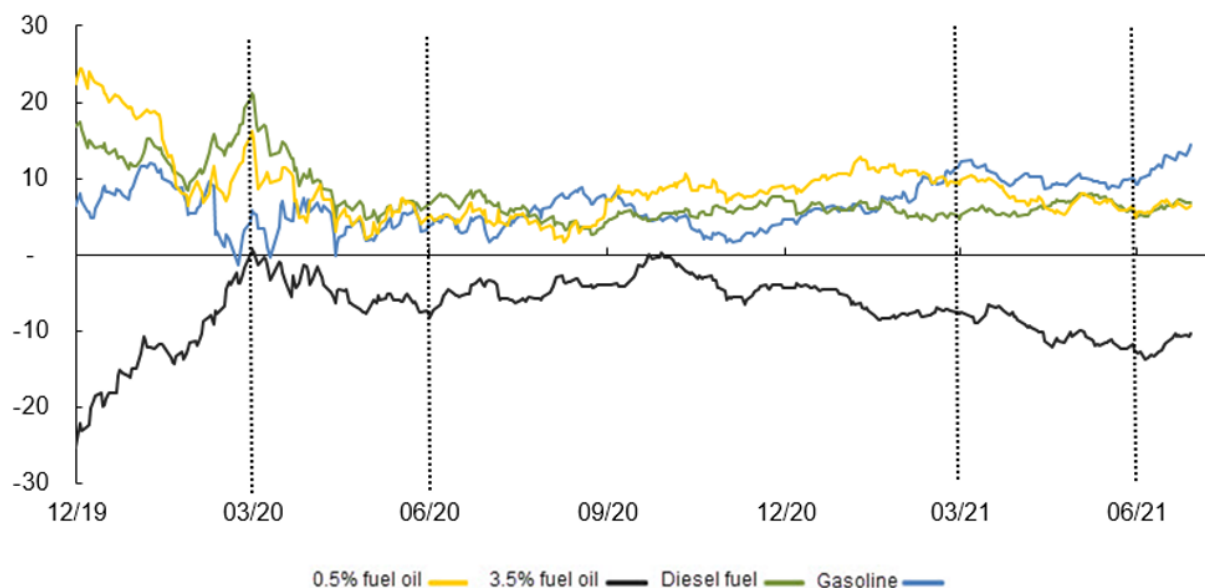
#### Refinery Segment (the Company and Gadiv) – contd.

##### Refining margin – contd.

- In the Reporting Period and particularly in the second quarter of 2021, the Bloomberg Average Ural margin increased compared to the corresponding periods last year, mainly due to an increase in demand for gasoline, together with the decrease in the Ural crude price compared to Brent.
- In the Reporting Period, the Bloomberg Average Azeri margin began to increase compared to the corresponding period last year, mainly due to an increase in demand for gasoline, together with the decrease in the price of Azeri crude compared to Brent. In the second quarter of 2021, the Bloomberg Average Azeri margin increased compared to the corresponding period last year, mainly due to an increase in demand for gasoline, despite the increase in the price of Azeri crude compared to Brent.
- Subsequent to Reporting Date and through to shortly before publication of the Report, the average Reuters and Bloomberg Ural margins amounted to USD 1.0 and USD 3.1 per barrel. The Bloomberg Average Azeri margin amounted to USD 3.8 per barrel.

For further information regarding the Refinery Segment's refining margins see Chapter 2 section A.

##### **Mediterranean transport diesel fuel <sup>(1)</sup>, gasoline <sup>(2)</sup>, 3.5% fuel oil <sup>(3)</sup> and 1% fuel oil <sup>(4)</sup> compared with Brent crude oil <sup>(5)</sup> (USD/barrel)**



(1) Source: Reuters

- (1) ULSD CIF Med
- (2) Prem Unl CIF Med
- (3) Fuel Oil 3.5% CIF Med
- (4) Fuel Oil 0.5% CIF Med
- (5) Brent (Dated)

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

**B. Bazan Group Business Environment and Profitability - contd.**

**Refinery Segment (the Company and Gadiy) – contd.**

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

	<b>1-6.2021</b>	<b>1-6.2020</b>	<b>Difference</b>	<b>4-6.2021</b>	<b>4-6.2020</b>	<b>Difference</b>
Diesel fuel <sup>(1)</sup>	6.1	11.2	-5.1	6.3	8.8	-2.5
Gasoline <sup>(2)</sup>	8.6	5.6	3.0	9.9	4.2	5.7
3.5% Fuel oil <sup>(3)</sup>	-8.3	-8.5	0.2	-10.0	-4.6	-5.4
0.5% Fuel oil <sup>(4)</sup>	8.9	10.9	-2.0	7.4	6.5	0.9

- (1) In the Reporting Period and the second quarter of 2021 there was a decrease compared to the corresponding period last year, mainly as a result of an increase in supply, due to an increase in the distillation of diesel fuel instead of jetfuel, the demand for which has not yet returned to the pre-Covid levels.
- (2) In the Reporting Period and the section quarter of 2021 there was an increase compared to the corresponding period last year, due to an increase in demand as a result of certain lifting of travel restrictions and increase use of cars as a result of the Covid-19 Pandemic.
- (3) In the second quarter of 2021, there was a decrease compared to the corresponding period last year, mainly due to an increase in supply of sulfur-rich fuel oil as a result of an increase in the supply of sulfur-rich raw materials (such as Ural).
- (4) In the Reporting Period, there was a decrease compared to the corresponding period last year, mainly due to an increase in supply of very low-sulfur (0.5%) fuel oil, in the wake of the IMO2020 standard taking effect.

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

### B. Bazan Group Business Environment and Profitability - contd.

#### Refinery Segment (the Company and Gadiv) - contd.

##### Refining margins - contd.

##### Domestic market consumption of distillates (thousands of tons) <sup>(1)</sup>

	4-6.2021	1-3.2021	10-12.2020	7-9.2020	4-6.2020	1-3.2020
Transportation fuels <sup>(2)</sup>	1,712	1,510	1,633	1,663	1,409	1,700
Other distillates	568	680	642	604	632	727
<b>Total</b>	<b>2,280</b>	<b>2,190</b>	<b>2,275</b>	<b>2,267</b>	<b>2,041</b>	<b>2,427</b>

Source: Ministry of National Infrastructures, Energy and Water Resources

- (1) Total distillate consumption in the domestic market (transportation fuels, other distillates for industry and heating) remained unchanged in the Reporting Period and increased in the second quarter of 2021 by about 12%, compared with the corresponding period last year, mainly due to the imposition of a lockdown in the corresponding quarter last year.
- (2) Consumption of transportation fuels (gasoline, diesel and kerosene) increased during the Reporting Period and in particularly in the second quarter of 2021 by about 4% and about 22%, compared to the corresponding periods last year, mainly due to the imposition of a lockdown in the corresponding quarter last year.

##### Refining volume

Utilization of crude oil refining plants, crude oil refining volume and HVGO processing in the Refinery Segment (thousands of tons)

	1-6.2021	1-6.2020	4-6.2021	4-6.2020
Utilization of refining plants	78% <sup>(1)</sup>	85%	78% <sup>(1)</sup>	80%
Refining volume	3,823	4,197	1,905	1,953
Volume of heavy vacuum gas oil	466	333	186	144
<b>Total</b>	<b>4,289</b>	<b>4,530</b>	<b>2,091</b>	<b>2,097</b>

The decrease in utilization of refining facilities in the Reporting Period, compared to the corresponding period last year, was mainly due to the adjustment of output to demand for distillates and to the refining margins that are still affected by the outcome of the Covid-19 crisis, together with a malfunction in the continuous catalytic reformer facility (the "CCR Facility"). For further information regarding the effect of this malfunction on the Group's margins, see Chapter 2, Section B2 below.

- (1) The utilization rate of the refining facilities, had the malfunction that occurred in the second quarter of 2021 not occurred, was 81% in the Reporting Period and 82% in the second quarter of 2021.

For further information, see Chapter 10B below.

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

**B. Bazan Group Business Environment and Profitability - contd.**

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

	1-6.2021	% of total	1-6.2020*	% of total	4-6.2021	% of total	4-6.2020*	% of total
Diesel fuel	1,781	42%	1,864	42%	856	42%	897	44%
Gasoline	508	12%	598	14%	223	11%	261	13%
Kerosene	108	3%	211	5%	82	4%	48	2%
0.5% Fuel oil	666	16%	673	15%	321	16%	284	14%
Petrochemical products <sup>(1)</sup>	502	12%	436	10%	270	13%	203	10%
Aromatics	244	6%	257	6%	100	5%	143	7%
Others <sup>(2)</sup>	385	9%	375	8%	191	9%	191	10%
<b>Total</b>	<b>4,194</b>	<b>100%</b>	<b>4,414</b>	<b>100%</b>	<b>2,043</b>	<b>100%</b>	<b>2,027</b>	<b>100%</b>

(\*) Restated due to the changes in the operating segments, for further information see Chapter 1B above.

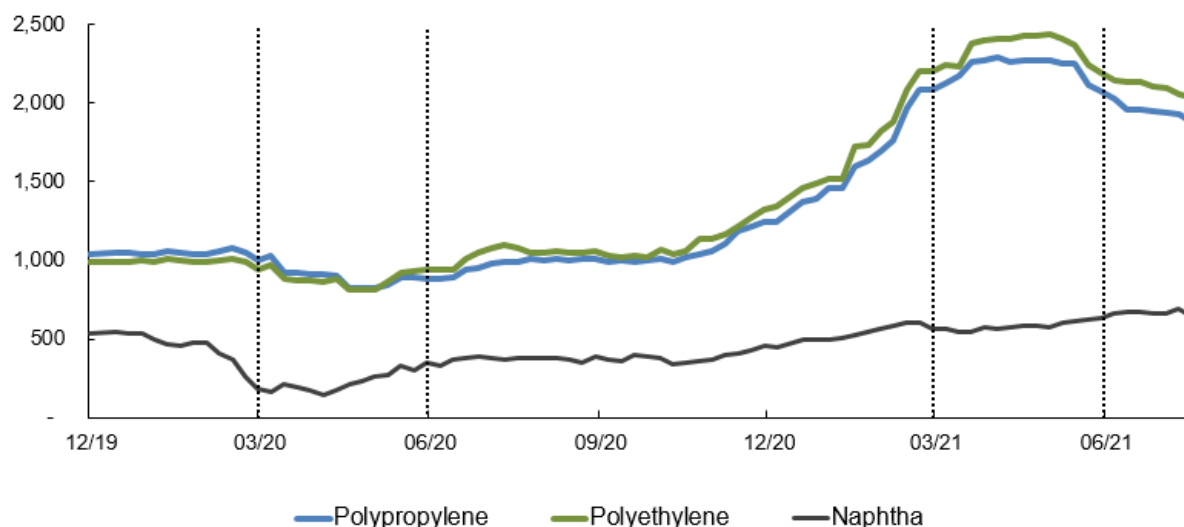
(1) Primarily includes: raw materials for production of polymers.

(2) Primarily includes: LPG and bitumen.

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

**Polymer and naphtha prices**

**Polymer <sup>(1)</sup> and naphtha <sup>(2)</sup> prices in 2020-2021 (USD/ton)**



Source: ICIS

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

(2) Naphtha CIF NEW

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**B. Bazan Group Business Environment and Profitability - contd.**

**Polymers Segment (Carmel Olefins and Ducor) - contd.**

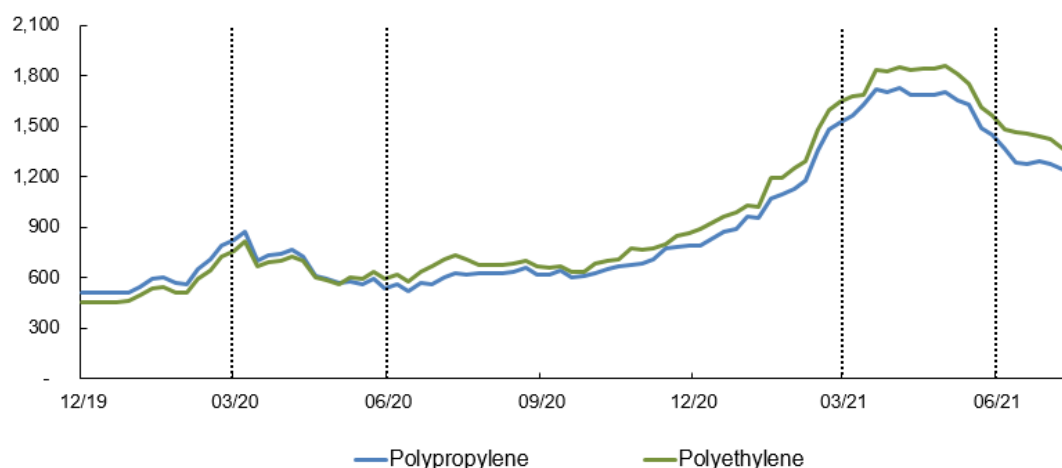
**Average polymer and naphtha prices (USD / ton)**

	1-6.2021	1-6.2020	Change	4-6.2021	4-6.2020	Change
Naphtha	569	327	74%	591	244	142%
Polypropylene	1,978	962	106%	2,217	879	152%
Polyethylene	2,095	934	124%	2,346	879	167%

- In the Reporting Period and in the second quarter of 2021, the price of naphtha increased compared to the corresponding period last year, parallel to the increase in crude price.
- In the Reporting Period and in the second quarter of 2021 there was a significant increase in polymer (polypropylene and polyethylene) prices compared to the corresponding period last year, mainly due to a decrease in polymer supply and parallel to the increase in raw material and energy prices.

**Margins**

**Difference between polymer and naphtha prices in 2020-2021 (USD /ton)**



Source: ICIS

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

	1-6.2021	1-6.2020	Difference	4-6.2021	4-6.2020	Difference
Polypropylene	1,409	635	774	1,626	635	991
Polyethylene	1,526	607	919	1,755	635	1,120

- There was a significant increase in the Reporting Period and in the second quarter of 2021, in the difference between the average polymer price (polypropylene and polyethylene) and the average naphtha price compared to the corresponding periods last year, mainly as a result of the decrease in supply of polymers due to the shutdown of production facilities in the US in the wake of the winter storms, and the gradual return to operations, alongside an increase in demand, primarily from the Asian market.

**Polymer output volume (thousand tons)**

	1-6.2021	1-6.2020	Difference	4-6.2021	4-6.2020	Difference
Polymers	330	334	(4)	161	164	(3)

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## Chapter 2 - Results of Bazan Group's operations for the six- and three-month periods

### A. Results of Bazan Group operations

**Breakdown of selected figures from the reported consolidated statements of income after adjustment for accounting effects for the six- and three-month periods ended June 30, 2021 (USD millions)**

To also present the financial based operating results of the Refinery 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 transaction in respect thereof); and to enable better understanding of the business performance over time and compared to comparable companies; the accounting effects in the Refinery 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 Refinery segment for the Fuels unit only, together with the reported EBITDA in the Group's other operating segments.

	1-6.2021	1-6.2020	Change	4-6.2021	4-6.2020	Change
Revenue	2,842	2,122	34%	1,565	706	122%
<b>Reported EBITDA</b>	<b>280</b>	<b>(25)</b>	<b>1220%</b>	<b>151</b>	<b>83</b>	<b>82%</b>
Depreciation	(79)	(98)	(19%)	(41)	(49)	(16%)
Other expenses, net <sup>(1)</sup>	(10)	(13)	(23%)	(2)	(7)	(71%)
<b>Operating profit (loss)</b>	<b>191</b>	<b>(136)</b>	<b>240%</b>	<b>108</b>	<b>27</b>	<b>300%</b>
Financing expenses, net <sup>(2)</sup>	(44)	(48)	(8%)	(28)	(40)	(30%)
Income tax <sup>(3)</sup>	(23)	27	185%	(11)	2	650%
<b>Net income (loss)</b>	<b>124</b>	<b>(157)</b>	<b>179%</b>	<b>69</b>	<b>(11)</b>	<b>727%</b>
Adjusted in the Refinery Segment <sup>(*)</sup>	(83)	107		(28)	(1)	
<b>Adjusted EBITDA</b>	<b>197</b>	<b>82</b>	<b>140%</b>	<b>123</b>	<b>82</b>	<b>50%</b>
<b>Adjusted operating profit (loss)</b>	<b>108</b>	<b>(29)</b>	<b>472%</b>	<b>80</b>	<b>26</b>	<b>208%</b>
<b>Adjusted net income (loss)</b>	<b>41</b>	<b>(50)</b>	<b>182%</b>	<b>41</b>	<b>(12)</b>	<b>442%</b>

For further information about the adjustment components, see sections B3 and C3 below.

- (1) Including amortization of excess cost. The decrease is mainly due to early retirement in the corresponding period last year.
- (2) Principal changes in financing expenses, based on financial analysis (USD millions):

	1-6.2021 compared to 1-6.2020	4-6.2021 compared to 4-6.2020
<b>Net financing expenses in the corresponding period last year</b>	<b>48</b>	<b>40</b>
Financing for working capital items, net (*)	2	2
Exchange differentials	3	(6)
Others (**)	(9)	(8)
<b>Total change</b>	<b>(4)</b>	<b>(12)</b>
<b>Net financing expenses in Reporting Period</b>	<b>44</b>	<b>28</b>

(\*) It should be noted that the Group is exposed to changes in the LIBOR interest, as set out in Note 30D to the annual financial statements.

(\*\*) The change includes a loss in full early redemption of Debentures (Series D) on June 30, 2020 at an amount of USD 4 million.

(3) Mainly due to an increase in pre-tax profit in the Period.

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**Bazan Ltd.**

**Chapter 2 - Results of Bazan Group's operations for the six- and three-month periods  
- contd.**

**A. Results of Bazan Group Operations - contd.**

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

	<b>1-6.2021</b>	<b>1-6.2020*</b>	<b>Change</b>	<b>4-6.2021</b>	<b>4-6.2020*</b>	<b>Change</b>
Refinery Segment	17	12	5	5	43	(38)
Polymers Segment	174	56	118	115	36	79
Others and adjustments	6	14	(9)	3	3	-
<b>Total</b>	<b>197</b>	<b>82</b>	<b>114</b>	<b>123</b>	<b>82</b>	<b>41</b>

	<b>4-6.2021</b>	<b>1-3.2021</b>	<b>10-12.2020</b>	<b>7-9.2020*</b>	<b>4-6.2020*</b>	<b>1-3.2020*</b>
Refinery Segment	5	12	1	(38)	43	(31)
Polymers Segment	115	59	36	30	36	20
Others and adjustments	3	3	2	8	3	11
<b>Total</b>	<b>123</b>	<b>74</b>	<b>39</b>	<b>-</b>	<b>82</b>	<b>-</b>

**Refining margin (USD/barrel)**

	<b>4-6.2021</b>	<b>1-3.2021</b>	<b>10-12.2020</b>	<b>7-9.2020*</b>	<b>4-6.2020*</b>	<b>1-3.2020*</b>
Adjusted refining margin** (Refinery Segment)	4.6	4.3	4.3	1.3	6.5	1.7
Adjusted proforma refining margin (Refinery Segment)	6.0					
Reuters Ural Margin	0.3	(0.2)	(0.1)	(2.0)	(0.5)	1.9
Bloomberg Average Ural Margin	2.3	2.7	1.1	-	(2.3)	3.1
Bloomberg Average Azeri Margin	3.6	4.0	2.7	1.2	0.4	3.6

(\*) Restated due to the changes in the operating segments, for further information see Chapter 1B above.

(\*\*) For further information concerning the adjustment components and pro forma calculations with respect to the malfunction in the CCR Facility during the Reporting Period and in the quarter, see sections B3 and C3 below.

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**Chapter 2 - Results of Bazan Group's operations for the six- and three-month periods - contd.**

**B. Analysis of results for the six month period**

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

	Sales turnover USD million		Distribution of sales		Average prices of the product mix (USD/ton)	
	1-6.2021	1-6.2020**	1-6.2021	1-6.2020**	1-6.2021	1-6.2020**
Refining <sup>(1)</sup>	2,268	1,720	80%	81%	550	403
Polymers <sup>(2)</sup>	561	374	20%	18%	1,779	1,063
Others	13	28	0%	1%		
<b>Total</b>	<b>2,842</b>	<b>2,122</b>	<b>100%</b>	<b>100%</b>		

(1) Mainly an increase in prices of the products parallel to an increase in the price of crude oil

(2) Mainly an increase in polymer prices parallel to an increase in the price of crude oil

(\*) 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.

(\*\*) Restated due to the changes in the operating segments, for further information see Chapter 1B above.

**2. Consolidated adjusted EBITDA in the operating segments**

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

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

Increase (decrease)	Refining	Polymers	Others and adjustments	Consolidated
<b>Adjusted EBITDA January-June 2020</b>	<b>12</b>	<b>56</b>	<b>14</b>	<b>82</b>
Margin/contribution (1)	41	146	(8)	179
Sales volume	(3)	(10)	-	(13)
Estimated loss of profits due to the malfunction in the CCR Facility <sup>(2)</sup>	(26)	(5)	-	(31)
Operating expenses <sup>(3)</sup>	(7)	(13)	-	(20)
<b>Total change</b>	<b>5</b>	<b>118</b>	<b>(8)</b>	<b>115</b>
<b>Adjusted EBITDA January-June 2021</b>	<b>17</b>	<b>174</b>	<b>6</b>	<b>197</b>

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

(2) In the second quarter of 2021 a malfunction occurred in the Company's CCR Facility, due to which the Company had to shut down the facility for repairs which took several weeks. The loss of profits due to the foregoing malfunction was estimated at USD 31 million, mainly in the Refinery Segment.

(3) Includes fixed, production, general and administrative. The change is mainly due to an increase in operating lease expenses as a result of an increase in profits, increase in municipal tax expenses, increase in payroll costs and the effect of the appreciation of the NIS against the USD on NIS expenses, and against the cancellation of the provision for the Palestinian Authority trade balance in the Refinery Segment in the first quarter of 2021, as set out in Note 8D to the financial statements.

(\*) Restated due to the changes in the operating segments, for further information see Chapter 1B above.

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**Chapter 2 - Results of Bazan Group's operations for the six- and three-month periods  
- contd.**

**B. Analysis of results for the six-month period - contd.**

**3. Adjustment components in the Refinery Segment**

Breakdown of adjustment components in the Refinery Segment (fuels unit) and their effect on the EBITDA (USD millions):

		<b>1-6.2021</b>	<b>1-6.2020*</b>
<b>Refinery Segment reported EBITDA</b>		<b>100</b>	<b>(95)</b>
Effects of timing differences <sup>(1)</sup>		(90)	97
Effect of adjusting value of inventory to market value, net		5	8
Effect of changes in fair value of derivatives and disposals		2	2
<b>Total adjustments <sup>(2)</sup></b>		<b>(83)</b>	<b>107</b>
<b>Refinery Segment adjusted EBITDA</b>		<b>17</b>	<b>12</b>
<b>Refining margin</b>	<b>Adjusted margin (USD/barrel)</b>	<b>4.5 <sup>(3)</sup></b>	<b>3.9 <sup>(4)</sup></b>
<b>Benchmark margins</b>	<b>Reuters Ural margin (USD/barrel)</b>	<b>–</b>	<b>0.6</b>
	<b>Bloomberg Average Ural (USD/barrel)</b>	<b>2.5</b>	<b>0.4</b>
	<b>Bloomberg Average Azeri (USD/barrel)</b>	<b>3.8</b>	<b>2.0</b>

(1) As at Reporting Date, the volume of inventory that is not hedged with contracts is 480 thousand tons.

(2) As defined in the Company's Board of Directors' Report for 2020.

(3) The proforma margin for the Reporting Period was USD 5.2 per barrel and was calculated as follows:

A. The estimated loss of profits due to the malfunction in the CCR Facility was added to the Company's adjusted refining margin (in USD million).

B. The corrected margin was divided by the number of barrels of oil and interim materials that the Company would have processed in the Reporting Period had the malfunction in the CCR Facility not occurred.

(4) In January - June 2020 the Fuels Unit adjusted refining margin was USD 2.8 per barrel.

(\*) Restated due to the changes in the operating segments, for further information see Chapter 1B above.

**4. Net income (loss)**

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

<b>Net loss 1-6.2020</b>	<b>(157)</b>
Change in reported EBITDA	305
Change in depreciation expenses	19
Change in net financing expenses	4
Change in tax expenses	(50)
Other	3
<b>Net earnings 1-6.2021</b>	<b>124</b>

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**Chapter 2 - Results of Bazan Group's operations for the six- and three-month periods  
- contd.**

**C. Analysis of Second Quarter Results**

**1. Turnover of sales to external customers, by operating segment (\*) (USD million)**

	Sales turnover USD million		Distribution of sales		Average prices of the product mix (USD / ton)	
	4-6.2021	4-6.2020**	4-6.2021	4-6.2020**	4-6.2021	4-6.2020**
Refining <sup>(1)</sup>	1,237	524	79%	75%	586	263
Polymers <sup>(2)</sup>	322	172	21%	24%	2,044	987
Others	6	10	0%	1%		
<b>Total</b>	<b>1,565</b>	<b>706</b>	<b>100%</b>	<b>100%</b>		

(1) Mainly an increase in prices of the products parallel to an increase in the price of crude oil

(2) Mainly an increase in polymer prices parallel to an increase in the price of crude oil

(\*) 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.

(\*\*) Restated due to the changes in the operating segments, for further information see Chapter 1B above.

**2. Consolidated adjusted EBITDA in the operating segments**

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

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

Increase (decrease)	Refining	Polymers	Others and adjustments	Consolidated
<b>Adjusted EBITDA April-June 2020*</b>	<b>43</b>	<b>36</b>	<b>3</b>	<b>82</b>
Margin/contribution (1)	(7)	97	–	90
Sales volume	7	(5)	–	2
Estimated loss of profits due to the malfunction in the CCR Facility <sup>(2)</sup>	(26)	(5)	–	(31)
Operating expenses <sup>(3)</sup>	(12)	(8)	–	(20)
<b>Total change</b>	<b>(38)</b>	<b>79</b>	<b>–</b>	<b>41</b>
<b>Adjusted EBITDA April-June 2021</b>	<b>5</b>	<b>115</b>	<b>3</b>	<b>123</b>

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

(2) For further information concerning the effect of the malfunction that occurred in the CCR Facility in the second quarter of 2021 on the operating results, see section B2 above.

(3) Includes fixed, production, general and administrative. The change is mainly due to an increase in operating lease expenses as a result of an increase in profits, increase in municipal tax expenses, increase in payroll costs and the effect of the appreciation of the NIS against the USD on NIS expenses.

(\*) Restated due to the changes in the operating segments, for further information see Chapter 1B above.

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**Chapter 2 - Results of Bazan Group's operations for the six- and three-month periods  
- contd.**

**C. Analysis of second quarter results - contd.**

**3. Adjustment components in the Refinery Segment**

Breakdown of adjustment components in the Refinery Segment (fuels unit) and their effect on the EBITDA (USD millions):

		4-6.2021	4-6.2020*
<b>Refinery Segment reported EBITDA</b>		<b>33</b>	<b>44</b>
Effects of timing differences (1)		(34)	14
Effect of adjusting value of inventory to market value, net		4	(8)
Effect of changes in fair value of derivatives and disposals		2	(7)
<b>Total adjustments (2)</b>		<b>(28)</b>	<b>(1)</b>
<b>Refinery Segment adjusted EBITDA</b>		<b>5</b>	<b>43</b>
<b>Refining margin</b>	<b>Adjusted margin (USD/barrel)</b>	<b>4.6 (3)</b>	<b>6.5 (4)</b>
<b>Benchmark margins</b>	<b>Reuters Ural margin (USD/barrel)</b>	<b>0.3</b>	<b>(0.5)</b>
	<b>Bloomberg Average Ural (USD/barrel)</b>	<b>2.3</b>	<b>(2.3)</b>
	<b>Bloomberg Average Azeri (USD/barrel)</b>	<b>3.6</b>	<b>0.4</b>

(1) As at Reporting Date, the volume of inventory that is not hedged with contracts is 480 thousand tons.

(2) As defined in the Company's Board of Directors' Report for 2020.

(3) The proforma margin for the second quarter of 2021 was USD 6.0 per barrel and was calculated as follows:

- a. The estimated loss of profits due to the malfunction in the CCR Facility was added to the Company's adjusted refining margin (in USD million).
- b. The corrected margin was divided by the number of barrels of oil and interim materials that the Company would have processed in the quarter, had the malfunction in the CCR Facility not occurred.

(4) In the second quarter of 2020 the Fuels Unit adjusted refining margin was USD 5.3 per barrel.

(\*) Restated due to the changes in the operating segments, for further information see Chapter 1B above.

**4. Net income (loss)**

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

<b>Net loss 4-6.2020</b>	<b>(11)</b>
Change in reported EBITDA	68
Change in depreciation expenses	8
Change in net financing expenses	12
Change in tax expenses	(13)
Other	5
<b>Net earnings 4-6.2021</b>	<b>69</b>

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**Chapter 3 - Analysis of Financial Position (Balance Sheet)**

**USD Millions**

	<b>Jun 30, 2021</b>	<b>Dec 31, 2020</b>	<b>Change</b>	<b>Explanation</b>
Trade and other receivables	627	402	56%	Mainly due to an increase in trade receivables in an amount of USD 195 million, which was mainly due to a sharp rise in the prices of the products, a decrease in discounting in an amount of USD 69 million and offsetting the payment of the balance of the Palestinian Authority debt (for further information see Note 8D to the financial statements), and an increase in other receivables in the amount of USD 30 million, mainly due to an increase in pre-paid expenses for insurances and increase in VAT.
Inventories	610	355	72%	Mainly due to a sharp rise in price and increase in volume.
Property, plant & equipment, net	2,188	2,227	(2%)	
Trade, other payables and provisions	1,116	977	14%	Mainly due to an increase in trade payables in the amount of USD 175 million as a result of the sharp rise in price and an increase in volume, of which an increase of USD 22 million was in trade payables with prolonged credit days (for further information see Note 8B to the financial statements), and against a decline in other payables in the amount of USD 34 million, mainly due to a decrease in customer advance payments.
Long term bank loans and debentures (including current maturities)	1,426	1,497	(5%)	Mainly due to the issue of Debentures (Series L) in the amount of USD 43 million and receipt of a loan in the amount of USD 30 million, less principal maturities for debentures and loans in an amount of USD 133 million and exchange rate differentials (*) in the amount of USD 8 million.
Equity	1,212	1,080	12%	Mainly due to net income for the Period in the amount of USD 124 million and other comprehensive income for the Period.
Shareholders equity to balance sheet ratio	29%	28%		

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

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## Chapter 4 - Analysis of the Group's liquidity

### Working Capital (current assets less current liabilities) (USD millions)

June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
424	518	383	393	442	333

### Current ratio

The current ratio as at June 30, 2021 is 1.29 and at December 31, 2020 was 1.32.

### Accounting Cash Flows\* for January-June 2021 (USD millions)

	1-6.2021
	USD million
<b>Cash and deposits as at December 31, 2020</b>	<b>814</b>
Cash flow from ongoing operations <sup>(1)</sup>	(41)
Interest paid, net	(45)
Acquisition of property, plant & equipment	(44)
Repayment of long-term loans and debentures	(133)
Receipt of long term loans and issue of debentures, net of capital raising costs <sup>(2)</sup>	73
Payment of liability for lease	(9)
Other <sup>(3)</sup>	12
<b>Cash and deposits as at June 30, 2021</b>	<b>627</b>

(\*) Based on the presentation in the financial statements.

(1) Negative cash flow from ongoing operations is mainly due to an increase in working capital. For further information, see the statements of cash flow in the financial statements.

(2) For further information, see Note 6A to the financial statements.

(3) Mainly due to an increase in deposits from customers.

### Accounting Cash Flows\* for April-June 2021 (USD millions)

	4-6.2021
	USD million
<b>Cash and deposits as at March 31, 2021</b>	<b>768</b>
Cash flow from current operations	1
Interest paid, net	(26)
Acquisition of property, plant & equipment	(23)
Repayment of long-term loans and debentures	(100)
Payment of liabilities for lease	(4)
Other <sup>(1)</sup>	11
<b>Cash and deposits as at June 30, 2021</b>	<b>627</b>

(\*) Based on the presentation in the financial statements.

(1) Mainly due to an increase in deposits from customers.

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## Bazan Ltd.

### Chapter 5 - Total credit from financial institutions

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

#### **Total net financial debt**

	<b>June 30, 2021</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>	<b>June 30, 2020</b>	<b>March 31, 2020</b>
Short-term borrowings	4	–	2	7	3	254
Bank loans <sup>(1)</sup>	453	473	453	466	473	364
Debentures <sup>(1)</sup>	1004	1,068	1,070	987	972	1,035
Liquid financial assets <sup>(2)</sup>	(627)	(768)	(814)	(637)	(540)	(718)
Hedging transactions on debentures <sup>(3)</sup>	(46)	(35)	(58)	(21)	(16)	(16)
<b>Total net financial debt</b>	<b>788</b>	<b>738</b>	<b>653</b>	<b>802</b>	<b>892</b>	<b>919</b>

(1) Including current maturities Displayed in accordance with adjusted par value (without interest payable).

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

(3) Based on the Group's hedging policy, principal and interest swap transactions were carried out against the issuance of NIS bonds. 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.

For further information regarding the Group's secured short-term credit facilities for 2021, see Note 13A2 to the annual financial statements. As at June 30, 2021, the Group has unutilized secured credit facilities in the amount of USD 330 million (utilization is for letters of credit and guarantees only).

#### **Net movement in financial debt**

	<b>1-6.2021</b>
	<b>USD million</b>
<b>Net debt at December 31, 2020</b>	<b>(653)</b>
Cash flow for ongoing operations (less change in discounting and interest-bearing suppliers)	5
Change in discounting and interest-bearing suppliers	(46)
Interest paid, net	(45)
Acquisition of property, plant & equipment	(44)
Payment of liabilities for lease	(9)
Other	4
<b>Net debt at June 30, 2021</b>	<b>(788)</b>

	<b>4-6.2021</b>
	<b>USD million</b>
<b>Net debt at March 31, 2021</b>	<b>(738)</b>
Cash flow for ongoing operations (less change in discounting and interest-bearing suppliers)	43
Change in discounting and interest-bearing suppliers	(42)
Interest paid, net	(26)
Acquisition of property, plant & equipment	(23)
Payment of liabilities for lease	(4)
Other	2
<b>Net debt at June 30, 2021</b>	<b>(788)</b>

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## Chapter 5 - Total credit from financial institutions - contd.

### Financial leverage

	June 30, 2021	December 31, 2020
Financial leverage (*)	3.4	5.4

(\*) Net financial debt as defined above divided by adjusted EBITDA in the last four 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 less raising costs) amount to USD 1,507 million. Average trade receivables amount to USD 457 million and average trade payables amount to USD 875 million.

## Chapter 6 - Exposure to market risk and risk management methods

In the Reporting Period there were no significant changes in market risks to which the Company is exposed, in the policies for managing these risks and in those charged with managing them compared with the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2020, other than as set out in Note 8E to the financial statements concerning the risk management policy regarding polymer margins.

## Chapter 7 - Corporate governance

There was no change in the minimum required number of directors with accounting and financial expertise, the minimum number of independent directors required by law and disclosure regarding the internal auditor of a reporting corporation, with regard to the description in the Board of Directors' Report on the state of the Company's business affairs for the period ended December 31, 2020.

## Chapter 8 - Disclosure of financial reporting

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

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

The provisions of Notes 5A(1) and 5A(2) to the financial statements (including by way of reference to the content of Notes 20A(2) and (4) to the annual financial statements), with regard to legal, administrative and other proceedings, other contingencies, laws and environmental regulations (the "Proceedings") and the consequences of the Director Committee report on the matter of the development and promotion of Haifa Bay. With regard to the Proceedings, based on the opinions of their legal counsels, among other things, the managements of the Company and the subsidiaries, believe that it is not possible at this stage to assess the foregoing impact on the results of operations and on the financial situation, if any exists, and therefore, no provision regarding this matter was included in the financial information.

### B. Use of estimates and judgments

For information concerning the use of estimates and discretion, see Note 2B to the financial statements.

### C. Definition of insignificant transactions in the Company's financial statements

In the Reporting Period there were no changes with regard to the disclosure given in this regard in the 2020 Periodic Report.

## **Chapter 9 - Details of outstanding debentures**

In the Reporting Period, there were no changes in the details of the existing series of debentures issued by the Company and offered to the public under a prospectus, in the details of the debenture trustees, in the conditions for call for immediate redemption of the debentures, in the Company's compliance with these conditions, and in the collateral for the debentures as described in the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2020 and in the notes to the financial statements for that year, and particularly to the ratification of the Company's rating of i1A with negative outlook by Maalot (S&P) and the expansion of Debentures (Series L), as set out in Note 6A to the financial statements.

For further information concerning the financial covenants applicable to the Company, see Note 6B to the financial statements.

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

## **Chapter 10 – Material events in and subsequent to the reporting period**

**A.** For further information see Notes 5,6 and 8 to the financial statements.

### **B. Effect of the Corona Covid-19 virus on the Group's business operations**

In January 2020, the coronavirus pandemic broke out, which as at the approval date of the report, is still spreading throughout the world, including the spread of the various variants. In the period since the outbreak of the COVID-19 virus, there has been a significant decline in economic activity in many regions worldwide, including in Israel, and there is concern about the continued moderation of global and local economic activity for long periods.

As part of the management of the Covid pandemic and in an attempt to halt its spread, measures are still being taken to restrict congregation and free movement of people in various countries alongside various reliefs aiming to minimize damage to economic activity and to gradually restart the economy.

As at date of approval of the report, it is not possible to assess which strict measures will be imposed and/or which restrictions in mobility, congregation, and opening of businesses will be lifted, and how and when they will be implemented, the pace of vaccinating the population and the efficiency of the vaccines in general and over time, and how these will affect the scope and duration of the Covid-19 pandemic.

#### **1. Global Business Environment**

##### Price of crude oil

For further information concerning developments in oil prices during and subsequent to the Reporting Period, see Chapter 1B above.

##### Global demand for transportation fuels<sup>1</sup>

For further information concerning demand for transportation fuels in the Reporting Period, see chapter 1B above and concerning forecasts of recovery of demand, particularly for gasoline, diesel fuel and jet fuel, to pre-Covid levels, see chapter 10B1 to the Directors' report for 2020. As at date of approval of the report, there has been no material change in the foregoing forecasts.

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<sup>1</sup> The macroeconomic data set out in this paragraph are based on various forecasts including by IHS Markit, in June 2021.

## **Bazan Ltd.**

### Refinery utilization worldwide<sup>1</sup>

For further information concerning the forecasts for returning to pre-Covid utilization rates, see chapter 10B1 to the Directors' report for 2020. As at date of approval of the report, there has been no material change in the foregoing forecasts.

The reference in this section to the Company's assessments of future developments in the global and local economic environment, is forward-looking information as defined in section 32A of the Securities Law. Such developments and implications are not under the Company's control, are uncertain and are based on information that the Company has as at the date of approval of the Report. If the global crisis deepens and continues over time, this may cause a significant adverse effect on the demand, supply and price forecasts, as these are included in this section and also lead to a significant deterioration in the results of the Company's operations, including its financial ability to cope with such event as set out below.

## **2. Consequences of the Covid-19 crisis on the Group's business operations in the second quarter of 2021 and until close to the date of approval of the report**

### **A. Domestic market demand for transportation fuels**

In the second quarter of 2021, there was a 15% increase in the sales volume of the Company's products in Israel, compared to the corresponding quarter last year, due to the gradual recovery of the economy, compared with the first lockdown in Israel in the corresponding quarter last year. Most of the increase was in gasoline sales, (increase of 24%), and in diesel fuel and jet fuel sales (increase of 17% and 8%, respectively).

In July 2021 and based on orders for August 2021, the volume of sales of the Company's products in Israel is expected to increase by 10% compared with the corresponding period last year, mainly due to further lifting of travel restrictions. Most of the increase was in the sale of jet fuel (increase of 194%. It is noted that the jet fuel production in this period constituted an average of 7% of the total production of the fuels unit), and in the sale of gasoline and diesel fuel (increase of 7% and 3%, respectively).

It is noted that as at the date of approval of the report, as a rule, there has not been a decline in the volume of sales of fuel products on the export markets in which the Group operates.

### **B. Production volume**

For information concerning the utilization of the refining facilities in the second quarter of 2021, see chapter 1B above. It is noted that the Company consistently reviews the need to adjust production volume and if possible, the product mix, to the demand and market margins. Furthermore, if necessary, the Company reduces the volume of gasoline imports, diverts certain sales from the domestic market to export and adjusts its inventory.

### **C. Refining margin**

For further information concerning refining margins during and subsequent to the Reporting Period, see Chapter 1B above.

### **D. Fixed costs and investments**

For further information see Chapter 10B2D to the Directors' Report for 2020. As at the date of approval of the report, capital investments for 2021 is not expected to exceed USD 120 million, after combining planned maintenance work on the FCC facility with the periodic maintenance of this facility and all of Carmel Olefins facilities that were planned for the first half of 2022.

### **E. Availability of human resources**

For further information see Chapter 10B2E to the Directors' Report for 2020.

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### F. Liquidity and financial robustness

For further information see Chapters 10B2F and 10B3E to the Directors' Report for 2020.

1. As at June 30, 2021, the Group's net financial debt amounts to USD 788 million. For further information concerning debentures that were issued and a long term bank loans received during the Reporting Period, for a total amount of USD 153 million, see Note 6A to the financial statements.
2. Sources for financing working capital - for information see Notes 8A and 8B to the financial statements.
3. As at June 30, 2021, the Group has substantial cash balances and deposits in an amount of USD 627 million. Furthermore, as at June 30, 2021, the Group has unused secured credit facilities amounting to USD 330 million.
4. For further information concerning the Company's rating by S&P Maalot in the Reporting Period, see Note 6A to the financial statements.

### 3. **The Group's assessments for the period from approval of this report through to the end of the third quarter of 2021**

#### A. Demand for distillates

As set out above, as at publication of this Report, The Company estimates that in the third quarter of 2021, demand for its fuels, particularly jet fuel, will continue to recover. This assessment is uncertain and depends, inter alia, on the continued spread of the Covid-19 pandemic and the pace and effectiveness of vaccinating the population globally, including in Israel, and the measures taken so far and that may result from them, and further consequences of the economic crisis.

With respect to export, the Company estimates that at the present time, it is not expected to encounter difficulty in selling its fuel products to the export markets in which the Group operates.

#### B. Refining margin

Close to date of approval of the report, the Reuters Average Ural and Bloomberg Average Ural and Average Azeri margins are USD 2.1, USD 4.0 and USD 4.5 per barrel, respectively.

It is extremely difficult to estimate refining margins for the rest of the quarter as these are affected by frequent global changes in crude oil prices and refining margins, which are substantially impacted particularly at this time by the extent of global demand.

#### C. Refining volume

If the refining margins remain at their current level in August and September, the Company's refinery utilization rate in the third quarter of 2021, could exceed 85%.

#### D. Fixed costs and investments

The Company is continuing and will continue to adjust the scope of its CapEx investments as set out, among other things, in section 2D above and the scope of its fixed costs to its financial position.

#### E. Liquidity and financial robustness

1. Rescheduling of long term debt - the Group deems securing its financial robustness and liquidity to be one of its key objectives. The Group routinely monitors developments in this area, including in the capital market and banking system, and if in its opinion opportunities arise, they will be explored fully based on relevant considerations.

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## **Bazan Ltd.**

2. The Company estimates, other than under extreme unreasonable scenarios, it is expected to comply with the financial covenants set in the financing agreements with the banks and in the deeds of trust for the debentures.
3. Based on the Group's cash flow forecast for the coming quarters, based on various profitability scenarios that are derived, among others, from market forecasts based on estimates of the rate and effectiveness of vaccinating the population against Covid-19, as set out in section 1 regarding the global business environment, the cash balances it has in hand, further rescheduling of the long term debt in the latter half of 2021 and in 2022, and other assumptions as set out above, the Company estimates that it has the financial resources necessary to finance all of its needs, including for meeting its existing and expected liabilities.

The foregoing reference to the Company's assessments of its financial state and liquidity, and its assessment that it has the financial resources required to fund all its needs, depending on the impact of future developments in the global and local economic environment, and primarily changes in the projected refining margins, are forward looking information as such term is defined in Section 32A of the Securities Law. Such developments and implications are not under the Company's sole control, are uncertain and are based on information that the Company has as at the date of approval of the Report and on various scenarios and assumptions, the key ones of which are set out above. If the global crisis deepens and if it lasts for a long time and if there is material deviation from the assumptions underlying the Company's assessments, as aforesaid, as well as the rate of Covid-19 spreading and the efficacy of the vaccines and pace of inoculation of the population in Israel and worldwide, may lead to a significant deterioration in the results of the Company's operations, including a change in its assessment that it has sufficient financial resources to finance all its needs as aforesaid, and its financial ability to cope with such event.

#### **4. The Group's estimates for the fourth quarter of 2021 and thereafter**

For further information see Chapter 10B4 to the Directors' report for 2020.

As at the approval date of the report, the Company is unable to estimate the duration and/or possible effects of the continuation of the Covid-19 pandemic on the results of the Group's operations.

The reference in this section to the Company's assessments of future developments in the fourth quarter of 2021 and thereafter, in the global and local economic environment, as well as to the possible implications of these developments on the Group's operations, is forward-looking information as defined in section 32A of the Securities Law. Such developments and implications are not under the Company's control, are uncertain and are based on information that the Company has as at the date of approval of the Report. If the global crisis deepens and continues over time, this can lead to a significant deterioration in the results of the Company's operations, including its financial ability to cope with the event.

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

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**Ovadia Eli**  
**Chairman of the Board of**  
**Directors**

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**Moshe Kaplinsky Peleg**  
**CEO**

August 12, 2021

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## **Revision of the Description of the Company's Businesses in the Periodic Report as at December 31, 2020**

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

During and subsequent to the Reporting Period no significant changes or developments occurred in the description of the Company's businesses which do not appear in the other chapters of the financial statements of the Board of Directors' report, other than that set out below:

1. Further to that stated in section 1.7.14.6 of the chapter on the description of the Company's business, the date for submitting application for a further extension of the conditional license for electricity generation expired on April 30, 2021, and the Company decided not to request such extension.
2. Further to the provisions of section 1.10.1 of the chapter on the description of the Company's business, in the Reporting Period, the Haifa Municipality and the Company signed a memorandum of understanding regarding the demolition of the collapsed cooling tower, and accordingly the Company dismantled it.
3. Further to that stated in section 1.10.2 of the chapter on the description of the Company's businesses, after reviewing all the relevant considerations (particularly safety, environments, operational, business and financial considerations), at the beginning of the second quarter of 2021, the Company decided to postpone the shutdown of the FCC facility for replacing material components planned for this quarter until the first half of 2022, and to carry out this work together with the planned periodic maintenance of this facility, and of all of Carmel Olefins facilities.
4. Further to the provisions of section 1.10.8 of the chapter on the description of the Company's businesses, on June 7, 2021, the Directors' Committee published its report for the development and promotion of Haifa Bay. For further information concerning the recommendations included in this report see Note 5A1 to the financial statements.
5. Further to that stated in section 1.15.6 of the chapter on the description of the Company's businesses, on April 18, 2021, the Ministry of Energy published the "Roadmap for Low-carbon Economy by 2050" for public review. The purpose of this document is to set goals and means (including for 2030) for reducing carbon emissions into the atmosphere, as is generally accepted worldwide. On April 19, 2021, the Ministry of Environmental Protection published the Climate Law Memorandum, 2021. On August 2, 2021, the government approved the economic plan for 2021-2022, that includes legislative initiatives that could affect the Group's operations and, among other things, regulations for the taxation of certain products that the Group produces and the imposition of a carbon tax on certain materials, including on natural gas. The implementation and application of the foregoing economic plan is subject to the approval of the Arrangements Bill in the Knesset. The Company is currently studying this document and its potential impact on the operations of the Group companies. At this stage it is not able to estimate if and what impacts these issues might have on the Group's operations and results.
6. Further to the provisions of section 1.23 and section 1.24.3.6 of the chapter on the description of the Company's businesses, on July 21, 2021, the Company's Board of Directors approved the Group's strategic plan. For further information, see the immediate report (Ref. No.: 2021-01-120867).
7. Further to that stated in section 1.16.7 of the chapter on the description of the Company's businesses, the business licenses and temporary permits issued by the Haifa Municipality for all of the Group companies were extended until December 31, 2021.

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**Somekh Chaikin**  
**7 Nahum Het Street,**  
**PO Box 15142**  
**Haifa 3190500**  
**04-861 4800**

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

### *Introduction*

We have reviewed the accompanying financial information of Bazan Limited ("the Company") and its subsidiaries ("the Group"), including the condensed consolidated statement of financial position as at June 30, 2021 and the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six and three months then ended. The board of directors and the management are responsible for preparation and presentation of the financial information for these interim periods in accordance with IAS 34 - Interim Financial Reporting, and are also responsible for preparation of the interim financial information for these periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express an opinion on the financial information for these interim periods based on our review.

### *Review scope*

We conducted our review in accordance with Israel Accounting Standard No. 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, established by the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted accounting principles in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

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

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

### *Emphasis of matter (drawing attention)*

Without qualifying our above conclusions, we draw attention to Notes 5A(1) and 5A(2) in the financial information (including by way of reference to Note 20A(2) and 20A(4) to the annual financial statements) regarding legal, administrative and other proceedings, other contingencies, laws and regulations relating to environmental quality ("the Procedures"), and the implications of the report of the inter-ministerial committee on the development and promotion of Haifa Bay. Regarding the Procedures, the managements of the Company and the subsidiaries believe, based, among other things, on the opinion of the legal counsel of the Company and its subsidiaries, that, at this stage, it is not possible to assess the effect of the aforesaid on the operating results and the financial position, if any, and therefore, no provision regarding this matter was included in the financial information.

Somekh Chaikin

Certified Public Accountants

August 12, 2021

Somekh Chaikin, an Israeli partnership and member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity

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**Somekh Chaikin**  
**7 Nahum Het Street,**  
**PO Box 15142**  
**Haifa 3190500**  
**04-861 4800**

**Attn.**  
**The board of directors of Bazan Ltd. (“the Company”)**

To whom it may concern,

**Re: Letter of consent in connection with the shelf prospectus of Bazan Ltd.**  
**dated November 2018**

We hereby inform you that we agree to the inclusion (including by way of reference) of our statements set out below in connection with the shelf prospectus of November 2018.

- (1) Review report of the auditor of August 12, 2021 on the Company's condensed consolidated financial information as at June 30, 2021 and for the six and three months then ended.
- (2) Review report of the auditor of August 12, 2021, on the Company's condensed separate financial information as at June 30, 2021 and for the six and three months then ended in accordance with Regulation 38D of the Israel Securities Regulations (Periodic and Immediate Reports), 1970.

Yours sincerely,

Somekh Chaikin  
Certified Public Accountants

August 12, 2021

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## Bazan Ltd - Condensed Consolidated Interim Statements of Financial Position, in USD thousand

	June 30, 2021 (Unaudited)	June 30, 2020	December 31, 2020 (Audited)
<b>Current assets</b>			
Cash and cash equivalents	621,655	531,126	809,701
Deposits	5,575	9,000	4,493
Trade receivables	565,686	300,302	370,510
Other receivables	61,199	43,573	31,009
Financial derivatives	12,804	15,072	6,270
Inventory	609,920	385,533	354,678
<b>Total current assets</b>	<b>1,876,839</b>	<b>1,284,606</b>	<b>1,576,661</b>
<b>Non-current assets</b>			
Loan to Haifa Early Pension Ltd.	33,055	35,844	38,013
Long term loans and receivables	18,188	12,270	19,056
Financial derivatives	39,874	22,704	59,840
Fixed assets, net	2,022,390	2,116,126	2,053,843
Right-of-use assets, net	144,073	150,783	149,578
Intangible assets and deferred expenses, net	21,445	23,565	23,033
<b>Total non-current assets</b>	<b>2,279,025</b>	<b>2,361,292</b>	<b>2,343,363</b>
<b>Total assets</b>	<b>4,155,864</b>	<b>3,645,898</b>	<b>3,920,024</b>

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Ovadia Eli  
Chairman of the Board of  
Directors

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Moshe Kaplinsky Peleg  
CEO

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Ana Berenshtein  
VP Finances and Economics

Approval date of the condensed consolidated interim financial statements: August 12, 2021

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

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## Bazan Ltd - Condensed Consolidated Interim Statements of Financial Position, in USD thousand

	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)	December 31, 2020 (Audited)
<b>Current liabilities</b>			
Loans and borrowings (including current maturities)	309,707	165,763	204,368
Trade payables	923,327	551,030	748,173
Other payables	187,756	112,578	221,936
Financial derivatives	27,125	7,666	12,550
Provisions	5,273	5,675	6,774
<b>Total current liabilities</b>	<b>1,453,188</b>	<b>842,712</b>	<b>1,193,801</b>
<b>Non-current liabilities</b>			
Liabilities to banks, net (see Note6A)	351,052	387,428	355,594
Debentures, net (see Note 6A)	769,090	864,026	938,827
Other long-term liabilities	119,659	114,918	123,914
Financial derivatives	1,671	8,172	3,019
Employee benefits, net	68,190	54,909	67,775
Deferred tax liabilities, net	180,783	173,589	157,488
<b>Total non-current liabilities</b>	<b>1,490,445</b>	<b>1,603,042</b>	<b>1,646,617</b>
<b>Total liabilities</b>	<b>2,943,633</b>	<b>2,445,754</b>	<b>2,840,418</b>
<b>Equity</b>			
Share capital	807,604	807,604	807,604
Share premium	32,761	32,761	32,761
Capital reserves	20,564	9,927	11,747
Retained earnings	351,302	349,852	227,494
<b>Total capital</b>	<b>1,212,231</b>	<b>1,200,144</b>	<b>1,079,606</b>
<b>Total liabilities and capital</b>	<b>4,155,864</b>	<b>3,645,898</b>	<b>3,920,024</b>

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

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**Bazan Ltd. - Condensed Consolidated Interim Statements of Income and Other Comprehensive Income**  
**USD thousand**

	Six months ended		Three months ended		Year ended
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020	December 31, 2020
	(Unaudited)		(Unaudited)		(Audited)
Revenue	2,841,741	2,122,471	1,565,071	706,021	4,064,030
Cost of sales	(2,581,535)	(2,185,211)	(1,417,943)	(641,041)	(4,076,625)
<b>Gross profit (loss)</b>	<b>260,206</b>	<b>(62,740)</b>	<b>147,128</b>	<b>64,980</b>	<b>(12,595)</b>
Selling and marketing expenses	(47,184)	(45,399)	(25,705)	(23,020)	(94,001)
General and administrative expenses (see Note 8D)	(17,498)	(20,822)	(13,958)	(11,268)	(45,662)
Other financing income (expenses), net	(4,693)	(7,369)	354	(4,349)	(53,159)
<b>Operating profit (loss)</b>	<b>190,831</b>	<b>(136,330)</b>	<b>107,819</b>	<b>26,343</b>	<b>(205,417)</b>
Financing income	3,931	6,940	(3,572)	(11,758)	1,918
Financing expenses	(48,031)	(54,950)	(24,146)	(28,122)	(113,042)
<b>Financing expenses, net</b>	<b>(44,100)</b>	<b>(48,010)</b>	<b>(27,718)</b>	<b>(39,880)</b>	<b>(111,124)</b>
<b>Profit (loss) before taxes on income</b>	<b>146,731</b>	<b>(184,340)</b>	<b>80,101</b>	<b>(13,537)</b>	<b>(316,541)</b>
Income tax income (expenses)	(22,923)	27,791	(11,562)	2,726	42,226
<b>Net profit (loss) for the period</b>	<b>123,808</b>	<b>(156,549)</b>	<b>68,539</b>	<b>(10,811)</b>	<b>(274,315)</b>
<b>Items of other comprehensive income (loss) transferred to profit or loss:</b>					
Effective share of the change in fair value of cash flow hedging, net of tax	8,478	(31,009)	9,398	12,141	(27,916)
Other, net	309	943	(35)	475	(278)
<b>Other comprehensive income (loss) for the period, transferred to profit or loss, net of tax</b>	<b>8,787</b>	<b>(30,066)</b>	<b>9,363</b>	<b>12,616</b>	<b>(28,194)</b>
<b>Items of other comprehensive income not transferred to profit or loss:</b>					
Remeasurement of a defined benefit plan, net of tax	–	5,008	–	–	107
Other, net	–	682	–	272	682
<b>Other comprehensive income for the period, not transferred to profit or loss, net of tax</b>	<b>–</b>	<b>5,690</b>	<b>–</b>	<b>272</b>	<b>789</b>
<b>Total other comprehensive income (loss) for the period, net of tax</b>	<b>8,787</b>	<b>(24,376)</b>	<b>9,363</b>	<b>12,888</b>	<b>(27,405)</b>
<b>Comprehensive income(loss) for the period</b>	<b>132,595</b>	<b>(180,925)</b>	<b>77,902</b>	<b>2,077</b>	<b>(301,720)</b>
<b>Net earnings (loss) per share (USD)</b>					
Net basic and diluted earnings (loss) per 1 ordinary share	<b>0.039</b>	<b>(0.048)</b>	<b>0.022</b>	<b>(0.003)</b>	<b>(0.086)</b>

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

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## Bazan Ltd - Condensed Consolidated Interim Statements of Changes in Equity , in USD thousands

	Share capital	Share premium	Capital reserves	Capital reserves for other items of comprehensive income (loss)		Retained earnings	Total capital
				To be transferred to profit or loss	Not to be transferred to profit or loss		
Six months ended June 30, 2021 (unaudited)							
<b>Balance as at January 1, 2021 (audited)</b>	<b>807,604</b>	<b>32,761</b>	<b>29,398</b>	<b>(10,850)</b>	<b>(6,801)</b>	<b>227,494</b>	<b>1,079,606</b>
Net profit for the period	–	–	–	–	–	123,808	123,808
Other comprehensive income for the period, net of tax	–	–	–	8,787	–	–	8,787
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>8,787</b>	<b>–</b>	<b>123,808</b>	<b>132,595</b>
Share-based payment	–	–	30	–	–	–	30
<b>Balance as at June 30, 2021</b>	<b>807,604</b>	<b>32,761</b>	<b>29,428</b>	<b>(2,063)</b>	<b>(6,801)</b>	<b>351,302</b>	<b>1,212,231</b>

	Share capital	Share premium	Capital reserves	Capital reserves for other items of comprehensive income (loss)		Retained earnings	Total capital
				To be transferred to profit or loss	Not to be transferred to profit or loss		
Six months ended June 30, 2020 (unaudited)							
<b>Balance as at January 1, 2020 (audited)</b>	<b>807,604</b>	<b>32,761</b>	<b>29,122</b>	<b>17,344</b>	<b>(7,483)</b>	<b>501,393</b>	<b>1,380,741</b>
Loss for the period	–	–	–	–	–	(156,549)	(156,549)
Other comprehensive income (loss) for the period, net of tax	–	–	–	(30,066)	682	5,008	(24,376)
<b>Total comprehensive income (loss) for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(30,066)</b>	<b>682</b>	<b>(151,541)</b>	<b>(180,925)</b>
Share-based payment	–	–	328	–	–	–	328
<b>Balance as at June 30, 2020</b>	<b>807,604</b>	<b>32,761</b>	<b>29,450</b>	<b>(12,722)</b>	<b>(6,801)</b>	<b>349,852</b>	<b>1,200,144</b>

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**Bazan Ltd. - Condensed Consolidated Interim Statements of Changes in Equity (Contd.) USD thousands**

	Share capital		Capital reserves for other items of comprehensive income (loss)		Retained earnings	Total capital		
			Share premium	Capital reserves			To be transferred to profit or loss	Not to be transferred to profit or loss
							Three months ended June 30, 2021 (unaudited)	
<b>Balance as at April 1, 2021</b>	<b>807,604</b>	<b>32,761</b>	<b>29,527</b>	<b>(11,426)</b>	<b>(6,801)</b>	<b>1,134,428</b>		
Net profit for the period	–	–	–	–	68,539	68,539		
Other comprehensive income for the period, net of tax	–	–	–	9,363	–	9,363		
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>9,363</b>	<b>–</b>	<b>77,902</b>		
Share-based payment	–	–	(99)	–	–	(99)		
<b>Balance as at June 30, 2021</b>	<b>807,604</b>	<b>32,761</b>	<b>29,428</b>	<b>(2,063)</b>	<b>(6,801)</b>	<b>1,212,231</b>		

	Share capital		Capital reserves for other items of comprehensive income (loss)		Retained earnings	Total capital		
			Share premium	Capital reserves			To be transferred to profit or loss	Not to be transferred to profit or loss
							Three months ended June 30, 2020 (unaudited)	
<b>Balance as at April 1, 2020</b>	<b>807,604</b>	<b>32,761</b>	<b>29,271</b>	<b>(25,338)</b>	<b>(7,073)</b>	<b>1,197,888</b>		
Loss for the period	–	–	–	–	(10,811)	(10,811)		
Other comprehensive income for the period, net of tax	–	–	–	12,616	272	12,888		
<b>Total comprehensive income (loss) for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>12,616</b>	<b>272</b>	<b>2,077</b>		
Share-based payment	–	–	179	–	–	179		
<b>Balance as at June 30, 2020</b>	<b>807,604</b>	<b>32,761</b>	<b>29,450</b>	<b>(12,722)</b>	<b>(6,801)</b>	<b>1,200,144</b>		

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

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**Bazan Ltd. - Condensed Consolidated Interim Statements of Changes in Equity (Contd.) USD thousands**

	Share capital	Share premium	Capital reserves	Capital reserves for other items of comprehensive income (loss)		Retained earnings	Total capital
				To be transferred to profit or loss	Not to be transferred to profit or loss		
	Year ended December 31, 2020 (audited)						
<b>Balance as at January 1, 2020</b>	<b>807,604</b>	<b>32,761</b>	<b>29,122</b>	<b>17,344</b>	<b>(7,483)</b>	<b>501,393</b>	<b>1,380,741</b>
Loss for the year	–	–	–	–	–	(274,315)	(274,315)
Other comprehensive income (loss) for the year, net of tax	–	–	–	(28,194)	682	107	(27,405)
<b>Total comprehensive income (loss) for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(28,194)</b>	<b>682</b>	<b>(274,208)</b>	<b>(301,720)</b>
Share-based payment	–	–	585	–	–	–	585
Expired share options	–	–	(309)	–	–	309	–
<b>Balance as at December 31, 2020</b>	<b>807,604</b>	<b>32,761</b>	<b>29,398</b>	<b>(10,850)</b>	<b>(6,801)</b>	<b>227,494</b>	<b>1,079,606</b>

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

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## Bazan Ltd - Condensed Consolidated Interim Statements of Cash Flows, in USD thousand

	Six months ended		Three months ended		Year ended
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020	December 31, 2020
	(Unaudited)		(Unaudited)		(Audited)
<b>Cash flows from operating activities</b>					
<b>Net profit (loss) for the period</b>	<b>123,808</b>	<b>(156,549)</b>	<b>68,539</b>	<b>(10,811)</b>	<b>(274,315)</b>
<b>Adjustments to cash flows from operating activities:</b>					
Income and expenses not included in cash flows: (Appendix A – section A)	178,575	112,377	95,586	90,726	311,244
	<b>302,383</b>	<b>(44,172)</b>	<b>164,125</b>	<b>79,915</b>	<b>36,929</b>
Changes in assets and liabilities (Appendix A – section B)	(342,331)	140,657	(161,958)	27,246	398,067
Income tax received (paid), net	(780)	608	(450)	(195)	249
<b>Net cash from (used in) operating activities</b>	<b>(40,728)</b>	<b>97,093</b>	<b>1,717</b>	<b>106,966</b>	<b>435,245</b>
<b>Cash flow used for investing activities</b>					
Interest received	449	2,432	177	689	2,961
Change in deposits, net	–	76,047	–	–	76,047
Repayment of a loan from Haifa Early Pension	–	4,233	–	–	4,233
Acquisition of fixed assets including periodic maintenance	(43,926)	(48,352)	(23,349)	(19,565)	(88,158)
Other	(1,218)	–	(345)	–	(1,510)
<b>Net cash from (used in) investing activities</b>	<b>(44,695)</b>	<b>34,360</b>	<b>(23,517)</b>	<b>(18,876)</b>	<b>(6,427)</b>
<b>Cash flow from financing activities</b>					
Change in short-term credit, net	2,328	(6,764)	4,041	(250,070)	(8,019)
Change in deposits from customers and others, net	5,730	(29,695)	4,166	(8,118)	(26,411)
Interest paid	(45,667)	(46,481)	(26,535)	(30,965)	(87,679)
Derivative transactions, net	4,299	10,312	3,946	7,933	10,361
Receipt of long-term bank loans (see Note 6A)	30,000	124,095	–	124,095	124,095
Receipt of long-term bank loans	(29,191)	(22,238)	(21,024)	(15,571)	(44,476)
Repayment of debentures, including early repayment <sup>(1)</sup>	(104,063)	(217,328)	(78,842)	(175,527)	(229,355)
Issue of debentures, net of raising costs (see Note 6A)	43,111	174,022	–	90,065	239,080
Payment of liabilities for lease	(8,904)	(12,075)	(4,196)	(5,621)	(22,595)
<b>Net cash used for financing activities</b>	<b>(102,357)</b>	<b>(26,152)</b>	<b>(118,444)</b>	<b>(263,779)</b>	<b>(44,999)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(187,780)</b>	<b>105,301</b>	<b>(140,244)</b>	<b>(175,689)</b>	<b>383,819</b>
Effect of exchange rate fluctuations on cash and cash equivalents	(266)	458	(295)	(247)	515
Cash and cash equivalents at beginning of period	809,701	425,367	762,194	707,062	425,367
<b>Cash and cash equivalents at the end of the period</b>	<b>621,655</b>	<b>531,126</b>	<b>621,655</b>	<b>531,126</b>	<b>809,701</b>

(1) For the six and three months ended June 30, 2020 and the year ended December 31, 2020, including early repayment of the principle of Debentures (Series D) in the amount of USD 79 million.

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

This translation of the financial statement is for convenience purposes only.  
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## Bazan Ltd - Condensed Consolidated Interim Statements of Cash Flows, in USD thousand

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

	Six months ended		Three months ended		Year ended
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020	December 31, 2020
	(Unaudited)		(Unaudited)		(Audited)
<b>A. Income and expenses not included in cash flows:</b>					
Depreciation and amortization	84,007	103,635	43,524	52,113	210,392
Other expenses (income), net	4,693	7,369	(354)	4,349	53,159
Financing expenses, net	42,156	50,692	23,866	33,251	100,495
Changes in fair value and movement in deposits for inventory derivatives and margins	24,983	(21,957)	17,333	4,377	(11,177)
Income tax expenses (income)	22,923	(27,791)	11,562	(2,726)	(42,226)
Other	(187)	429	(345)	(638)	601
	<b>178,575</b>	<b>112,377</b>	<b>95,586</b>	<b>90,726</b>	<b>311,244</b>
<b>B. Changes in assets and liabilities</b>					
Change in trade receivables	(195,813)	116,688	(130,484)	195,150	47,857
Change in other receivables	(24,314)	(7,194)	6,845	(11,539)	2,291
Change in inventory	(255,728)	393,127	1,889	(64,109)	425,597
Change in trade payables	177,348	(346,198)	(32,172)	(90,526)	(158,738)
Change in other payables and provisions	(44,796)	(15,349)	(11,538)	(3,474)	75,547
Change in employee benefits, net	972	(417)	3,502	1,744	5,513
	<b>(342,331)</b>	<b>140,657</b>	<b>(161,958)</b>	<b>27,246</b>	<b>398,067</b>

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

This translation of the financial statement is for convenience purposes only.  
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## **NOTE 1 – GENERAL**

### **A. Reporting entity**

Bazan Ltd. (“the Company” or “Bazan”) is a company domiciled and incorporated in Israel. The Company is located in Haifa Bay and its official address is POB 4, Haifa 3100001, Israel. The Company’s shares are traded on the Tel Aviv Stock Exchange (“the TASE”). The Company and its subsidiaries are industrial companies operating mainly in Israel and Holland, and are engaged primarily in the production of oil products, feedstock for the petrochemical industry, raw materials for the plastics industry, and byproducts. The facilities of the subsidiaries and the industries in Israel are integrated with those of the Company. The Company also provides water treatment and power generation services (primarily steam) to a number of industries near the Haifa refinery. The controlling shareholders in the Company are Israel Corporation Ltd. and Israel Petrochemical Enterprises Ltd.

- B.** The condensed consolidated interim financial statements as at June 30, 2021 include the statements of the Company and its subsidiaries (jointly: “the Group”).

## **NOTE 2 - BASIS OF PREPARATION**

### **A. Statement of compliance**

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required in the full annual financial statements. These statements should be read together with the financial statements as at December 31, 2020 and for the year then ended (“the Annual Financial Statements”). Additionally, these statements have been prepared in accordance with the provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed consolidated interim financial statements were approved by the Company’s board of directors on August 12, 2021.

### **B. Use of estimates and judgments**

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

## **NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES**

The Group’s accounting policy in these condensed consolidated interim statements is the same policy applied in the Annual Financial Statements.

## **NOTE 4 – SEGMENT REPORTING**

- A.** Further to Note 28 to the Annual Financial Statements, in the reporting period, there was no change in the composition of the Group's reportable segments or in the measurement method of segment results by the chief operating decision maker.
- B.** For information about the change in the composition of segments as at December 31, 2020, see Note 28A to the Annual Financial Statements.

**Bazan Ltd - Notes to the Condensed Consolidated Interim Statements, in USD thousand**

**NOTE 4 – SEGMENT REPORTING (CONTD.)**

	Refining	Polymers	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Six months ended June 30, 2021 (unaudited)					
Revenue from external sources - Israel	1,276,274	225,842	1,502,116	–	–	1,502,116
Revenue from external sources - other countries	991,299	335,281	1,326,580	13,045	–	1,339,625
<b>Total revenue from external sources</b>	<b>2,267,573</b>	<b>561,123</b>	<b>2,828,696</b>	<b>13,045</b>	–	<b>2,841,741</b>
Revenue from inter-segment sales - Israel	142,418	534	142,952	1,458	(144,410)	–
<b>Segment revenue</b>	<b>2,409,991</b>	<b>561,657</b>	<b>2,971,648</b>	<b>14,503</b>	<b>(144,410)</b>	<b>2,841,741</b>
<b>Reported EBITDA</b>	<b>99,949<sup>(1)</sup></b>	<b>174,212</b>	<b>274,161</b>	<b>6,015</b>	<b>(645)</b>	<b>279,531</b>
<b>Depreciation and amortization</b>	<b>(54,382)</b>	<b>(16,077)</b>	<b>(70,459)</b>	<b>(8,612)</b>	–	<b>(79,071)</b>
<b>Reported EBITDA less amortization and depreciation</b>						<b>200,460</b>
Amortization of excess cost arising on acquisition of subsidiaries						(4,936)
Other expenses, net						(4,693)
<b>Operating profit</b>						<b>190,831</b>
Financing expenses, net						(44,100)
<b>Profit before taxes on income</b>						<b>146,731</b>

(1) Adjusted EBITDA in the refining segment for the six months ended June 30, 2021: USD 16,712 thousand.

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**Bazan Ltd - Notes to the Condensed Consolidated Interim Statements, in USD thousand**

**NOTE 4 – SEGMENT REPORTING (CONTD.)**

	Refining	Polymers	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Six months ended June 30, 2020 (unaudited) (*)					
Revenue from external sources - Israel	1,035,151	120,303	1,155,454	322	–	1,155,776
Revenue from external sources - other countries	684,840	253,768	938,608	28,087	–	966,695
<b>Total revenue from external sources</b>	<b>1,719,991</b>	<b>374,071</b>	<b>2,094,062</b>	<b>28,409</b>	<b>–</b>	<b>2,122,471</b>
Revenue from inter-segment sales - Israel	91,968	594	92,562	1,893	(94,455)	–
<b>Segment revenue</b>	<b>1,811,959</b>	<b>374,665</b>	<b>2,186,624</b>	<b>30,302</b>	<b>(94,455)</b>	<b>2,122,471</b>
<b>Reported EBITDA</b>	<b>(94,722)<sup>(1)</sup></b>	<b>55,822</b>	<b>(38,900)</b>	<b>17,509</b>	<b>(3,935)</b>	<b>(25,326)</b>
<b>Depreciation and amortization</b>	<b>(62,773)</b>	<b>(23,208)</b>	<b>(85,981)</b>	<b>(11,966)</b>	<b>–</b>	<b>(97,947)</b>
<b>Reported EBITDA less amortization and depreciation</b>						<b>(123,273)</b>
Amortization of excess cost arising on acquisition of subsidiaries						(5,688)
Other expenses, net						(7,369)
<b>Operating loss</b>						<b>(136,330)</b>
Financing expenses, net						(48,010)
<b>Loss before taxes on income</b>						<b>(184,340)</b>

(1) Adjusted EBITDA in the refining segment for the six months ended June 30, 2020: USD (12,297) thousand.

(\*) Reclassified, for further information see section B. above

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**Bazan Ltd - Notes to the Condensed Consolidated Interim Statements, in USD thousand**

**NOTE 4 – SEGMENT REPORTING (CONTD.)**

	Refining	Polymers	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Three months ended June 30, 2021 (unaudited)					
Revenue from external sources - Israel	713,799	119,141	832,940	–	–	832,940
Revenue from external sources - other countries	522,681	203,060	725,741	6,390	–	732,131
<b>Total revenue from external sources</b>	<b>1,236,480</b>	<b>322,201</b>	<b>1,558,681</b>	<b>6,390</b>	<b>–</b>	<b>1,565,071</b>
Revenue from inter-segment sales - Israel	74,153	251	74,404	882	(75,286)	–
<b>Segment revenue</b>	<b>1,310,633</b>	<b>322,452</b>	<b>1,633,085</b>	<b>7,272</b>	<b>(75,286)</b>	<b>1,565,071</b>
<b>Reported EBITDA</b>	<b>33,219<sup>(1)</sup></b>	<b>114,816</b>	<b>148,035</b>	<b>2,941</b>	<b>13</b>	<b>150,989</b>
<b>Depreciation and amortization</b>	<b>(29,010)</b>	<b>(8,025)</b>	<b>(37,035)</b>	<b>(4,022)</b>	<b>–</b>	<b>(41,057)</b>
<b>Reported EBITDA less amortization and depreciation</b>						<b>109,932</b>
Amortization of excess cost arising on acquisition of subsidiaries						(2,467)
Other income, net						354
<b>Operating profit</b>						<b>107,819</b>
Financing expenses, net						(27,718)
<b>Profit before taxes on income</b>						<b>80,101</b>

(1) Adjusted EBITDA in the refining segment for the three months ended June 30, 2021: USD 4,817 thousand.

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**Bazan Ltd - Notes to the Condensed Consolidated Interim Statements, in USD thousand**

**NOTE 4 – SEGMENT REPORTING (CONTD.)**

	Refining	Polymers	Total reportable segments	Others	Adjustments to consolidated	Consolidated
	Three months ended June 30, 2020 (unaudited) (*)					
Revenue from external sources - Israel	290,370	55,276	345,646	133	–	345,779
Revenue from external sources - other countries	233,078	117,208	350,286	9,956	–	360,242
<b>Total revenue from external sources</b>	<b>523,448</b>	<b>172,484</b>	<b>695,932</b>	<b>10,089</b>	<b>–</b>	<b>706,021</b>
Revenue from inter-segment sales - Israel	33,905	275	34,180	1,153	(35,333)	–
<b>Segment revenue</b>	<b>557,353</b>	<b>172,759</b>	<b>730,112</b>	<b>11,242</b>	<b>(35,333)</b>	<b>706,021</b>
<b>Reported EBITDA</b>	<b>44,308<sup>(1)</sup></b>	<b>35,451</b>	<b>79,759</b>	<b>6,981</b>	<b>(3,935)</b>	<b>82,805</b>
<b>Depreciation and amortization</b>	<b>(32,212)</b>	<b>(11,528)</b>	<b>(43,740)</b>	<b>(5,529)</b>	<b>–</b>	<b>(49,269)</b>
<b>Reported EBITDA less amortization and depreciation</b>						<b>33,536</b>
Amortization of excess cost arising on acquisition of subsidiaries						(2,844)
Other expenses, net						(4,349)
<b>Operating profit</b>						<b>26,343</b>
Financing expenses, net						(39,880)
<b>Loss before taxes on income</b>						<b>(13,537)</b>

(1) Adjusted EBITDA in the refining segment for the three months ended June 30, 2020: USD 43,758 thousand.

(\*) Reclassified, for further information see section B above

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**Bazan Ltd - Notes to the Condensed Consolidated Interim Statements, in USD thousand**

**NOTE 4 – SEGMENT REPORTING (CONTD.)**

	Refining	Polymers	Total reportable segments Year ended December 31, 2020 (unaudited)	Others	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>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>(198,941)</b>
<b>Reported EBITDA less amortization and depreciation</b>						<b>(140,807)</b>
Amortization of excess cost arising on acquisition of subsidiaries						(11,451)
Other expenses, net						(53,159)
<b>Operating loss</b>						<b>(205,417)</b>
Financing 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 5 – CONTINGENT LIABILITIES, AGREEMENTS INCLUDING WITH RELATED PARTIES AND DEVELOPMENTS AND OTHER EVENTS, GUARANTEES AND LIENS**

**A. Contingent liabilities, other developments and events**

Further to Note 20A and 20B to the Annual Statements and other than that set out below, in and subsequent to the reporting period, there were no significant changes in lawsuits, other contingent liabilities, and administrative and other procedures of Bazan Group and in the events and developments set out in Note 20C to the Annual Financial Statements:

1. Further to Note 20C7 to the Annual Financial Statements regarding the activity of the inter-ministerial committee for the development and promotion of Haifa Bay, on April 26, 2021, the committee published its draft recommendations and on June 7, 2021, the committee published its report (“the Report”). Below are the main recommendations included in the Report:
  - A. To promote, through the relevant ministries and planning institutions, and in coordination with the local Haifa Bay authorities, a comprehensive and detailed plan for Haifa Bay, which according to the report, will rezone land to facilitate sustainable development of Haifa Bay, and transform it into an area for residential use, clean industry, and a metropolitan park, reinforcing the entire metropolitan area.
  - B. Based on progress of the planning and rezoning, to set a government goal according to which, within a decade, all government agencies will complete preparations to discontinue operations of the petrochemical industry in Haifa Bay within this period, subject to compliance with minimum and essential energy requirements to ensure continuous performance after discontinuation of the operations, as set out in the recommendations.
  - C. It should be clarified that activities of the petrochemical industry may be discontinued earlier subject to full compliance with the above conditions.
  - D. To form a government team to negotiate with Bazan and ICL, with the aim of reaching renewed agreements regarding the possibility of changing their activities in Haifa Bay as part of the rezoning, in cooperation, while attempting to fulfill the purposes of the agreement with them, and if possible, in a way that is as compatible as possible with the needs of the employees and the interest of the companies.
  - E. Further to section B above, to promote, through the relevant ministries, including the planning institutions if required, the preparation of the energy sector for discontinuation of activity in the petrochemical industry, to ensure full functional continuity.
  - F. To form a government team to address the development and reinforcement of employment sectors with significant economic potential in Haifa Bay, in cooperation with the Technion – Israel Institute of Technology and other R&D-oriented entities in the metropolitan area.
  - G. To form a government team to prepare a solution to the temporary economic damage of some of the local authorities in Haifa Bay due to discontinuation of activities of the above industries. This, with the understanding that in the medium- to long-term, the revenue of these authorities from implementation of the plan will increase significantly compared to their revenue today.
  - H. To promote an agreement with the Jewish National Fund (KKL) for the financing and development of a metropolitan park in the heart of the metropolis, around the Kishon River, subject to all laws.
  - I. To anchor the committee's recommendations in a government decision that will be submitted to the government for approval as soon as possible and will impose on all relevant government bodies detailed tasks to promote the implementation of the recommendations, while setting milestones for project progress. It is proposed that the government decision also include complementary policy measures for the economic and environmental development of Haifa Bay, as set out in the Report.

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**NOTE 5 – CONTINGENT LIABILITIES, AGREEMENTS INCLUDING WITH RELATED PARTIES, OTHER DEVELOPMENTS AND EVENTS, GUARANTEES AND LIENS (CONTD.)**

**A. Contingent liabilities and other developments and events (contd.)**

**1. Contd.**

- J. To establish an inter-ministerial committee to monitor execution of the outline and to remove barriers, which will convene once every quarter once the government decision has been approved.
- K. To establish an administration in the Prime Minister's Office for economic development of Haifa Bay, which will be responsible for advancing the outline as defined in the government decision.

The Report includes the Ministry of Energy's reservations about the factual description of the condition of Haifa Bay. In addition, a minority opinion of the Ministry of Finance Budget Division was published for the draft recommendations published prior to publication of the Report, containing an alternative plan for the development of Haifa Bay, which the Company believes is also relevant to the Report.

The Company is unable to assess whether and when the recommendations in the Report will be discussed by the government and whether or when the government will approve the recommendations, in full, in part, or with changes. Therefore, the Company believes that publication of the Report has no effect on the assumptions and estimates underlying the financial statements.

**2. Liabilities relating to environmental quality**

As set out in Note 20A2 to the Annual Financial Statements, there are legal, administrative and other proceedings against the Group companies, including civil claims and warnings

In addition, as set out in Note 20A4 to the Annual Financial Statements, the Group companies operate routinely 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 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 permit for emission to 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.

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 who served at the dates relevant to the investigation of the companies, including for alleged violations of the personal orders, provisions of 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, sanctions and/or fines in immaterial amounts were 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 not possible to assess their effect, if any, on the financial statements as at June 30, 2021. Provisions were not included in the financial statements for these proceedings, the effect of which cannot be assessed. For the other proceedings, the Company included provisions in immaterial amounts, which it believes adequately reflects the amounts that will more likely than not be paid.

**NOTE 5 – CONTINGENT LIABILITIES, AGREEMENTS INCLUDING WITH RELATED PARTIES, OTHER DEVELOPMENTS AND EVENTS, GUARANTEES AND LIENS (CONTD.)**

**3. Other contingent liabilities**

In the reporting period, the Group companies (the Company, Carmel Olefins, Gadiv, and Haifa Basic Oils - which merged with and into the Company in 2020) received demands for payments amounting to USD 24 million (NIS 79 million, not including VAT) from the municipal water association, Mei Carmel for payment of construction fees. 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. In the opinion of the Company's management, based on the opinion of its legal counsel, the demands have no legal grounds and the chances that the Group companies will be required to bear the costs for the demands are less than 50%.

**B. Agreements, including with related parties**

Further to Note 20B to the Annual Financial Statements, and in particular, to that set out below, there were no significant changes in the agreements of the Bazan Group in the reporting period, other than the following:

1. Further to Note 20B1 to the Annual Financial Statements regarding arbitration in which the Company demanded indemnification for damages it incurred due to the failure of EMG to comply with its obligations under the agreement for the purchase of natural gas of 2010, in the reporting period, the arbitration ruling was handed down, which has an immaterial effect on the Company's operating results.
2. Further to Note 20B1d to the Annual Financial Statements regarding the agreement with Energean for the purchase of natural gas, in May 2021, Energean announced that it believes that natural gas will start to flow in mid-2022, instead of the original date set out in the agreement, which was March 2021. The Company approached Energean with the aim of retaining its contractual rights for the delay in the start of flow, including contractual financial compensation in the second half of 2021.

It should be noted that due to Company's engagement in the mediation agreement for the purchase of natural gas from the Tamar partnership, as set out in Note 20B1c to the Annual Financial Statements, a delay in the flow of natural gas from Energean until the end of 2022 is not expected to have a material effect on the Group's results.

3. Further to Note 27B3 to the Annual Financial Statements, in the reporting period, after approval by the Company's compensation committee and board of directors, the general meeting of the Company approved a special bonus of NIS 0.7 million for Shlomi Basson in his position as Deputy CEO and VP Human Resources, Safety, Environment, and Security, for the term of his office as Acting CEO.
4. In the second quarter of 2021, the chairman of the Company's board of directors, Ovadia Eli, announced his intention to terminate his position as chairman of the Company's board of directors and director of the Company. The board of directors of the Company resolved to appoint Moshe Kaplinsky, the Company's present CEO, as a director and to appoint him as chairman of the board of directors when Ovadia Eli leaves his position on August 13, 2021. Moshe Kaplinsky will continue to serve as the Company's CEO until the date of his new appointment.

Upon the termination of Ovadia Eli's position, a total of 6,100 thousand options allotted to him under his employment terms, as set out in Note 21B to the Annual Financial Statements, will expire, and accordingly, an expense of USD 190 thousand for share-based payment was canceled in the second quarter of 2021.

**NOTE 5 – CONTINGENT LIABILITIES, AGREEMENTS INCLUDING WITH RELATED PARTIES, OTHER DEVELOPMENTS AND EVENTS, GUARANTEES AND LIENS (CONTD.)**

**B. Agreements, including with related parties (contd.)**

**4. (contd.)**

On August 1, 2021, after approval by the Company's compensation committee and board of directors, the general meeting of the Company approved the compensation terms of Moshe Kaplinsky as chairman of the board of directors of Bazan, which will apply as from the date of his entry into office, and the allotment of 15,000 thousand new options under the terms set out in the Company's 2007 options plan. Concurrently, 9,000 thousand options allotted to Moshe Kaplinsky in June 2020 for his position as CEO of the Company, which have not yet vested, will be canceled. The value<sup>1</sup> of the allotment is NIS 2.2 million.

The employment terms of Moshe Kaplinsky as chairman of the Company's board of directors are not materially different from the employment terms of the current chairman of the board of directors, Ovadia Eli, as set out in Note 27B3b to the Annual Financial Statements.

- 5.** Following the appointment of Moshe Kaplinsky as chairman of the Company's board of directors, in the reporting period, Malachi Alper was appointed as CEO of the Company and chairman of the board of directors of the subsidiaries Carmel Olefins and Gadiv. Malachi Alper will become CEO on August 13, 2021, upon the termination of Moshe Kaplinsky's position as CEO of the Company.

On August 1, 2021, after approval by the Company's compensation committee and board of directors, the general meeting of the Company approved the employment terms of Malachi Alper, In addition, Malachi Alper will be allotted 13,500 thousand options at total value<sup>2</sup> of NIS 2.4 million under the terms set out in the Company's 2007 options plan.

The employment terms of Malachi Alper are not materially different from the employment terms of the current CEO, Moshe Kaplinsky, as set out in Note 27B3e to the Annual Financial Statements.

- 6.** In the reporting period, the general meeting approved the compensation policy for the Company's officers for 2021-2023.

**C. Guarantees and liens**

Further to Note 19 to the Annual Financial Statements, there were no significant changes in the Group's guarantees and liens in and subsequent to the reporting period, other than changes in the normal course of business in the amount of open short-term documentary letters of credit to suppliers.

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<sup>1</sup> Based on the accounting policy shortly before the approval date of the general meeting on August 1, 2021.

**NOTE 6 - BORROWINGS FROM BANKS AND OTHERS AND DEBENTURES**

**A. Significant events in the reporting period**

1. On March 17, 2021, Maalot S&P affirmed the iIA- rating of the Company and debentures -iIA with negative outlook.
2. Further to Note 14B to the Annual Financial Statements, in the reporting period, Debentures (Series L) were expanded in an amount of USD 43 million (net of issuance costs). Concurrently with the expansion of the debentures, the Company entered into principal and interest swap transactions (including fixing the USD interest) to reduce currency exposure and interest, and elected to apply cash flow hedge accounting principles.
3. Further to Note 13A to the Annual Financial Statements, in the reporting period, the Company took out a long-term bank loan amounting to USD 30 million with an average duration of 3.5 years. The loan bears variable USD interest (Libor plus a margin). For the loan, the Company is subject to the same financial covenants as in the syndication agreement (for further information, see section B below).
4. Further to Note 13A to the Annual Financial Statements, subsequent to the reporting period, the Company took out an additional loan of USD 80 million under the Company's syndication agreement, which is described in in Note 13C1 to the Annual Financial Statements. The additional loan will bear variable interest at the rate of LIBOR plus a margin of 3.3% and will be repaid in accordance with the repayment schedule of the existing loan under the syndication agreement. The other terms of the syndication agreement, including the interest rate on the part of the original loan, will continue to apply without change and will remain fully in effect.

**B. Financial covenants - the Company**

Further to Note 13C2 to the Annual Financial Statements, below are the financial covenants, as defined in the Note and in accordance with the letter of waiver of December 14, 2020 as set out in the Note, 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 June 30, 2021:

	Required	Required ratio/amount	Actual ratio/amount
Consolidated adjusted equity (USD million)	≥	750	1,134.9
Consolidated adjusted equity to total consolidated statement of financial position, net	≥	20.0%	30.6%
Consolidated ratio (net financial debt + factoring receivables) to consolidated adjusted EBITDA	≥	11.0	2.1
Consolidated principal and interest cover ratio	≥	1.1	2.4
Cash flows plus the unused balance of binding credit facilities in the separate statement (USD millions)	≥	250	836.5

In addition, as set out in Note 13C2 to the Annual Financial Statements, as at June 30, 2021, the Company is subject to financial covenants under a long-term loan agreement and a waiver signed in December 2020 with a foreign bank.

As at June 30, 2021, the Company is in compliance with the financial covenants.

**NOTE 6 - BORROWINGS FROM BANKS AND OTHERS AND DEBENTURES (CONTD.)****B. Financial covenants - the Company (cont.)**

Further to Note 14C to the Annual Financial Statements, below are the financial covenants of Debentures (Series E, F, I, J, and L) as defined in the deeds of trust, and the actual amounts and/or ratios as at June 30, 2021:

	<b>Required</b>	<b>Required ratio/amount</b>	<b>Actual ratio/amount</b>
Adjusted equity (USD million) (*)	≥	630	1,402.3
Adjusted equity plus shareholders' loans to total consolidated statement of financial position (2)	≥	15%	38.9%
Net debt divided by the average consolidated annual adjusted EBITDA	≥	8	2.0
Consolidated cash and cash equivalents (USD millions)	≥	50	621.7

(\*) For Debentures (Series E and F), adjusted required equity - USD 600 million

As at June 30, 2021, the Company is in compliance with the financial covenants.

**NOTE 7 - FINANCIAL INSTRUMENTS - FAIR VALUE**

**A. Fair value of financial instruments for disclosure purposes only**

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, deposits, trade receivables, other receivables, long-term loans and debts, 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 financial liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	June 30, 2021			
	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)(2)</sup>	391,124	392,332	408,088	–
Marketable Debentures (Series E, J, and L) <sup>(1)(2)</sup>	612,642	605,042	626,318	–
Bank loans <sup>(3)</sup>	453,000	428,305	–	447,508
	<b>1,456,766</b>	<b>1,425,679</b>	<b>1,034,406</b>	<b>447,508</b>

	June 30, 2020			
	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)(2)</sup>	460,134	461,930	430,049	–
Marketable Debentures (Series E and J) <sup>(1)(2)</sup>	511,912	514,163	469,503	–
Bank loans <sup>(3)</sup>	472,598	438,366	–	466,944
	<b>1,444,644</b>	<b>1,414,459</b>	<b>899,552</b>	<b>466,944</b>

	December 31, 2020				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)(2)</sup>	454,533	456,240	453,902	–	
Marketable Debentures (Series E, J, and L) <sup>(1)(2)</sup>	615,910	612,761	609,659	–	
Bank loans <sup>(3)</sup>	452,612	427,853	–	433,497	3.67% - 6.19%
	<b>1,523,055</b>	<b>1,496,854</b>	<b>1,063,561</b>	<b>433,497</b>	

- (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 reporting date.
- (3) The carrying amount is presented net of raising costs and net of adjustments for amendments to the terms of the loans in 2018 - 2020, as set out in Note 13C1 to the Annual Financial Statements.

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

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

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

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

	June 30, 2021	June 30, 2020	December 31, 2020
<b>Financial assets</b>			
<b>Derivatives used for accounting hedging <sup>(1)(2)</sup></b>			
Cross-currency interest rate swap contracts (level 2)	51,211	26,335	66,110
Derivatives for margins (level 3)	–	3,737	–
<b>Derivatives not used for accounting hedging</b>			
Derivatives for inventory (level 3)	–	700	–
Derivatives for margins (level 2)	–	5,638	–
Forward contracts (level 2)	1,467	1,366	–
	<b>52,678</b>	<b>37,776</b>	<b>66,110</b>
<b>Financial liabilities</b>			
<b>Non-derivative</b>			
<b>Derivatives used for accounting hedging <sup>(1)(2)</sup></b>			
Cross-currency interest rate swap contracts (level 2)	6,766	15,185	7,697
Derivatives for margins (level 3)	20,566	–	4,518
<b>Derivatives not used for accounting hedging</b>			
Derivatives for margins (level 2)	1,433	–	–
Forward contracts (level 2)	31	653	3,354
	<b>28,796</b>	<b>15,838</b>	<b>15,569</b>

- (1) The fair value of marketable derivatives for inventory/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 net financial position net of the amounts of the accounting.
- (2) In the six and three months ended June 30, 2021, a pre-tax profit of USD 26 million and USD 15 million, respectively, was recognized as a hedging reserve for the effective share of the fair value change of futures on Brent. As at June 30, 2021, the balance of the hedge fund for the new availability transaction (before tax) amounted to USD 15 million (credit).

Below are the main assumptions used to measure fair value of cross-currency interest rate swap contracts (level 2):

	June 30, 2021	June 30, 2020	December 31, 2020
NIS interest (used to discount the NIS component)	0.65% - (0.51%)	(0.06%) - (1.03%)	0% - (0.58%)
USD interest (used to discount the USD component)	0.09% -1.45%	0.00% -0.69%	0.08% -0.97%
Exchange rate (NIS/USD)	3.26	3.47	3.20

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

- A.** Further to Note 6B to the Annual Financial Statements regarding the factoring agreements of the Company and its subsidiaries Carmel Olefins and Gadiv, in accordance with IFRS 9, as at June 30, 2021, the Company, Carmel Olefins, and Gadiv derecognized an immaterial amount of trade receivables (December 31, 2020, USD 72 million; June 30, 2020, USD 91 million).

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 financing sources and management of the Group's liquidity requirements.

Assuming maximum utilization of the factoring agreements as at the reporting date, and given the crude oil price as at the dates of the sales transactions, the maximum factoring amount is estimated at USD 240 million.

- B.** Further to Note 15A to the Annual Financial Statements, as at June 30, 2021, trade payables with extended credit days amounted to USD 496 million (as at December 31, 2020, USD 474 million; as at June 30, 2020, USD 187 million).

The amount of suppliers' credit due to the extension of the credit days depends on the amount of crude oil purchases under the framework agreements, 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 extended credit facilities under the crude oil supplier agreements as at the reporting date, and given the crude oil price of USD 76 per barrel (the Brent price of crude oil as at the reporting date), the estimated amount of suppliers' credit under all the framework agreements is USD 685 million.

- C.** For further information about the developments in agreements, including with related parties and other contingencies, including in environmental quality, other events, and changes in guarantees, in and subsequent to the reporting period, see Note 5.
- D.** Further to Note 30A to the Annual Financial Statements, in the reporting period, a provision for projected credit losses amounting to USD 8 million, attributed to trade receivables in the Palestinian Authority repaid in full in the first quarter of 2021, was cancelled. Cancellation of the provision is included under general and administrative expenses.
- E.** Further to Note 29D3c regarding market price risks for polymer margins, in the reporting period, the Company's board of directors, at the recommendation of the trade committee of the board of directors, approved an update to the risk management policy for polymer margins so that future contracts on naphtha against fixing product prices to customers will remain at a scope that does not exceed 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.
- F.** For information about the effect of the Covid-19 pandemic on the Company's operations, see Note 1C to the Annual Financial Statements.

**Bazan Ltd.**

**Separate Financial Information  
As of June 30, 2021**

**(This part is available only in Hebrew)**

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