Ashdod Refinery Ltd.

Condensed Interim Financial Statements
As of March 31, 2024
(Unaudited)

Translation from the Hebrew

Financial Statements as of March 31, 2024

Contents

INDEPENDENT AUDITORS' REVIEW REPORT TO THE SHAREHOLDERS OF ASHDOD REFINERY LTD.

Introduction

We have reviewed the accompanying financial information of Ashdod Refinery Ltd. (hereinafter - "the Company") comprising of the condensed interim statement of financial position as of March 31, 2024 and the related condensed interim statements of comprehensive income, changes in equity and cash flows for the three month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of financial information for this interim period in accordance with IAS 34 "Interim Financial Reporting", and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 2410 (Israel), "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of 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 auditing standards 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 the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

Somekh Chaikin
Certified Public Accountants (Isr.)

May 29, 2024

Condensed Interim Statements of Financial Position

$ millions	As of March 31, 2024 (Unaudited)	As of March 31, 2023 (Unaudited) **Restated	As of March 31, 2023 (Audited)
Current assets			
Cash and cash equivalents	66	84	225
Trade receivables	93	107	111
Other receivables	24	16	16
Derivative instruments	2	3	9
Inventory	454	333	294
Total current assets	639	543	655
Non-current assets			
Deposit in trust	8	8	8
Long-term other receivables	3	3	3
Right-of-use assets	17	22	18
Fixed assets	685	752	692
Intangible assets	1	1	1
Total non-current assets	714	786	722
Total assets	1,353	1,329	1,377

** See Note 10 regarding restatement of the comparative data following a change in the functional currency.

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed Interim Statements of Financial Position

$ millions	**As of March 31, 2024**	**As of March 31, 2023**	**As of December 31, 2023**
	(Unaudited)	**(Unaudited)**	**(Audited)**
		****Restated**	****Restated**
Current liabilities			
Loans, short-term credit and current maturities	22	99	22
Trade payables	541	510	486
Derivative instruments	17	4	7
Other payables	27	17	33
Current maturities of lease liabilities	5	5	5
Total current liabilities	612	635	553
Non-current liabilities			
Debentures, net	196	158	199
Long-term lease liabilities	13	17	14
Liability for authorization fees	15	15	15
Employee benefits	15	15	15
Deferred tax liabilities	11	3	16
Total non-current liabilities	250	208	259
Total liabilities	862	843	812
Equity			
Share capital	*	*	*
Share premium	322	286	322
Retained earnings	112	119	186
Reserve from translation differences	57	81	57
Total equity	491	486	565
Total liabilities and equity	1,353	1,329	1,377

* Less than $ 1 million.

** See Note 10 regarding restatement of the comparative data following a change in the functional currency.

Ofer Orlitzky	Amit Carmel	Ester Pinsler
Chairman of the Board	CEO	CFO

Date of approval of the financial statements: May 29, 2024

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed Interim Statements of Comprehensive Income

$ millions	Note	Three month period ended March 31, 2024 (Unaudited)	2023 (Unaudited) **Restated	Year ended December 31, 2023 (Audited)
Revenues	7	793	987	3,774
Cost of sales		(798)	(910)	(3,557)
Gross profit (loss)		(5)	77	217
Selling expenses		(5)	(2)	(10)
General and administrative expenses		(3)	(4)	(13)
Other expenses, net		*	1	*
Operating profit (loss)		(13)	72	194
Financing income		2	*	3
Financing expenses		(13)	(12)	(58)
Financing expenses, net		(11)	(12)	(55)
Profit (loss) before taxes on income		(24)	60	139
Taxes on income		5	(10)	(23)
Profit (loss) for the period		(19)	50	116
Other comprehensive income (loss) items that will not be carried to profit and loss				
Foreign currency translation differences		-	(13)	(37)
Re-measurement of a defined benefit program, net of tax		*	*	1
Total comprehensive income (loss) for the period		(19)	37	80
Basic and diluted earnings (loss) per share ($)		(1.5)	4.4	9.9

* Less than $ 1 million.

** See Note 10 regarding restatement of the comparative data following a change in the functional currency.

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed Interim Statements of Changes in Equity

$ millions	Share capital	Share premium	Capital reserve from translation differences	Retained earnings	Total
For the three month period ended March 31, 2024 (unaudited)					
Balance as of January 1, 2024	*	322	57	186	565
Loss for the period	-	-	-	(19)	(19)
Dividend distribution	-	-	-	(55)	(55)
Other comprehensive income for the period	-	-	-	*	*
Balance as of March 31, 2024	*	322	57	112	491
For the three month period ended March 31, 2023 (unaudited) ** Restated					
Balance as of January 1, 2023	*	286	94	69	449
Profit for the period	-	-	-	50	50
Other comprehensive income (loss) for the period	-	-	(13)	*	(13)
Balance as of March 31, 2023	*	286	81	119	486
For the year ended December 31, 2023 (audited)					
Balance as of January 1, 2023	*	286	94	69	449
Issuance of shares	*	36	-	-	36
Profit for the year	-	-	-	116	116
Other comprehensive income (loss) for the year	-	-	(37)	1	(36)
Balance as of December 31, 2023	*	322	57	186	565

* Less than $ 1 million

** See Note 10 regarding restatement of the comparative data following a change in the functional currency.

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed Interim Statements of Cash Flows

$ millions	**Three month period ended March 31,**		**Year ended December 31,**
	2024	**2023**	**2023**
	(Unaudited)		**(Audited)**
		****Restated**	
Cash flows from operating activities			
Profit (loss) for the period	(19)	50	116
Adjustments for:			
Depreciation and amortization	16	17	67
Financing expenses, net	11	12	55
Foreign exchange differences, net	-	18	35
Income tax expense (income)	(5)	10	23
Capital loss (gain) on de-recognition of fixed assets	-	*	*
	3	107	296
Change in derivatives	15	8	*
Change in inventory	(160)	9	31
Change in trade receivables	16	(5)	(32)
Change in other receivables	(8)	32	29
Change in trade payables	54	(11)	(29)
Change in other payables	(9)	(18)	(1)
Change in employee benefits	*	(2)	(2)
Current taxes paid	*	*	*
Net cash from (used in) operating activities	(89)	120	292

* Less than $ 1 million.

** See Note 10 regarding restatement of the comparative data following a change in the functional currency.

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed Interim Statements of Cash Flows

$ millions	Three month period ended March 31, 2024	Three month period ended March 31, 2023	Year ended December 31, 2023
	(Unaudited)	(Unaudited)	(Audited)
		**Restated	
Cash flows from investing activities			
Interest received	*	*	1
Repayment of long-term loans to employees	*	*	*
Acquisition of fixed assets	(5)	(7)	(32)
Proceeds from sale of fixed assets	*	-	*
Net cash used in investing activities	(5)	(7)	(31)
Cash flows from financing activities			
Receipt (repayment) of credit from Paz, net	-	(92)	(92)
Interest paid to Paz	-	*	*
Dividend paid	(55)	-	-
Receipt (repayment) of loan and bank credit	-	(118)	(209)
Issuance of debentures, net, less issuance expenses	-	170	233
Issuance of shares and options	-	-	41
Payment of principal of lease liabilities	(1)	(1)	(5)
Interest paid	(5)	(9)	(28)
Net cash used in financing activities	(61)	(50)	(60)
Net increase (decrease) in cash and cash equivalents	(155)	63	201
Cash and cash equivalents as at the beginning of the period	225	31	31
Effect of exchange rate fluctuations on cash and cash equivalents	(4)	(10)	(7)
Cash and cash equivalents as at the end of the period	**66**	**84**	**225**
Material non-cash transactions			
Acquisition of fixed assets on credit	8	11	6

* Less than $ 1 million.

** See Note 10 regarding restatement of the comparative data following a change in the functional currency.

The accompanying notes are an integral part of these condensed interim financial statements.

Note 1 - General

A. The reporting entity

Ashdod Refinery Ltd. (hereinafter – the "Company") is an Israeli-resident company that was incorporated on January 4, 2006 and whose official address is HaNeft Street, North Industrial Zone Ashdod. The Company engages in import of crude oil, refining of crude oil into oil distillates, marketing and sale of such products and production and sale of electricity. Until August 28, 2023 the Company was a wholly owned subsidiary of Paz Oil Company Ltd. (hereinafter – "Paz").

On December 30, 2021 the Company and Paz submitted to the Securities Authority an initial draft of a prospectus for the distribution of the Company's shares as a dividend in kind to the shareholders of Paz (hereinafter – "**the spin-off**"), and registration of the Company's shares on Tel Aviv Stock Exchange Ltd. On August 28, 2023 (hereinafter – "**the spin-off date**") the spin-off process was completed, and on August 30, 2023 the Company's shares were listed for trade on Tel Aviv Stock Exchange Ltd.

Note 2 - Basis of Preparation

A. Statement of compliance with IFRS

These condensed interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. They should be read in conjunction with the financial statements as at and for the year ended December 31, 2023 (hereinafter – "the annual financial statements").

Furthermore, these financial statements have been prepared in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

These condensed interim financial statements were authorized for issue by the Company's Board of Directors on May 29, 2024.

B. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to exercise judgment when making assessments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and judgments made by management in applying the Company's accounting policies and preparing the interim financial statements were consistent with those applied in preparing the financial statements as at December 31, 2023.

C. Functional currency and presentation currency

Until the date of the spin-off, the financial statements were presented in NIS millions which was the functional currency of the Company due to its operation being an integral part of the Paz Group, whose functional currency is NIS.

As from the date of the spin-off, the Company changed its functional currency into USD since the dollar is the currency that represents the economic environment of the Company when acting as an independent company in the refining industry. See also Note 10 hereunder.

Note 3 - Material Accounting Policies

A. The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its annual financial statements, except for that mentioned hereunder:

Amendment to IAS 1, *Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current* and subsequent amendment: *Non-Current Liabilities with Covenants*

The Amendment, together with the subsequent amendment to IAS 1 (see hereunder) replaces certain requirements for classifying liabilities as current or non-current. According to the Amendment, a liability will be classified as non-current when the entity has the right to defer settlement for at least 12 months after the reporting period, and it "has substance" and is in existence at the end of the reporting period. According to the subsequent amendment, as published in October 2022, covenants with which the entity must comply after the reporting date, do not affect classification of the liability as current or non-current. Additionally, the subsequent amendment adds disclosure requirements for liabilities subject to covenants within 12 months after the reporting date, such as disclosure regarding the nature of the covenants, the date they need to be complied with and facts and circumstances that indicate the entity may have difficulty complying with the covenants. Furthermore, the Amendment clarifies that the conversion option of a liability will affect its classification as current or non-current, other than when the conversion option is recognized as equity.

The Amendment and subsequent amendment are effective for reporting periods beginning on or after January 1, 2024.

Application of the Amendment did not have an effect on the financial statements.

B. New standards not yet adopted

IFRS 18, *Presentation and Disclosure in Financial Statements*

This standard replaces IAS 1, *Presentation of Financial Statements*. The purpose of the standard is to provide improved structure and content to the financial statements, particularly the income statement. The standard includes new disclosure and presentation requirements that were taken from IAS 1, *Presentation of Financial Statements*, with small changes. As part of the new disclosure requirements, companies will be required to present two subtotals in the income statement: operating profit and profit before financing and taxes. Furthermore, for most companies, the results in the income statements will be classified into three categories: operating profit, profit from investments and profit from financing. In addition to the changes in the structure of the income statements, the standard also includes a requirement to provide separate disclosure in the financial statements regarding the use of management-defined performance measures (non-GAAP measures). Furthermore, the standard adds specific guidance for aggregation and disaggregation of items in the financial statements and in the notes. The standard will encourage companies to avoid classifying items as ‘other’ (for example, other expenses), and using this classification will lead to additional disclosure requirements.

The standard is effective from annual reporting periods beginning on or after January 1, 2027 with earlier application being permitted.

The Company is examining the effects of the standard on its financial statements with no plans for early adoption.

Note 4 - Material Events In and Subsequent to the Reporting Period

1. "Iron Swords" war

Further to that mentioned in Note 1.C.2 to the annual financial statements, according to examinations that were carried out by the Company, as at the date of issuing this report, the war is not expected to have a material effect on the Company's ability to meet its liabilities, on the measurement of assets and liabilities or on asset impairment or critical estimates and judgements.

The effects of the war on the Company's operations during and subsequent to the reporting period:

<u>Import and export logistics activity</u>:

At the beginning of May 2024 and following the war, the Turkish Ministry of Trade announced various restrictions on trade with Israel. As part of the Company's import activity, oil infrastructures in Turkey are used and various products are exported to Turkey. In the Company's estimation, the current measures taken by Turkey will not affect the import activity but may have an immaterial effect on the Company's export activity.

<u>Demand on the local market</u>:

During the first quarter of 2024, the demand on the local market returned to its normal level, except for jet fuel, which remains at low levels, and diesel fuel directed to the Palestinian Authority and the Gaza Strip. Therefore, the Company exports the excess distillates. Export of the distillates instead of selling them on the local market has a negative effect on the refining margin.

<u>Workforce</u>:

During the war an average of about 50 employees of the refinery, constituting about 11% of the Company's workforce, were drafted for reserve duty. Nevertheless, the activity of the refinery was not affected by this. As at the date of publishing these financial statements, most of the Company's employees have returned to work.

<u>Effect on the financial results</u>:

The war led to a loss of EBITDA in the amount of $ 8 million in the first quarter of 2024. About 40% of the damage is due to logistics costs, and the rest is due to a decrease in sales as detailed above. Furthermore, the Company expects that the effects of the war will lead to a loss of EBITDA in the amount of $ 12 million in the second quarter of 2024, mainly due to logistics costs and a decline in demand on the local market. The Company is unable to fully and completely assess the future effects of the war on its operations due to, inter alia, the uncertainty regarding the length of the war, its intensity, its effects on the areas in which the Company operates or on its facilities, the steps that will be taken by the Government and various authorities, and the intensity and length of the economic slowdown that will develop as a result.

2. Military conflict in Europe

Further to that mentioned in Note 1.C.4 to the annual financial statements regarding the war between Russia and Ukraine and its effect on the Company's activities, as of the publication date of this report, the refining margins have weakened, but remain higher than the multi-year averages.

Since this is an event that is not under the control of the Company, the Company is continuing to regularly monitor the global changes in oil prices and to examine the effects on its business results.

Note 4 - Material Events In and Subsequent to the Reporting Period (cont'd)

3. The marine buoys of the Israel Electric Company

Further to that mentioned in Note 1.C.3 to the annual financial statements, in the second quarter of 2024, subsequent to balance sheet date, it was brought to the Company's attention that IEC intends to sell the buoys to Israel Ports Company, and that Israel Ports Company intends to transfer the operation of the buoys to Energy Infrastructures Ltd. However, the Company has not yet been given an official notification about the sale of the marine buoys and/or the transfer of operations to Energy Infrastructures Ltd. and/or the date when these actions are expected to take place. Further to this, the Company began initial talks with Energy Infrastructures Ltd. in connection with the supply of unloading and loading services of ships at the marine buoys by Energy Infrastructures Ltd. (instead of IEC) to the Company. According to the Company's assessment, the transfer of the operations at the buoys to Energy Infrastructures Ltd. will have an economic impact on the Company, but it is too early to estimate or quantify this impact.

4. Proceedings with the Fuel Administration

4.1 Claim against the Company, the Company's CEO, and an additional employee

Further to that mentioned in Note 26.A.5 to the annual financial statements regarding an event concerning the quality of diesel fuel that was dispensed by the refinery, the next hearing in the case is scheduled for June 27, 2024.

In the opinion of management of the Company, based on the opinion of its legal counsel, at this stage it is not possible to assess whether the proceeding will have an effect on the Company and its operations and what the effects may be.

4.2 Claim against the Company and the Company's CEO

Further to that mentioned in Note 26.A.5 to the annual financial statements regarding non-compliance with a standard of gasoline that was dispensed by the refinery, the next hearing in the case is scheduled for June 27, 2024.

In the opinion of management of the Company, based on the opinion of its legal counsel, at this stage it is not possible to assess whether the proceeding will have an effect on the Company and its operations and what the effects may be.

Concurrently with the aforesaid, both claims were transferred to a mediation judge at the Kiryat Gat Magistrates’ Court. A mediation hearing is scheduled for the end of May 2024.

5. Dividend distribution

On February 6, 2024, the Company’s board of directors decided to distribute a dividend in the amount of about $ 55 million (NIS 200 million) on the basis of the Company’s profits available for distribution as at September 30, 2023, as accrued in the last 8 quarters preceding September 30, 2023. The dividend was paid in NIS on February 22, 2024.

6. Agreements for the purchase of oil

Further to that mentioned in Note 26.B.10 to the annual financial statements, the Company extended agreements with two crude oil suppliers for another year and is negotiating with another supplier regarding the extension of the agreement for another year.

Note 5 - Inventory Impairment

As at March 31, 2024, December 31, 2023 and March 31, 2023, the balance of inventory includes a provision for inventory impairment in the amount of $ 1 million, $ 5 million, and $ 1 million, respectively.

Note 6 - Documentary Credit

As at March 31, 2024 the Company has documentary credit in the amount of $ 58 million (December 31, 2023 – $ 59 million) in respect of the import of raw materials and equipment.

Note 7 - Revenues

A. Composition

$ millions	Three month period ended March 31,		Year ended December 31,
	2024	2023	2023
	(Unaudited)		(Audited)
Local market	543	748	2,944
Export	236	223	761
Electricity and other	14	16	69
Total revenues	793	987	3,774
Breakdown of the revenue from the Company's major customers:			
Customer A	358	535	2,067
Customer B	97	109	437

B. Composition of revenues according to distillates

$ millions	Three month period ended March 31,		Year ended December 31,
	2024	2023	2023
	(Unaudited)		(Audited)
Gasoline	313	329	1,320
Diesel fuel	225	334	1,278
Kerosene	107	120	460
Fuel oil	17	60	238
Others	131	144	478
Total revenues	793	987	3,774

Note 8 - Debentures, Loans, and Short-Term Credit

A. Further to that mentioned in Note 1.C.7 and Note 20 to the annual financial statements regarding entering into customer factoring agreements, as at March 31, 2024, customer debts in the amount of approximately $ 156 million have been derecognized in accordance with IFRS 9 (as at December 31, 2023, approximately $ 110 million was derecognized).

B. Further to that mentioned in Note 1.C.6, Note 20 and Note 21 to the annual financial statements, as at March 31, 2024, the Company is in compliance with the financial covenants undertaken by it in order to raise bank credit and debentures.

C. Below are additional details regarding the debentures as at March 31, 2024:

$ millions	
Issue consideration	220
Transaction costs	(2)
Balance as at March 31, 2024 *	218
* Of which current maturities	22

As at March 31, 2024, the rating of the debentures is A3.il with a stable outlook.

Note 9 - Financial Instruments

(1) Fair value versus carrying amount

The carrying amount of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, other long-term receivables, deposit in trust, derivatives, credit from banks, trade payables, other payables, lease liabilities and credit from Paz, is equal to or approximates their fair value.

The fair values of the other financial assets and the carrying amounts shown in the statement of financial position, are as follows:

$ millions	March 31, 2024		
	Adjusted balance of par value	Carrying amount *	Fair value Level 1 **
Series 2 debentures	218	218	235

* The carrying amount of the debentures is presented at amortized cost (net of raising costs).

** The fair value of the debentures is based on the quoted price on the stock exchange at the reporting date.

(2) The fair value hierarchy of financial instruments measured at fair value

The table below presents an analysis of financial instruments measured at fair value using valuation methodology. The various levels are defined as follows:

- Level 1: Quoted prices (unadjusted) in an active market for identical instruments.
- Level 2: Observable (directly or indirectly) inputs, not included in level 1.
- Level 3: Inputs that are not based on observable market data.

$ millions	As of March 31, 2024 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets – derivative instruments	1	1	-	2
Financial liabilities – derivative instruments	10	2	5	17

$ millions	As of March 31, 2023 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets – derivative instruments	*	3	-	3
Financial liabilities – derivative instruments	4	-	-	4

$ millions	As of December 31, 2023 (Audited)			
	Level 1	Level 2	Level 3	Total
Financial assets – derivative instruments	7	2	-	9
Financial liabilities – derivative instruments	2	1	4	7

* Less than $ 1 million.

For information regarding valuation techniques for determination of fair value of financial instruments measured at level 2, see Note 25.F to the annual financial statements.

Note 10 - Functional Currency and Presentation Currency

On August 28, 2023, the spin-off of the Company from Paz was completed, and the Company's shares were listed for trade on Tel Aviv Stock Exchange Ltd. (hereinafter – "**the spin-off date**"). The spin-off led to changing the Company's functional currency from the shekel to the dollar, since the dollar is the currency that represents the economic environment of the Company when acting as an independent company in the refining industry. The change in the functional currency is accounted for on a prospective basis, as from the date of the change.

Furthermore and accordingly, the Company changed the presentation currency of its financial statements from the shekel to the dollar so that it would correspond to the new functional currency. The change in the presentation currency constitutes a change in accounting policy which was accounted for on a retrospective basis, meaning that all the Company's comparative data were translated into the dollar presentation currency, as if until the spin-off date the presentation currency had been the dollar and the functional currency had been the shekel.

As a result of the aforesaid:

- The comparative data that until then were presented in shekel, were restated and translated into dollar, in accordance with the guidance on translation of financial statements from the functional currency into the presentation currency. A reserve for translation differences was created as a result of the translation.
- All the assets and liabilities in the statement of financial position as at the spin-off date were translated according to the representative exchange rate at that date.

See the elaboration in Note 28 to the annual financial statements.

Presented hereunder are data regarding the effect of the retrospective application of the change in the presentation currency from shekel to the USD on the comparative data of the relevant items:

	March 31, 2023 (Unaudited)	
	As presented in the past in NIS	**As presented in these financial statements in $**
	NIS millions	**$ millions**
Share capital	*	*
Share premium	1,309	286
Retained earnings	724	119
Reserve from translation differences	(276)	81
Total equity	1,757	486

* Less than NIS 1 million.

Presented hereunder is information regarding the NIS/dollar exchange rate in the reporting periods:

	Exchange rate of 1$
As at March 31, 2023	3.615
Average in the three-month period ended March 31, 2023	3.536